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Sent by email to innovationconsultation@ofwat.gov.uk

Dear Sirs,

Response to Innovation funding and competition: further consultation on design and implementation

Many thanks for the opportunity to provide feedback to this Consultation. The webinar held on the 10th of June provided excellent context and responses to questions which have helped inform our response below.

1. 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.)?

The IPR mechanism detailed in the document is clearly expressed and provides adequate protection for those parties who have already invested in developing the system/technology they wish to share with the market. The ability to be flexible removes barriers to entry and will remove uncertainty for those applicants with limited experience of operating in a regulated market.

With regards to royalties further information on the proposed default arrangements would be useful. It is unlikely, given the huge variety of projects that may be seen, that a 'one size fits all' approach will be the most effective mechanism particularly given the differing lead times, developments and potential failures which may occur. It is in such an instance that the revolving fund model proposed has its drawbacks in replenishment and raises concerns regarding customer benefits but if successful could reap significant rewards for the industry and customers alike.

It is impossible to have considered all approaches, given by its very nature we are expecting innovative solutions, that may not have been envisaged. Principles would be more appropriate with the flexibility to adapt; the project selection criteria will need to be sufficiently robust yet flexible enough to enable true innovation to not be stifled.

2. What alternative arrangements should we be considering for IPR/ royalties?

We have no alternative proposals currently.

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

A default open data principle is the direction in which the market should be heading and transparency around activities funded from this source will be critical. Open data sharing should encourage further collaboration, drive more uniform approaches across the industry and drive efficiencies. The market three years on remains disjointed with Trading Parties operating in silos: those who have embraced the new market have been willing to share data and work collaboratively to find solutions to market challenges. Open data could be the key to unlocking those who have not yet adapted their approach. Everyone needs to be aligned in their approach it must have full engagement to be effective with easy accessibility.

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

Absolutely. The approach must be able to cater for the broad spectrum of project types and allowing alternative options to demonstrate commitment will further encourage innovators and likely broaden the experience and capabilities needed to drive the more interesting projects. Encouraging wider partnerships with academia and NGOs will ensure higher quality effective projects.

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

Recognising the different scale of companies it would seem more appropriate to have a scaled percentage contribution dependent upon the size of the project so as not to deter smaller parties from bidding for larger projects.

The contribution, although touched upon in the document could benefit from being open to include different mechanisms, i.e. resource or systems and shared between contributors to encourage greater collaboration.

6. Do you agree with the overarching approach we set out here?

Yes, the parameters considered are diverse enough to allow true innovation through 'quick wins' and medium to longer term projects. The continued review would be expected, and we would anticipate seeing further information on once the organisation has been appointed that will deliver the innovation competition.

We would be keen to see output from the Joint Innovation Strategy which will be utilised for guidance in identifying appropriate needs within the market. How will this output be shared will there be any form of consultation around this?

7. 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?

Given the desire for rollout a volume metric would not be beneficial so defining by value and speed of delivery would seem appropriate. A matrix could be developed which includes complexity and Company resource requirements in project delivery as a measure of project size.

8. 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?

To have achieve the desired result of this Innovation Fund and to drive significant market wide improvements roll-out must be at the heart of the innovation competition. The challenge lies in ensuring the companies all actively participate for the greater good particularly when considering smaller scale projects which involve process changes: all the companies have widely varied operations with some being far more dynamic than others. Has consideration been given to a tiered company commitment approach based upon volume?

Dependent upon the scale of the project size revenue return incentivisation's are likely to have limited impact however positive recognition and market leading status are highly respected with peer reporting and reputational impact purported to be of much higher importance. Utilising a mechanism that recognised leaders and fast followers though a grading mechanism which prioritised their access to projects i.e. being the first company to see the benefit of any rollout is more likely to encourage swift engagement.

9. What practical arrangements should we introduce to ensure adequate ringfencing of the innovation funding?

This is not our area of expertise and we are confident appropriate measures will be undertaken given the rigour of financial management.

10. 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?

This is an interesting question. The framework and approach do enable and provide better access to third parties: the key for small innovators will be through awareness of the scheme. Information about the funding opportunity needs to be easily accessible to all.

Confirmation during the webinar that Retailers can also access the fund, could propel greater collaboration across market participants and provide some transformative changes in the pilot year. There are a number of innovators already operating in the market who will have a far greater understanding of some of the direct challenges the companies face and will likely have tried and tested solutions that may deliver market wide improved customer benefits, if rolled out across the water and wastewater companies.

To ensure this works in practice the questions previously raised on proportionality will come into effect but continued monitoring and assessment will be required to determine success in practice.

11. 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?

The principle of returning funding to customers we agree with. However, if the investment delivers market wide improvements to the market and helps meet governmental strategic objectives, particularly around resilience and risk it is in the best interests of the customer to undertake these works and in the round most customers would agree with the principle, so it may not be entirely necessary.

12. Do you agree with our proposed approach for managing interactions with the price review?

Yes 100%.

13. 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?

This is comprehensive and provides clarity.

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

The principles are sound and enable innovation at varied scales. There is still much detail required around the practical implementation and decision-making process which we understand will become available in time: hopefully taking the learnings and principles of some of the innovation funds provided in Annex 4. There is a good blend of approaches which are clear and concise.

The timelines feel very tight, particularly given the current demands on the Authority as a result of Covid, however we understand the need to make progress in this area to drive results.

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

This is almost impossible to define in the pilot year: it would make sense to have a minimum level available for each area with the remaining 'pot' being utilised based upon the strength of the business cases presented. Otherwise you could ringfence monies in an area where no bids are made and therefore restrict opportunities in another area.

16. 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?

It is an extremely challenging timetable particularly the first two activities around the process and set up and implementation of the Innovation in Water Challenge. The appointment of the organisation to run this will be critical to meeting these timelines. On paper it looks far too challenging to deliver however, as has been demonstrated, we know that the industry can deliver at pace with the right motivation.

17. Do you agree with our proposed approach to key implementation considerations outlined here?

Yes – we look forward to seeing further detail once the supporting organisation has been successfully appointed.

Yours faithfully,

[Redacted signature]

[Redacted name]
[Redacted title]