



Meeting held on Thursday 13 September 2007

Members in attendance

Chief Executive:

Regina Finn

Non-Executive Directors:

Jane May (Chair)

Peter Bucks

Mike Brooker

Penny Boys (Chair for item 6)

Gill Owen

Executive Directors:

Keith Mason

Apologies

Philip Fletcher, Melinda Acutt, Huw Brooker

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)

Sarah Johnson (Minute Secretary)

Roger Dunshea (Director of Operations) items 4 and 5

Ingrid Olsen (Head of Enforcement) item 6

Nicola Taylor (Senior Service and Performance Analyst) item 6

Jill Marsal (Senior Legal Assistant) item 6

Dylan Spedding (Public Affairs Analyst) item 7

George Day (Head of Asset Management) item 8

Mark Hann (PR09 Project Manager) item 9

Stephen St Pier (Senior Interim Determination Analyst) item 10

1. Declarations of Interest

Jane May declared her interest in Thames Water, as a past employee, and excluded herself from discussions on the Thames Water paper. Penny Boys took over as Chair for this discussion.

2. Minutes and actions arising

The Board approved the minutes of the meeting of 25 July 2007. The minutes will be published on the Ofwat website.

The Board discussed the actions from previous meetings and noted that seminars will take place for staff of Ofwat and the Competition Commission on the roles and responsibilities of the two organisations.

3. Chief Executive's report

Regina Finn presented the headline issues of her Chief Executive report. The issues discussed included:

- Ofwat's review of the floods, the causes and more importantly the learning points and implications for the future,
- Severn Trent Water's k abatement, which accompanied its section 19 undertaking;
- Defra strategy and social and environmental guidance, and the impact of delays in production of these on PR09 issues; and
- the balance to be struck between formal and informal consultation.

4. Summary financial report for April – July 2007

The Board was given an update on the latest budget position to the end of July with cost pressures highlighted. A full six-month report will be presented to the Board in November that will include an end of year forecast. The Board noted that budget setting work for 2008-09 has begun.

5. Remuneration Committee membership

Mike Brooker was appointed to the Remuneration Committee in place of Penny Boys. Penny will remain a member of the Audit Committee. The Board approved this change.

6. Regulatory action against Thames Water

Note: Jane May was not present for this discussion. Penny Boys took over as Chair.

Board discussed a paper presented by the Executive on regulatory action against Thames.

The Board agreed that:

- a contravention of Licence Condition J and/or M occurred when Thames submitted its 2005 June return;
- that its previous decision that Thames failed to meet the standards of performance prescribed under the GSS Regulations remains unchanged;
- that financial penalties are appropriate in both cases; and
- that the level of financial penalty Board proposes to impose is £11.1m for the contravention of condition J and/or M (equivalent to 0.8% of Thames 2006-07 turnover) and £1.4m for the failures to meet the standards of service prescribed by the GSS Regulations (equivalent to 0.1% of Thames 2005-06 turnover).

The Board agreed that the relevant proposed penalty notices should be served on Thames.

7. Development of our strategy and Forward Programme

The Board was given an update on the development of our strategy and Forward Programme. It approved the proposed set of outcomes as a basis of our draft Forward Programme.

8. Menu Regulation

The Board was given a presentation on the key issues from the ongoing consultation and work being carried out on menu regulation as a potential leading option for inclusion in the PR09 methodology paper. The Board will make a final decision on the content of the methodology paper in relation to menu regulation in October.

9. PR09 October Methodology paper

The Board received a second draft of the PR09 methodology paper and was asked to sign off of the majority of policy issues, which it did. The Board provided a number of comments including that the final report should:

- be more concise,
- clearly take account of other developments in Ofwat; particularly developments on the review of competition, and
- be checked for consistency with Ofwat's developing strategy as a whole.

The methodology paper will be discussed again at the October Board meeting where it will be signed off.

10. Interim determinations – update and discussion on decision making

The Board was given an update on the interim determination received and expected to be received before the deadline of 14 September. A press notice would be issued on 17 September.

To enable interim determination decisions to be made within the timetable the Board was asked to consider the decision making process. It agreed that the Executive should make decisions on interim determination applications within established policy parameters.. Exceptions being:

- special effect interim determinations; or
- where new policy issues are raised through the interim determination

These would require a decision by the Board.

11. Any other business

The Board was given an update on the Ofwat, Water Industry Commission for Scotland, and Northern Ireland Authority for Utility Regulation dinner that takes place in October. Possible speakers and topics for discussion were identified.

Sarah Johnson

14 September 2007