

Ofwat's innovation fund webinar - question and answers

Date of webinar: 10 June 2020

We held a [webinar on Ofwat's innovation fund](#) where we answered many of your questions. In this document we answer any questions which we were unable to respond to during the webinar, or where we feel additional clarity would be helpful.

What do we mean by innovation and what nature of projects can be supported?

We received a number of questions asking to clarify what we mean by innovation/transformational innovation in the context of a project being eligible to the competition.

In our consultation document we shared a set of innovation principles that would help safeguard customer interests. These principles will help ensure we fund only transformational innovation that the water sector would not otherwise explore or invest in.

The principles state that innovation goes beyond just the development of new technologies. Innovation can also be developed by doing things differently and having the right systems, processes and people to support activities. We hope that this would encourage a wide range of innovation proposals, addressing the big challenges facing the sector.

We will look to fund projects that are truly transformative, so companies will need to make a case, explaining why the proposed activities cannot be funded under business as usual. Once appointed, we will work with the supporting organisation to clarify the principles further, as required.

We recognise that it may not be a straightforward task to distinguish transformative projects from those that are business as usual. We will be looking for projects that are not just about incremental change, so we will also consider projects that are more uncertain and/or or less likely to deliver a return within the funding period.

How is wider stakeholder collaboration encouraged?

We received questions on who the competition is open to, if collaboration is a requirement and if water companies will be the main organisation responsible in

collaborative projects. We also received questions on how we will market the competition and encourage a broader range of innovators to access the competition.

Water companies, including new entrants, will all have direct access to the innovation competition and will play a key role in projects and ultimately be responsible for their success. This is because the innovation competition will be funded by the seventeen water companies' customers. Enabling new entrants to access the competition is necessary to ensure a level playing field between the water companies and the new entrants.

Third-parties will be able to access the competition through collaborative bids with the water and wastewater companies and new entrants. This applies to retailers too. This is to help ensure benefits of the competition flow back to those customers funding it and that we can step in to protect customers' money if necessary.

We have not set mandatory requirements on the minimum number of collaborative project participants, but there is a clear push for supply chain and water company collaboration under the Innovation in Water Challenge.

The Innovation in Water Challenge would enable third-parties to pitch ideas directly to the water companies, and assist their indirect access to the innovation funding. This would follow a similar model to existing innovation challenges in other sectors, such as the Affordable Credit Challenge, the GovTech Catalyst Fund and the Seafood Innovation Fund.

We believe that high-quality stakeholder engagement should be central to the sectors' joint Innovation Strategy, including with stakeholders from outside of the sector. We would expect to see proactive stakeholder engagement during the Strategy's development, but also once it has been established. We have asked water companies to consider how they engage with the supply chain and other stakeholders to put forward joint project proposals. We expect the joint strategy to highlight opportunities around how the sector can get involved.

The joint innovation strategy will also help to identify priority funding areas and become a key tool for water companies to coordinate innovation activities, ensuring there are no unnecessary duplication of activities. We therefore do not expect to see projects through the competition which are very similar.

We will also work with the supporting organisation, once appointed, to make sure that the competition is marketed more broadly so that we encourage a wider range of stakeholders to apply for the competition funding.

What will be the format and timing of the competition?

We received questions on the format of the competition and possible alternative formats. We also received questions on the timing of the competition.

We have engaged with stakeholders and considered different models ahead of setting our proposals on the different competition strands. We have also considered several options for the timing and frequency for making funding available under the three strands. We are proposing to run both the Innovation in Water Challenge and the main competition in the pilot year, as well as considering proposals for funding sector-wide enabling activities. Allowing innovation projects to be submitted and compete more than once a year would help maintain momentum. However, these benefits would need to be balanced against the potential additional costs. We are keen to get your views as part of our consultation on the timings, frequency and format of the competitions.

We want to ensure that the process overall is accessible and proportionate. We are looking at ways in which the process can support the supply chain and smaller innovators, through the innovation in water challenge approach. Under this model, we'd expect the water companies play a big role in mentoring and supporting innovators and considering the best competition routes to take.

We are looking for high quality projects to be put forward. At the same time, we do not expect customers to bear all the risk for projects funded through the competition. Therefore we are considering financial contributions by water companies towards innovation competition projects, while recognising the need to avoid unnecessary barriers to entry. For example, we note that smaller companies may not be in a position to make the same level of contribution as their larger counterparts.

With that in mind, as highlighted in the consultation, we are proposing to introduce a guideline minimum combined company contribution of 10% of individual innovation competition bids. This is in line with the company contribution required under Ofgem's NIC. Companies can propose alternative, well justified, arrangements which demonstrate the companies' commitment to the projects as part of their innovation competition bids. For example, this could include through partnerships with other organisations or companies.

How are we taking IPR into account?

We received questions on our proposed IPR arrangements and ensuring that we encourage third party participation.

We recognise the importance of protecting IP whilst simultaneously ensuring customers benefit from those innovations funded through bills. We understand that some concerns have been raised with the IPR arrangements proposed and we would welcome responses to our consultation proposing alternative arrangements. In addition, while we have proposed a set of default arrangements for the treatment of background and foreground IPR, we would also be open to considering alternative arrangements on a case-by-case basis.

Our intention is to allow funding to drive transformational innovation that companies would not otherwise explore or invest in. It also allows funding to develop and implement new solutions and gives the supply chain the opportunity to get their innovation further out in the market and to collaborate with water companies to enable its adoption.

