



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

## Water Services Innovation Fund

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## CER Information Page

### Abstract

In the Water Charges Plan Decision Paper (CER14/746), the Commission for Energy Regulation (the CER) decided to allow €2m to Uisce Éireann (UÉ) as an innovation fund as part of the overall allowed revenue for the interim revenue review period (October 1<sup>st</sup> 2014-31<sup>st</sup> December 2016).

The purpose of this paper is to set out the criteria that will be applied by the CER when reviewing and approving applications for funding from UÉ under the innovation fund and the associated reporting requirements for the interim revenue review period.

### Target Audience

This information paper is for the attention of members of the public and members of the business community connected to the public water network, the water industry and all interested parties.

### Related Documents

Previously published documents which relate to this consultation are as follows:

- Water Charges Plan Decision Paper, October 8<sup>th</sup> 2014 (CER14/746)
- Water Charges Plan Irish Water's Interim Revenue Review, October 8<sup>th</sup> 2014 (CER14/454)

## Executive Summary

The CER has decided to allow €2m as an innovation fund over the period of the interim revenue review (October 1<sup>st</sup> 2014- December 31<sup>st</sup> 2016).

This money has been allocated by the CER to encourage UÉ to invest in research and innovation projects with a view to addressing issues across the Irish water network. Under this process, innovation projects which UÉ proposes to complete will be required to meet certain criteria. Proposed projects must be shown to have a reasonable probability of delivering defined, tangible benefits to customers of UÉ in a defined timeframe. UÉ must also demonstrate that proposed projects provide value for money, i.e. that the benefits of completing a project to the customer outweigh the costs. In addition to the above mandatory requirements, proposed projects must further at least one of the following objectives:

- provision of safe, secure and reliable water services;
- increased understanding of customer behaviours and their drivers and effective customer engagement;
- enhanced energy savings in the provision of water services;
- achievement of relevant environmental standards and the objectives of the Water Framework Directive;
- mitigation of negative climate change impacts;
- provision of water services in an economical and efficient manner, and
- improved conservation of water resources.

UÉ will be required to submit a completed application to the CER regarding each proposed project setting out matters such as the project scope, the matters which the project is designed to address, potential benefits arising to customers, project milestones and expenditure. UÉ will also be required to present project proposals to the CER.

UÉ must report to the CER on a quarterly basis on approved projects to advise the CER of project progress. Following completion of a project a close-out report must be submitted to the CER detailing project performance compared to the original project aims and objectives, details of the work carried out/deliverables and recommendations on how the outcome of the project will be exploited/applied to the benefit of UÉ's customers. Where UÉ concludes that a project cannot be applied/exploited to the benefit of UÉ's customers, the reasons why this is the case must be provided.

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## 1.0 Introduction

### 1.1 The Commission for Energy Regulation

In 2013 the CER was appointed as Ireland's economic regulator of the Irish public water and wastewater sector. Here the CER's role is to protect the interests of water customers, to ensure water services are delivered in a safe, secure and sustainable manner and to ensure that UÉ operates in an economic and efficient manner.

Further information on the CER's role and relevant legislation can be found on the CER's website at [www.cer.ie](http://www.cer.ie).

### 1.2 Background

In determining the allowed revenue for UÉ for the interim revenue review period (1st October 2014 - 31st December 2016) the CER decided to allow a €2m innovation fund, as part of allowed operational expenditure, to encourage UÉ to invest in research and innovation projects with a view to addressing issues across the Irish water network.<sup>1</sup> The provision will allow UÉ to explore technological advances and other innovations in areas such as effective customer engagement, energy reduction, treatment processes, infrastructure rehabilitation, increased understanding of customer behaviours, climate change adaptation and environmental compliance, which could ultimately benefit customers. It is noted that other water regulators, for example Ofwat in the UK, also allow for monies to be spent on innovation. The CER also allows for this by other regulated entities in gas and electricity in Ireland. In order to incur any expenditure under the €2m fund UÉ will need to make an application to the CER in advance which must, *inter alia*, demonstrate that the proposed expenditure has a reasonable probability of delivering defined, tangible benefits to UÉ's customers in defined timelines.

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<sup>1</sup> Please see CER/14/746 which is available at [www.cer.ie](http://www.cer.ie) .

## **2.0 Water Innovation Fund 2014-2016 Governance**

### **2.1 Introduction**

The policy intent of the fund is to provide UÉ with funds to explore technologies and operating arrangements that will deliver benefits for customers that would otherwise not be explored. This section sets out the governance process regarding the fund and addresses the following matters:

- governing principles;
- the application process and associated documentation;
- qualifying criteria and CER approval;
- reporting requirements;
- dissemination of information regarding funded projects, and
- treatment of benefits arising.

These are addressed in turn below.

