



Ofwat Innovation Competition Consultation

Prepared by: [REDACTED]

WaterStart is a nonprofit collective of globally recognized leaders who are adapting to change by scaling up new solutions to water challenges. WaterStart helps large water users and water agencies reach sustainability goals faster, while also reducing costs – not just through water conservation, but also by helping defray the costs of piloting new technology and sharing lessons learned. Today our members serve water to more than 20 million people between the United States, Australia and the United Kingdom.

Q1: Do you agree with our proposed default arrangements for managing IPR and royalties? Do you think these arrangements work for different types of projects and activities (e.g. new technology vs. process innovation, roll-out activities etc.)?

Yes, the distinction between Background and Foreground IPR is useful and appropriate and has been used regularly within WaterStart's experience in funding innovation projects.

Q2: What alternative arrangements should we be considering for IPR/ royalties?

A model for sharing IPR, even Background IPR, between agencies should also be considered. WaterStart often finds that solutions developed within the utility agency are as effective and economical as those developed by private service providers. Often, the utility is not structured or equipped to market and distribute the solution in a way that benefits the ratepayers and so that solution is never widely shared in the industry. Innovation funds could provide a great deal of value to customers with a smaller amount of money through supporting the distribution of existing solutions (with IPR or not) that have never been commercialized by utilities and shared throughout the industry.

Q3: Do you agree with the principle that data generated through the innovation competition should be open by default?

Yes

Q4: Do you agree with our proposed approach and that we should consider alternative arrangements beyond company contributions?

Yes, in-kind contributions and investments in relationship building should also be considered. Such examples of risk sharing beyond direct company contributions that WaterStart has found to be worthwhile include: partnerships with academic institutions that enable further R&D opportunities, in-kind contributions of time and equipment, establishing a local employee or contractor to directly support the success of the project.

Q5: Do you agree that a guideline minimum company contribution of 10% is appropriate in this context?

Yes, 10% is a reasonable level and based on WaterStart's experience in funding projects should not discourage or place an undue burden on service providers from participating. Offering a flexible time table or condition of success may also be a way to enable service providers to commit to a higher percentage of contributions. In instances of funding pilot projects, WaterStart provides options for service providers to fulfill their contributions over time based on the success of the project. As an example, a service provider may commit to discounted cost structure for the full deployment upon the completion of a successful pilot. We have had regular success in service providers committing to contributions of 3x the total pilot value over 3 years to return back into the partnership.

Q6: Do you agree with the overarching approach we set out here?

Yes, based on the needs of our UK member, WaterStart agrees with the emphasis on rapid roll-out of solutions ready to scale. To reduce redundancy in deployment, an



effective platform for sharing results (successful or not) between water companies is of great use for WaterStart members.

The emphasis on follow-on projects (2nd adopters) is also much appreciated. A second phase risk to deploying new solutions is that those providers can go out of business without additional contracts leaving the 1st adopter back where they started. Therefore, the effective promotion and sharing of project results and new opportunities is critical to long term success and adoption of new solutions.

Q7: What are your views on introducing separate, proportionate, arrangements for small-scale projects? How might we define small-scale projects for the purposes of the innovation competition?

Based on WaterStart's experience, there are significant differences in managing programs that focus on early stage solutions (R&D and commercialization) compared to solutions ready to scale. There are different risk profiles, levels of investment required and timeline to deliver outcomes. We would recommend funding levels and criteria for projects recognize the distinctions between these two levels of activity through small-scale projects.

Another way to organize funds for small-scale management would be around themes or specific needs of water companies. WaterStart primarily organizes our various funding rounds based on specific priorities of our members. Various priorities range from smart water networks, leak detection, in-field training, etc. Organizing various rounds of smaller opportunities by these themes helps us to more effectively compare opportunities and find the most viable solutions to deploy and evaluate.

Q8: Do you agree with our proposal for ensuring roll-out is at the heart of the innovation competition? How might we reward both leaders and fast followers in this space?

Yes, roll-out and acceptance of new solutions is a significant barrier to improving water management for customers' needs. Targeted funding to incentivize progress in this area will have a significant effect on accelerating the adoption of innovative solutions.

Much of WaterStart's funds from State sources are time sensitive. This pressure to "use it or lose it" has been a critical tool in creating a sense of urgency within our water agency members. At times, we have been rewarded with additional funds because other

programs did not utilize their funds enabling them to be reallocated to programs that were making progress.

A similar model could be used by this innovation fund where initial awards are distributed to various programs. Then, based on performance, additional funds could be distributed to those programs with the most momentum.

Q9: What practical arrangements should we introduce to ensure adequate ring-fencing of the innovation funding?

WaterStart has found that clearly stating the level of committed funds, spending criteria and time constraints is important to ensuring that projects are able to transition quickly from the planning to implementation.

In addition to clearly defined financial monitoring and reporting requirements(stage 3), WaterStart has found that clear understanding of long term funding criteria leads to a higher probability of long term adoption once the grant funded activities come to an end. We would therefore recommend that project funds be allocated based on a long term business case for the successful solution to be adopted.

Q10: Do you think the proposed innovation challenge approach will help better enable partnerships and collaboration between companies and third-parties, in particular smaller innovators? Are there alternative approaches we should be considering? How can we make sure this approach works in practice?

The approach outlined seems reasonable for enabling direct collaboration between a water company and a service provider. There may be value in a model that enables partnerships between multiple water companies and service providers. In this case, an independent third-party may provide significant support in coordinating the complexity of shared funds, selection criteria, evaluation and reporting back to all stakeholders involved.

WaterStart currently provides this type of service between its members in the Western United States, Australia and the United Kingdom.



Q11: Do you agree with our proposed approach to returning funds to customers? Are there any other circumstances, not considered here, under which we might consider returning funding to customers?

Yes

Q12: Do you agree with our proposed approach for managing interactions with the price review?

Yes

Q13: Do you agree with our proposed amendments to the principles? Are any further amendments to the principles required to reflect our approach to outstanding policy issues outlined in this document?

Yes

Q14: Do you agree with our proposed focus, major strategic themes and overall approach for the competition?

Yes, the emphasis on quick wins and planning ahead is critical to gain buy-in and support for the programs.

There could be advantages to not designating a single fund manager, but multiple. For example, one fund management group may have a great deal of experience in managing investment funds or IPR but little experience in funding operational projects.

Q15: What is the appropriate split of available funding between the Innovation in Water Challenge, the main competition and enabling activities?

With the recurring emphasis on the roll-out of technologies, it seems reasonable that the Innovation in Water Challenge should have the most funds. WaterStart has seen that there are many viable solution providers on the market today that align with the principles and priorities of this initiative and that the quickest results can be achieved by simply accelerating the adoption more broadly.

The second level of funding would be for the Main Competition as it requires more planning and time for developing collaborations. As these projects would look to bring



matching commitments from other partners, presumably the overall funds available here could be less per year but over more years.

Q16: What are your views on the feasibility of running all three types of activities in the pilot year, and on the proposed timings in Annex 3?

The timeline in Annex 3 seems reasonable. WaterStart follows a similar flow with our pilot funding process. We have found it effective to offer regular calls for proposals, repeating our process multiple times a year. This leads to more opportunities for new programs to be developed and proposed which increases the chances of finding an effective and disruptive partnership opportunity. WaterStart recommends a recurring cycle of funding calls be considered for each of the 3 phases.

Q17: Do you agree with our proposed approach to key implementation considerations outlined here?

Yes