



OFWAT BOARD

Meeting held on Monday 9 October 2006

Members

Chairman

Philip Fletcher

Chief Executive:

Regina Finn

Non-Executive Directors:

Jane May

Peter Bucks

Penny Boys

Executive Directors:

Keith Mason

Melinda Acutt

In attendance:

Roger Dunshea (Director of Operations)

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

Sue Cox (Acting Head of Consumer Affairs)

Huw Brooker (Head of Legal Services)

Louise Craig (Minute Secretary)

Pauline Amor (Temporary head of Disputes & Complaints) item 5

Kieran Duffy (Head of Transfer Pricing) item 6

Sheila Miller (Acting Head of Service and Performance) item 7

Robert Day (PCS Branch Chair) item 8

Ingrid Olsen (Head of Parliamentary and Public Affairs) items 9 & 10

George Day (Head of Capital Maintenance) item 10

Lynne Currie (PR09 Project Manager) item 11

Rowena Tye (Head of Quality Enhancement Team) item 13

Phillip Dixon (Head of Competition Policy Team) items 14 & 15

Jonathon Ashley (Competition Policy Team) item 14

Paul Morris (Competition Policy Team) item 15

Mark Hann (Head of Comparative Efficiency Team) item 16

1. Welcome and apologies for absence.

Philip Fletcher welcomed Regina Finn for her first Board meeting. There were no apologies for absence.

2. Declarations of interest.

No declarations of interest were made.

3. Minutes and actions arising.

The Board approved the minutes of the previous meeting of 11 September 2006. The minutes will be published on the Ofwat website.

The Board noted that following the resignation of Lord Whitty as non-executive director, Penny Boys would serve on the Audit Committee. This position will be reviewed when a new non-executive director is appointed.

4. Chief Executive's report.

Philip Fletcher provided his last update as acting Chief Executive on the latest developments in the water industry and at Ofwat.

Regina Finn will provide this update at the next Board meeting.

The following issues were discussed:

- The expected referral by the OFT of the merger of South East Water with Mid Kent Water to the Competition Commission.
- Progress on the sale of Thames Water.
- Our submission to the planning inquiry into United Utilities' appeal against the imposition of new consents on intermittent discharges from the sewerage system.
- The risk register where Board agreed that short term risks would be seen quarterly and the longer term risks half yearly. The Audit Committee would also review the risks.

5. Ofwat's approach to voluntary involvement in legal cases.

The Board endorsed proposed criteria for deciding whether to intervene voluntarily in litigation. Following those criteria the Board agreed that Ofwat should seek leave to intervene in the case of Mogden residents v Thames Water and not to seek leave to intervene in the case of Welsh Water v Corus UK Limited.

The Board reserved the power to approve future decisions to intervene in litigation. A decision not to intervene would not need Board approval.

6. Regulatory Action on transfer pricing.

The Board received an update on progress on regulatory action on transfer pricing issues.

7. Customer Service Strategy.

The Board discussed a paper on the future approach to customer service issues. The Board asked to see the strategy developed further taking into account the approach taken by other regulators.

8. Trade Union recognition in Ofwat.

The Board agreed in principle formally to recognise the trade unions for negotiating purposes. The Office Committee would continue to include representatives of non-unionised staff.

9. Setting price limits for PR09.

The Board agreed that price limits would be set for five years at the next price review. The Board would consider if necessary at a future date whether to vary this period for subsequent reviews.

10. Response to three consultations.

The Board commented on a draft response to the consultations on:

- Our approach to sustainable development.
- Developing processes for assessing capital maintenance requirements.
- The length of PR09.

Ofwat hopes to publish a combined response on all these issues by the end of October. [Note: Ofwat published 'A sustainable water industry – To PR09 and beyond' on 1 November 2006.]

11. Preparations for PR09.

The Board considered a paper on Ofwat's objective for the 2009 price review and key policy issues including long term planning, assessment of cost and benefit, affordability and seeking credible plans. The Board agreed the objective "*We will set price limits that deliver the best value for consumers and allow efficient water companies to provide a sustainable service into the future.*"

12. Draft Forward Programme.

Board agreed with the recommended approach to the draft Forward Programme for 2007-08, which will concentrate on consulting on a number of key issues:

- PR09;
- water resources;
- harnessing market forces;
- development of competition;
- longer term issues;
- better regulation and simplification;
- protecting consumer interests; and
- regulated company innovation and strategy.

The draft Forward Programme will also include a list of specific outputs for monitoring and control purposes.

13. Thames Tideway.

The Board received a briefing on the issues surrounding the Thames Tideway. They asked that the results from modelling the bill impact of the work be brought to the next Board meeting.

14. Draft response to the DTI/HM Treasury report on concurrent powers.

The Board approved the tenor of the draft response to the DTI/HM Treasury report on 'Concurrent competition powers in sectoral regulation' which will be taken forward in discussion with other regulators and signed off by Management Committee.

15. Inset Appointments.

The Board received a 'trailer paper' on inset appointments. The paper introduced the issue ahead of more substantive discussions planned for the Board meeting in November.

16. Leakage target setting.

The Board was informed of work to review the approach to leakage target setting.

17. Better regulation and simplification.

The Board was informed on the debate on better regulation issues. The Board agreed to the production of a simplification plan which will be consulted on in the draft forward programme 2007-08 to 09-10.

18. Financial report April to August 2006.

The Board received and accepted an update on Ofwat's financial performance for April to August 2006.

19. Future papers.

The Board discussed the programme of papers for future Board meetings.

20. AOB.

The Board took note of the Competition Appeal Tribunal's judgement in the Albion Water (Shotton) case, issued on 6 October 2006.

Louise Craig.