### **2.2 Governing Principles**

The principles that govern the fund are as follows:

- UÉ will only be able to access funding where it has proposed specific projects that are approved by the CER based on the criteria outlined in section 2.4 below;
- The fund is for UÉ spend. However, UÉ can use monies under the fund, once approved, to co-fund collaborative research. In such cases UÉ must demonstrate to the CER that the funds sought are proportionate to the potential benefits to customers of UÉ arising from the project and must set out the levels of co-funding that their project partners are committing to providing. Co-funded proposed projects must meet the qualifying criteria similarly to other proposed projects.
- UÉ will have to demonstrate when applying for monies under the fund that proposed projects address something that is innovative. Funding will not be granted for something that has already previously been done/is being done elsewhere. Note that projects may be approved that seek to apply research done elsewhere in Ireland to assess their application here where it is demonstrated that it is not clear that straight application would work.
- UÉ will have to demonstrate when applying for monies under the fund that proposed projects would not have normally been required in any event and funded outside of the fund/in its absence.

- Projects that extend beyond the lifetime of the interim revenue review period may be eligible for funding where they meet the criteria laid out in section 2.4.
- Where the funding sought exceeds that which is available, projects that meet more of the qualifying criteria set out in section 2.4 below will be given priority over those that meet relatively less.
- The CER will meet with UÉ on a quarterly basis to discuss the operation of the fund. UÉ will submit to the CER a quarterly report on the progress of projects which have received approval under the fund and associated expenditure in advance of these meetings for discussion (please see section 2.5 below). Applications for new proposed projects will also be submitted to the CER in advance of these meetings for discussion (please see section 2.5 below and Appendix A to this document). The first meeting will take place in the second quarter of 2015.
- A close out report will be submitted to the CER on completion of a project (please see section 2.5 below). In addition, a final report on projects and expenditure for the interim revenue review period will be submitted to the CER in Q1 2017.

### **2.3 Application Process and Documentation**

The process for approval of projects comprises the following steps:

- submission to the CER of completed application form by UÉ two weeks in advance of relevant quarterly meeting for discussion;
- review of submission by the CER against governing principles and qualifying criteria, presentation and discussion at quarterly meeting, *and*
- request for further information pre CER decision where considered necessary.

A completed application form must be submitted to the CER three weeks in advance of the next quarterly meeting. The application form includes:

- key project information (title, description, projected costs, projected benefits etc.);
- presentation slides detailing the proposed innovation project for presentation to the CER at the relevant quarterly meeting, *and*
- a written submission to accompany the presentation.

The application form is provided in Appendix A to this document. The form will be completed based on based available information. The CER will assess each submission and will decide whether a project qualifies under the innovation fund in the context of the governing principles (see section 2.2) and based on the qualifying criteria (see section 2.4).

The CER will normally make a decision regarding project approval within three weeks of the quarterly meeting at which the proposed project was discussed or earlier where possible. In cases where further information is required from UÉ regarding a proposed project, the timeline for the CER's decision will be within three weeks of receipt of necessary information from UÉ to reach a decision or earlier where possible.

## **2.4 Qualifying Criteria**

In setting the criteria for qualification under the fund, the CER has sought to balance the need for sufficiently robust criteria that result in innovative projects that have real potential to deliver defined benefits to customers being funded with the need to mitigate against the potential for over restrictive criteria that result in exclusion of projects of merit.

In order to qualify for monies under the innovation fund proposed projects must be shown to have a reasonable probability of delivering defined, tangible benefits to customers of UÉ in a defined timeframe. UÉ must also demonstrate that proposed projects provide value for money, i.e. that the benefits of completing a project to the customer outweigh the costs. In addition to the above mandatory requirements, proposed projects must further at least one of the following objectives:

- provision of safe, secure and reliable water services;
- increased understanding of customer behaviours and their drivers and effective customer engagement ;
- enhanced energy savings in the provision of water services;
- achievement of relevant environmental standards and the objectives of the Water Framework Directive;
- mitigation of negative climate change impacts;
- provision of water services in an economical and efficient manner;
- improved conservation of water resources.

In line with the governing principles set out in section 2.2 above, when comparing projects for funding, proposed projects which are designed to meet more of the above objectives will be chosen ahead of those that are designed to meet relatively less of them.

The CER may seek the advice of relevant parties/bodies when assessing an application.

## **2.5 Reporting Requirements**

UÉ will be required to report quarterly on the progress of approved projects against plan. UÉ must submit to the CER a progress report for each approved project of total expenditure greater than €100,000<sup>2</sup> that sets out:

- progress against project plan, including for expenditure;
- where the project is not going to plan, including for expenditure, the reasons for this and mitigations in place to bring the project back in line with the project plan;
- where the project is co-funded, confirmation that the other co-funders remain committed to co-funding the project, *and*
- review of key project risks and associated mitigation measure in place.

