



**OFWAT BOARD**  
**Meeting held on Monday 14 March 2005**

**Members:**

Philip Fletcher

**Non-Executive Advisory Directors:**

John Baker  
Martin Cave  
Roger Munson  
Jane May

**Executive Directors:**

Bill Emery  
Keith Mason  
Roger Dunshea  
Tony Smith

**In attendance:**

Huw Brooker (Head of Legal Services)  
Fiona Pethick (Head of Corporate Affairs and Secretary to the Board)  
Anna Whittington (Minute Secretary)  
and  
Item 4 – Paula Bennett (Operations Division)  
Item 5 – Mark Hann (Head of Comparative Efficiency), Emma Cochrane (Head of Corporate Finance) and Dave Russell (Corporate Finance team)

**Apologies**

John Baker as acting Chair gave Philip Fletcher's apologies for the first part of the Board meeting. Philip Fletcher joined the meeting at item five.

**1. Agree minutes of last meeting for publication**

The Board agreed the minutes of the previous meeting held on 9 February 2005. The minutes will be published on the Ofwat website.

**2. Agree note of Ofwat Board away-day and update**

The Board agreed the note of the Ofwat Board away day on 10 February.

**3. Industry update**

The Executive provided an update on the latest developments in the water industry and at Ofwat. The Board noted the following points:

- Share prices for the water industry have fallen from the peak levels seen earlier in January 2005.
- We plan to consult on regulatory issues arising from the sale of Mid Kent Water around the end of March / early April.
- The Executive gave an update to the Ofwat Board on progress with the Severn Trent Whistleblower investigation.

- Water UK is conducting its own evaluation of the periodic review and has sought the views of some of Ofwat's Non-Executive Advisory Directors.
- We are handling a significant increase in telephone calls and correspondence as customers receive their bills for 2005-06.
- Some companies in the South and East of England are beginning to warn of early water restrictions. We will provide a further update on drought issues.
- Executive members of the Board attended a meeting with Defra, Cabinet Office, HM Treasury, Welsh Assembly Government, Environment Agency, English Nature and Drinking Water Inspectorate to discuss the interaction between the Water Framework Directive and the 2009 periodic review.
- We have no overdue Freedom of Information Act requests.
- In response to a recommendation by our internal auditors the Board will receive an update on the budget every few months.

The Board also noted the preliminary results of the Water UK 2005 investor survey, the recent developments on water affordability and the current status of the Shotton and Bath House / Albion Yard cases.

John Baker (Chair of the Review of PR04 Steering Group) updated the Board on progress with the Review of PR04 and reported that the Steering Group had appointed a market research company to seek the views of external stakeholders. The Steering Group is meeting to discuss the draft questionnaire on 15 March. The Steering Group has also begun their round of meetings with the key stakeholders in the 2004 periodic review.

#### **4. Forward Programme**

**Roger Dunshea**

We had a good response to our consultation on the draft Forward Programme for 2005-06 to 2007-08. The Board was invited to provide comments on the latest draft of the Forward Programme.

Members of the Board made the following points:

- We need to take care in presenting the change to the WSRA to avoid any presumption of their decisions.
- We should review our presentation of the budget for 2005-06 in light of comments from companies.
- We should highlight our intention to undertake an in-house study on sustainable development, which will include some scenario modelling. We will invite views from external stakeholders if the study proves to be productive.
- We could expand Chapter seven, which lists Ofwat's milestones for 2005-06. We should explain how people can get involved and contribute their views.

#### **5. Mergers**

**Keith Mason**

The Board discussed our approach to mergers. The Board noted that our current approach has been criticised by some stakeholders who believe that we should adopt a more flexible approach thereby allowing potential cost savings to be realised.

The Board discussed the value of comparative competition and the role of international comparators. Although we have useful information on the performance

of water companies in other parts of the UK and other countries, this comparative data is of insufficient quality to use in setting efficiency targets for the companies in England and Wales.

The Board noted the Stone and Webster report that concluded that there were likely to be diseconomies of scale in the water industry. The Board also discussed the view that the threat of merger or takeover can encourage management to be more efficient and think more strategically.

Although some stakeholders have commented that the door to mergers is closed, our position has always been that we would consider individual propositions that are put to us. However, we will undertake some work to help assess the benefit and value of mergers.

## **6. Agenda items for future Ofwat Board meetings**

The Board reviewed the items to be discussed at future Board meetings. This needs to be updated to reflect the areas identified as requiring further discussion at the Ofwat Board away day.

**Anna Whittington**