



Meeting held on Thursday 4 October 2007

Members in attendance

Chairman:

Philip Fletcher

Chief Executive:

Regina Finn

Non-Executive Directors:

Jane May

Peter Bucks

Mike Brooker

Penny Boys

Gill Owen

Executive Directors:

Melinda Acutt

Keith Mason

In attendance:

Andrew Dunn (Director of Consumer Protection)

Fiona Pethick (Director of Corporate Affairs and Secretary to the Board)

Fiona Butcher (Interim Director of Legal Services)

Jonathan Hodgkin (Interim Director of Network Regulation)

Roger Dunshea (Director of Operations)

Sarah Johnson (Minute Secretary)

Ingrid Olsen (Head of Enforcement) items 3 and 4

Sue Cox (Head of Service and Performance Team) items 3 and 4

Sheila Miller (Senior Analyst Service and Performance Team) items 3 and 4

Howard Perry (Enforcement Policy Team) items 3 and 4

Lynne Currie (Head of Customer Charges Team) item 5

Mike Jarema (Senior Analyst Customer Charges Team) item 5

George Day (Head of Asset Management) items 6 and 7

Helen Twelves (Head of Comparative Efficiency) items 6 and 7

Mark Hann (PR09 Project Manager) item 7

Adrian Yeo (Senior Legal Assistant) item 8

Apologies

Huw Brooker

1. Declarations of Interest

None

2. Minutes and actions arising

The Board approved the minutes of the meeting on 13 September 2007. The minutes would be published on the Ofwat website.

The Board discussed and updated the actions from previous meetings.

3. Draft enforcement policy

The Board agreed that Ofwat should develop and publish an enforcement policy encompassing experience to date of applying enforcement powers under the Water Industry Act 1991, as amended by the Water Act 2003, and under the Competition Act 1998. It noted the work carried out so far and that a timetable would be brought to the next Board meeting.

4. Outcome of GSS compliance review and next steps

In December 2006 Ofwat published ¹MD220 which required companies to review and document the systems, procedures and controls used to manage and report compliance with ²GSS regulations. The Board was presented with the final outcomes from this work. It noted that:

- all of the companies had put considerable effort in to the exercise and had given helpful responses;
- where areas were noted as needing improvement, the improvements had either been made or an action plan for completion had been put in to place to address the shortcomings, and
- in the light of these actions, further formal enforcement action arising from this work would not be required.

The outcome of the MD220 work and the next steps would be shared with the companies via an ³MD letter.

5. Update on customer charges strategy

The Board endorsed the paper that was presented on Ofwat's approach to household customer charging for water and sewerage. A key element of the approach was to facilitate the development of innovative tariffs through trials. The Board noted the proposal to publish a consultation paper on charging.

6. Approach to menu regulation for consultation

The Board agreed that Ofwat should consult on menu regulation as the preferred approach to setting capital expenditure assumptions and incentives at PR09. A PR09 letter to provide detail would be published alongside the methodology paper.

7. Sign off methodology paper

The Board was content with the draft version of the consultation paper subject to consideration of comments from other organisations and some final drafting changes. The Board agreed that final sign off would be by Philip Fletcher, Regina Finn and Fiona Pethick and that publication would be as an electronic version on our website. PR09 letters would accompany the methodology paper covering:

- adjustment mechanisms (e.g. logging up and short falling)
- financing issues
- menu regulation

¹ MD220 - Review of companies' systems, procedures and controls for compliance with the GSS Regulations and reporting of customer service data in the June return

² GSS - Guaranteed Standards Scheme

³ MD letter - Managing Directors letter

8. Approval for intervention in appeal on Mogden sewage treatment works

The Board agreed to confer discretion on the Executive to decide whether to intervene in this appeal about nuisance issues at Mogden sewage treatment works (Dobson and others v Thames).

9. Finance report 2007-08

The Board was given an update on the latest budget position to the end of August. A full six-month report will be presented to the Board in November and will include an end of year forecast and options for the management of the budget for the remaining six months of the year.

10. Quarterly risk review

The Board was given an update on the key changes to the risk register since it was last reviewed in July. The risk register will continue to be developed through discussions with Audit Committee.

11. Chief Executives report

Regina Finn presented the key issues of her Chief Executive's report. The issues discussed included:

- The current leakage methodology review where Ofwat and the Environment Agency have received three reports on:
 - alternative approaches to leakage target setting;
 - variations in per capita consumption estimates; and
 - providing best practice guidance on the inclusion of external costs and benefits in the calculation of the economic level of leakage.The reports will now be reviewed with a view to developing the leakage target setting methodology for PR09 and beyond.
- Feedback from the recent Party conference events that had been attended by Ofwat.
- Views expressed by stakeholders in response to the recent announcement of Ofwat's proposal to fine Thames Water for failure to provide robust information and failings in customer service.

Sarah Johnson
10 October 2007