A summary update must be provided for projects below the above threshold which should set out status vis-à-vis milestones and expenditure. UÉ must also submit a summary of total expenditure to date on all approved projects.

The above must be submitted to the CER three weeks in advance of the relevant quarterly meeting.

In addition to the above, a close out report will be required for projects that have been completed in the previous quarter. This should include the following:

- performance against project plan including expenditure;
- project deliverables;
- recommendations on how the outcomes/findings of the project can be applied/exploited to the benefit of UÉ's customers, associated cost savings/increased efficiency, and in what timeframe;
- in the case where UÉ conclude that a project cannot be applied/exploited to the benefit of UÉ's customers, the reasons as to why this is the case, *and*
- lessons learned.

A final report on projects and expenditure for the interim revenue review period will be submitted to the CER in Q1 2017.

## **2.6 Dissemination of Information/Publication**

An annual update regarding UÉ's innovation activities under the fund will be published on the CER's website. It is noted that matters of a commercially sensitive nature may arise and, where this is considered to be the case, relevant information will not be published.

## **2.7 Benefits Arising**

Any royalties/monies earned by UÉ as a result of projects funded under the innovation fund or their application, including intellectual property rights, will accrue to customers of UÉ. In the case of collaborative projects which are co-funded by other parties, UÉ must ensure that an appropriate proportion of any royalties/monies

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<sup>2</sup> This equates to 5% of the value of the innovation fund.

arising accrue to customers of UÉ. Where UÉ has transferred its right, title or interest in or to any intellectual property rights/similar in return for an income, this income will accrue to customers of UÉ. It is noted that in some cases, the issue of royalties/monies earned will not arise. Therefore, this issue will be addressed on a case by case basis, including via the application form (please see Appendix A).

### **3.0 Next Steps**

The first meeting between the CER and UÉ regarding the innovation fund will take place in quarter two of this year. UÉ must submit all necessary documentation to the CER three weeks in advance of this meeting.

The CER will consider the need for the governance arrangements regarding innovation funding to be revised in quarter four of 2016 to ensure that they remain fit for purpose in advance of the commencement of the next price control period at the start of 2017.

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## Appendix A: Project Application Form

SECTION A		
INFORMATION REQUIRED	DESCRIPTION	
<b>Project Title &amp; Reference Number</b>	Title of Project and Reference Number	
<b>Point of Contact</b>	Name of point of contact in UÉ	
<b>Description of Project</b>	This section should give a summary of the work to be done in a proposed project/project scope, clearly defining the project timelines, milestones and deliverables.	
<b>Collaborative Partners &amp; Co-Funding</b>	This section should list the actual or potential individuals and/or organisations involved in a project other than UÉ and the level of co-funding/potential co-funding from each of these.	
<b>Stakeholders</b>	This section should list the stakeholders affected by an innovation, positively or negatively, how they will be affected and how they will be managed.	
<b>Issue Being Addressed</b>	This section should briefly describe the issue that the proposed project is designed to address, where the issue arises, who it affects, the costs/inefficiencies it leads to and those which the project seeks to address.	
<b>Innovation</b>	This section should outline the proposed solution to the issue discussed in the previous section.	
<b>Project Benefits</b>	The benefits of the project relating to relative objective(s) should be outlined here and quantified to the extent possible (e.g. this innovation will lead to a direct reduction in energy costs at Water Treatment Plants of estimated %). It should also be clarified to whom a benefit is accruing.	
	<b>Objectives</b>	<b>Benefits (Inc. Timeline &amp; Probability)</b>
	Provision of safe, secure & reliable water services	Narrative

	Increased understanding of customer behaviours and their drivers, effective customer engagement	Narrative
	Enhanced energy savings	Narrative
	Achievement of environmental standards & WFD objectives	Narrative
	Provision of water services in economical and efficient manner	Narrative
	Improved conservation of water resources	Narrative
	Mitigation of climate change impacts	Narrative
<b>Expenditure/Costs</b>	2015	2016
	UÉ € External € Total €	UÉ € External € Total €
	Stage	Estimated Total Cost
	Project Milestone 1	€
	Project Milestone 2	€
	Project Milestone 3	€
	Review	€
	Total	€
<b>Project Management</b>	Project plan/timeline, project dependencies, project risks & associated mitigations	
<b>Other Benefits</b>	Text regarding IP/royalties etc. indicating if these arise, confirmation of accrual to customers of UÉ.	
<b>SECTION B</b>		
<b>Presentation Slides</b>		
<b>SECTION C</b>		
<b>Narrative</b>		
<b>SECTION D</b>		
This application form has been completed based on best available information at time of submission. In that context, I, the undersigned, on behalf of Irish Water declare that work involved in this project is original and that it has not been		

completed elsewhere previously.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_