



Speech

Given by John Russell, Senior Director of Strategy, Finance, and Infrastructure
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Supporting the UK to accelerate innovation in water.



Good morning, all, and a big thank you to WWT for inviting me to speak to you.

We are all aware of the strong spotlight on the sector right now. That is all of us: water companies its supply chain and regulators. Some look to how companies are driving progress on tackling issues like overuse of storm overflows, improving river water quality and supporting vulnerability. Some look to regulators on how they are incentivising investment and holding companies to account, during a time where water bills are rising and people are feeling the impact of cost living rises. All of this is happening whilst the future continues to be uncertain and we see the ongoing impacts of climate change, population growth, and more.

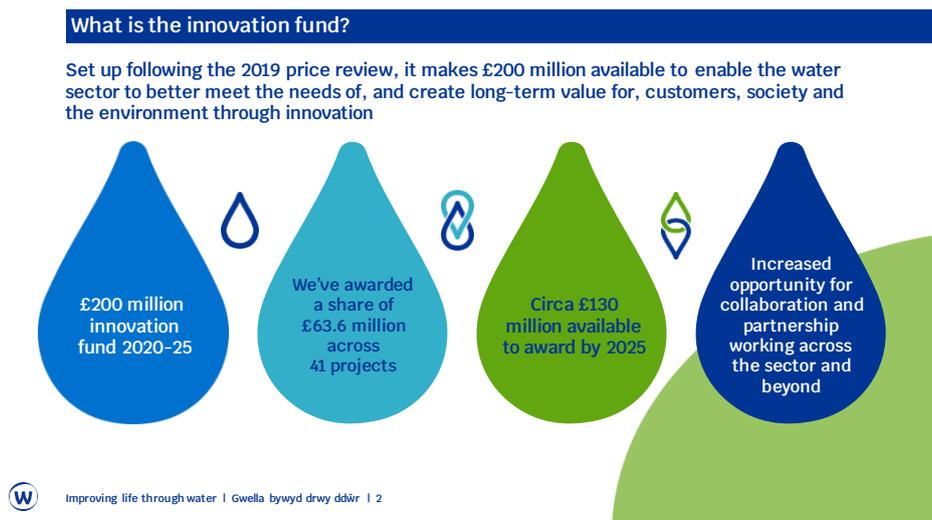
As a regulator we understand that innovation, simply put, doing things differently, will be needed to accelerate many of the solutions to these issues.

But what does it mean to be innovative? To me, innovation is more than fancy widgets and infrastructure. It is about how we work, evaluating how processes bring more value and efficiency, how we invest in our people. It is also a test of how collaborative we are and can be. How we can think more creatively about the solutions that we provide for customers and the environment.

Saying this, it has been good to see progress from companies and their partners alike in developing a real culture of innovation. Whilst the sector has not always been on the front foot, we are starting to see change and I hope that the innovation fund has become a catalyst to plan, fund and deliver solutions to some of the bigger issues we face.

Today I am going to speak about how Ofwat is driving change through innovation to accelerate solutions to some of the biggest challenges in water.

What is the Innovation fund?



As I am sure many of you know, Ofwat has allocated £200 million in a competitive challenge fund to support innovation across the sector through the PR19 price review. This is focused on helping to accelerate the creation and roll out of innovative products, services and concepts to create better and more long-term value for customers, society and the environment. This followed a time where water company business plans showed a mixed picture around innovation capability, capacity and appetite.

Alongside providing projects with funding, it is also an explicit aim to help grow the capacity, culture, and capability of the sector to innovate particularly looking at new ways to drive collaboration.

Nearly two years in, we have been able to award around £63m across 41 projects and will be looking to spend a further £130m or so between now and March 2025. Entrants have shown that there is no shortage of new ideas; water companies are leading and supporting entrants to show what is possible. It has also been inspiring to see a real rise in the confidence of the sector to be ambitious.

What has that looked like?

What has that looked like so far in terms of entries awarded funding?

We've awarded funding to a huge range of projects across the water cycle such as:



And to a range of enabling activities and whole sector initiatives



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The projects themselves have brought exciting new options to the table. Our judges have awarded funding to projects ranging from:

- using AI and open data approaches to detect asset failure,
- to ways to promote water smart communities using technology and behaviour change techniques.

Beyond that we are also seeing strides being made in developing the architecture of innovation. You will know that 'Spring' was successful in our first competition, and we are really pleased to see it go on and begin to cement its position as the sector's Centre of Excellence for innovation.

Now, dozens of projects are live and a handful have already concluded which means that we can begin to assess the evidence of some of these early successes.

And we are excited with the progress of this programme. We have seen the relationship between Ofwat, the water companies and supply chain develop positively. We are trying to be more open and transparent and involve water companies as much as we can in how we run the competitions. In return, we are getting more of that transparency back – with innovation

we can work together toward a common goal– it gives us a really exciting opportunity to deliver real change for customers and the environment.

But what is most exciting – is that this is only the beginning.

Water discovery Challenge and future areas for innovation

The Water Discovery Challenge

The Water Discovery Challenge aims to accelerate the discovery, development and adoption of promising innovations by the water sector

- Anyone can enter (except for water companies)
- Staged, supported process to help nurture solutions through to trial
- Targeting solutions from outside the water sector
- Removed all barriers to entry, e.g no IP sharing requirements, no mandatory financial contribution etc

Circa £4 million available to support early-stage solutions

Each entry could be awarded up to £500,000 to develop their solution

Includes a package of non-financial support and water company mentoring



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We kicked off the new year by launching our brand-new competition: the Water Discovery Challenge.

This competition will look at accelerating the discovery, development, and adoption of earlier stage ideas and for the first-time entries can be led by any company and innovator, not just one of the regulated water companies. We hope it will attract new voices, large or small, from adjacent sectors with solutions that might apply to water and would benefit customers and the environment.