How would we consider different Technology Readiness Level (TRLs) when funding projects and ensure roll-out is considered?

We received questions on whether funding would be available for projects at different technology readiness levels and how we expect to see roll-out take place.

We recognise that there will be different parameters to factor in when considering what types of projects to fund. We want to ensure flexibility around these.

We propose focusing the competition in the first round on identifying and funding solutions that are closer to commercialisation or more mature in terms of TRL. This could include smaller projects which could nonetheless be transformative and make a significant positive difference. All projects funded should still be in line with our principles for the innovation funding and competition.

Our updated principles reflect our proposal to ensure roll-out is a key consideration in innovation competition bids, where appropriate.

We are looking for other ways to place roll-out at heart of the innovation competition. For example, in setting detailed criteria for funding, we may consider the extent to which companies bidding have a plan in place for rolling out new technologies, including working with others to ensure roll-out across more than one company. Where appropriate, we may also seek ways to reward “fast followers” up-front, or target some of the funding available through the competition directly at roll-out.

We have also asked the water companies, in developing their joint Innovation Strategy to consider ways in which they could improve the sector’s approach to the large-scale roll-out and implementation of innovative solutions. This could involve

looking at pooling facilities for testing solutions and the development of joint testing standards to enable the efficient roll-out of proven technologies across the sector.

What are we looking for from the supporting organisation?

We received questions on the supporting organisation which will help us to administer the competition; their skills and experiences and who we may consider as potential contenders.

We will be going out to tender to seek support in administering the fund over the summer. We will have an open and transparent tender process which will set out the specification, skills and experience required. Some of the things we might look for include the ability to demonstrate independence and an understanding of innovation, not just in the water sector, but in other sectors and jurisdictions. We'll also be looking for some experience of running similar mechanisms. Given that independence is a key criterion, we do not expect the supporting organisation to submit joint bids to the competition.

We would expect companies to work with the supporting organisation, once appointed, to develop and implement a proportionate framework to regularly monitor and periodically report on individual project performance. We propose take a proportionate approach to the monitoring of projects.

We will seek expert advice to ensure decisions made are in the interest of consumers. We will work with the appointed organisation to ensure the decision-making process is robust and proportionate. Ultimately, we will retain strategic control over the decision-making process.

We are looking to contract the supporting organisation for an initial period (up to March 2022) with an option to extend for the remaining 3 years of the competition, based on a number of performance-based criteria.

What would be the relationship between the supporting organisation and the panel of experts?

We received questions on the relationship between the supporting organisation and expert panel and considerations around diversity of the panel.

The supporting organisation will help us administer the innovation funding and deliver the innovation competition. They will help us to establish an independent panel of experts to provide advice and make recommendations to Ofwat on projects submitted

to the competition. We will select a panel based on a wide range of expertise to ensure diversity.

We expect the supporting organisation and the appointed independent expert panel, to lead on processing, scrutinising and assessing bids. We will ensure that the level of scrutiny applied to bids is proportionate to the size and nature of projects put forward. The independent expert panel's main role will be to make recommendations to Ofwat for funding.

How will the joint innovation strategy be developed?

We received questions on the sector joint strategy, how it will be developed and input from other stakeholders.

We have asked the water companies to come together to develop a joint innovation strategy, which we think will be an important foundation to sustaining innovative activities in the longer-term and guide the wider sector's innovation focus.

We are keen that the joint Innovation Strategy will be owned by the water companies and the wider sector - and therefore it will not need to be formally approved by Ofwat.

The strategy is being developed with input from other stakeholders, including those outside the sector, rather than in isolation by the water companies. Our view is that this strategy should also help improve the companies' engagement with innovators and wider stakeholders. We are pleased to see that the companies have taken up the challenge and are making progress on a first draft of the strategy.

In our consultation we've set out some strategic themes that the innovation funding may be targeted at. However we have invited feedback on these themes. Within that, we might choose to target the funding at more specific issues, in particular through the innovation in water challenge model. We think the water companies' Innovation Strategy will likely be a good place to start to identify priority areas which could be targeted through the fund.

How would the one-stop-shop work?

We received questions on how the one-stop-shop would work and who it will be run by.

The one-stop-shop would be led by Ofwat rather than with the supporting partner. Two core roles such a one-stop-shop could potentially deliver include:

- providing regulatory advice to innovators trying to get new ideas off the ground in the water and wastewater sector, and looking to understand what our rules and regulations might mean for them; and
- working with other regulators to explore ways to better encourage innovation in the sector, which we then hope will help to inform the development of a future regulatory framework which will continue to encourage and enable innovation.

We will be seeking views on potential one-stop-shop activities separately to our consultation document.

Are we using lessons learnt from Ofgem and have we considered the Network Innovation allowance?

We received questions on engagement with Ofgem in relation to their competitions and the Network Innovation Allowance.

We have been working closely with Ofgem and other stakeholders to make sure that we are reflecting on any lessons learnt. We are aware that Ofgem's innovation competition is still on going and we have considered the differences between both sectors.

One of our key aims of the competition is to encourage collaboration and partnerships. Our view is that individual allowances might be less conducive to collaboration than the collectively-funded model we have chosen.

We also recognise the importance of being able to move at pace and having proportionate governance in place. We will be looking to ensure that our processes strike the right balance between being robust and proportionate.