



Meeting held on Thursday 14 February 2008

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:

Keith Mason

In attendance:

Huw Brooker (Director of Legal Services)
Sarah Johnson (Minute Secretary)
Mark Hann (PR09 Project Manager) item 3
Jonathan Hodgkin (Interim Director of Network Regulation) items 4 and 7
George Day (Head of Asset Strategy) item 4
Kay Webb (Senior Analyst/Engineer) item 4
Roger Dunshea (Director of Operations) item 5, 6 and 7
Andrew Dunn (Director of Consumer Protection) item 7
Adrian Yeo (Senior Legal Assistant) item 8
Phillip Dixon (Head of Competition Policy Team)
Simon Less (Programme Manager Competition Review) item 9
Clair Daniel (Competition Case Manager) item 9
Daniel Mason (Competition Analyst) item 9

1. Declarations of Interest

None

2. Minutes and actions arising

The Board approved the minutes of the meeting on 21 January 2008. The minutes would be published on the Ofwat website.

3. PR09 methodology paper

In October 2007 Ofwat published its draft Methodology Paper for PR09. The closing date for responses to the consultation was 24 January 2008. The Board was given an update on the responses received and was advised of the plan for final sign off and publication of the Methodology Paper.

4. Menu regulation

In advance of the publication of the Methodology Paper, Ofwat consulted widely on proposals to use a menu-based approach to setting capital expenditure allowances at PR09. The proposal was included in the draft Methodology Paper with a request for early views by 22 November 2007. A stakeholder workshop was held on 5 December 2007 and further discussions have taken place with stakeholders such as the Consumer Council for Water, Water UK, ratings agencies and investors.

The Board received an update on stakeholders' views and agreed with the recommendation that Ofwat adopt a menu-based approach for the PR09 methodology. The Board agreed that the approach would achieve the overall objectives of providing incentives for companies to reveal realistic forecasts for capital expenditure while at the same time placing with companies' greater accountability for their decisions.

5. Quarterly risk management update

The Board was given an update on the key changes to the risk register since it was last reviewed in October 2007. It noted that work is being carried out to produce a revised strategic risk register which will record high level long term risks and will be aligned with the Board's emerging strategic approach. This revised report will be presented to the Audit Committee in March and to Board at its April meeting.

6. Finance report 2007-08

The Board noted the financial position against the amended budget, to the end of January.

7. Budget 2008-09

Budget 2008-09: the Board considered budget proposals for 2008-09 in the context of Ofwat's developing strategic approach. It noted pressures on Ofwat resources including:

- Delivery of stable regulation in consumers interests including the delivery of the 2009 periodic review;
- The need to develop an effective framework for promoting competition in consumers' interests;
- Litigation and casework.
- Enforcement issues.

The Board agreed that, to carry out these functions effectively, it was essential to allow for a significant increase on past budgets. At the same time, all its functions must continue to be delivered efficiently and transparently. The Board approved budget proposals for 2008-09.

8. Thames Water Utilities Limited v Bromley Magistrates Court

Ofwat is considering whether to intervene in the case of Thames Water v Bromley Magistrates Court regarding environmental protection and sewage leaks. The Board agreed to delegate the power to make this decision to the

Chairman and Chief Executive once the necessary background work is complete.

9. Review of competition

In December 2007 Ofwat published "Market competition in the water and sewerage industries in England and Wales – part one" as part of an ongoing review of competition in the water and sewerage industry. It included a commitment to publish a further paper which would set out wider approaches to promoting competition beyond the Water Supply Licensing model. The Board received a presentation on the proposed issues to be included in this paper, which is due to be published in the spring. The Board welcomed the proposed structure and issues for inclusion in the paper.

10. Any other business

None

11. Chief Executive's report

Key issues where the Board received an update included:

- The Defra strategy "Future Water" which was published on 7 February 2008 along with three associated consultation papers on:
 - Social and environmental Guidance to Ofwat,
 - Surface water drainage, and
 - Removal of phosphates from washing products,The Board noted the further planned Defra reviews on Competition and the impact of metering.
- Ofwat's announcement on 8 February fining Southern Water £20.3 million for deliberately misreporting information and delivering poor service to customers.

Sarah Johnson
15 February 2008