Through an 18-month process, Ofwat, alongside water companies and our competition partners, will guide and nurture the winning entries through their development with the opportunity for two stages of funding.

Up to £50k will be available for the first 20 finalists, and then 10 of the most promising entries from that point will receive up to a further £450k to advance their projects. In addition, we have packages of non-financial support such as marketing for their solutions, advice on navigating procurement rules, developing business models, managing IP, media training and financial planning.

If anyone here today is hoping to take part in this particular competition, you should know that it will close on the 5 April and by June, we will know who the 20 finalists are.

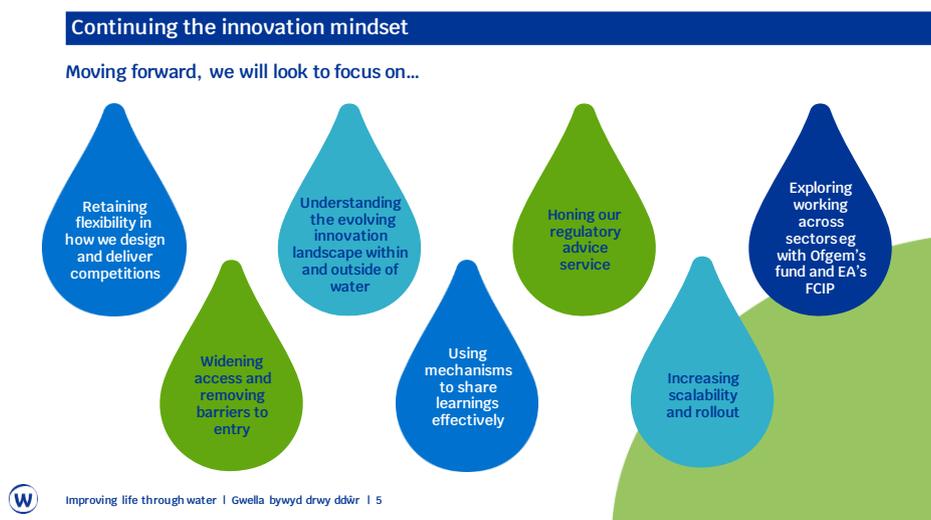
You might have noticed, but we do not structure our funds around single topics. This was quite deliberate. We wanted to see which entries would be submitted without any limitations on what we might look to fund. And because of this, we have been surprised a few times but glad to see the projects leading us to areas we may not have considered before.

But, for our new competition the Water Discovery Challenge, we have worked with the sector to provide some guidance to innovators on areas where water companies would particularly welcome entries.

You can find the full detail in our entrant materials for the competition, but to give you a flavour, here are some things future entrants could think about:

- How might the sector decarbonise energy use and transportation through avoidance, efficiency and alternatives to fossil fuels?
- How might the sector sustainably eliminate leakage across water company networks and customers' pipes?
- How might the sector become net positive through opportunities in natural capital, net zero carbon and minimal waste?
- How might the sector minimise adverse impacts from wastewater and improve environmental quality?
- How might the sector engage with customers to better manage demand and increase the perceived value of water?
- How might the sector improve the affordability of water for all, particularly for customers with any vulnerability?

Continuing the innovation mindset



I want to recognise that our role as a regulator has really evolved since our creation. The powers given to us within the Water Industry Act, the Environment Act, and our Strategic

Policy Statements from both England and Wales allow us to continue to build frameworks and set a standard of service that reflect what society expects.

And Ofwat will continue to consider how to remove barriers and enable greater progress.

So, what will the next few years look like?

Our competitions will continue to follow the current Breakthrough Challenge structure using both the Catalyst and Transform streams to invite new ideas to the sector. Round three is currently live with assessment and judging ongoing for Catalyst and Transform streams - news on the winners will be shared in May.

Looking ahead to 2025 and beyond, I want to share how Ofwat sees this fund developing over the long term:

- Most importantly Ofwat will continue with the innovation challenge fund into the next AMP with funding of at least £300m. We have also announced an allocation of £100m for game changing proposals on water efficiency.
- Building on the water discovery challenge we will continue to widen access and remove barriers to entry – we are exploring how far we can take this. Since our initial competition, we have relaxed some of our Intellectual property policies but we are hearing that we can go further on this as well as other aspects of the fund.
- Understanding the innovation landscape in the sector is also a priority as there is much we can learn from. A special mention to projects such as Spring, Future Water Association's Water Dragons, and the work companies are doing already in their regions. We are keen to continue to learn from other sectors and stakeholders as we consider how we can evolve our approach.
- Additionally, we are keen to continue to hone our regulatory advice service for innovators trying to break into the sector. The Streamline service which combines support from Ofwat the EA and the DWI allows innovators to ask questions about how the regulatory regime may impact their products and services. This collaborative service is already seeing a steady stream of queries and we are learning more from each conversation we have.
- And lastly, I want to mention that we are doing more to explore how we can work more cohesively across sectors. There is a lot of potential for greater impact by combining forces with innovation initiatives in adjacent sectors – an obvious one being Ofgem and we are currently in talks to explore this further. It has been great to see more cross-utility projects come through the fund and we would welcome more that have the potential to connect more of the bigger picture.

So, in summary we are seeing the beginnings of real change in the sector using innovative technologies and approaches and we hope our approach to innovation is helping to catalyse that change. But the challenges we face are very real and very urgent and all players in the

sector need to step up if we are to create the resilient and high performing sector, we all want to see and that customers and the environment deserve.

If you are interested in learning more about the work, we are doing through the innovation fund, now is the time for my shameless plug to visit our stall in lot number one where Marc and Catherine can tell you more.

Thank you.