



OFWAT BOARD

Meeting held on Thursday 15 June 2006

Members

Chairman & Acting Chief Executive:

Philip Fletcher

Non-Executive Directors:

Penny Boys

Peter Bucks

Lord Whitty via telephone

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)

Mark Hann (Head of Comparative Efficiency Team) item 3

Ingrid Olsen (Head of Parliamentary and Public Affairs) item 4

Lynne Currie (Consumer Policy Manager) item 5

Apologies:

Jane May

1. Minutes and actions arising.

The Board approved the minutes of the previous meeting held on 8 May 2006. The minutes will be published on the Ofwat website.

2. Industry update.

The Executive provided an update on the latest developments in the water industry and at Ofwat. The following issues were discussed:

- Developing the methodology for the economic level of leakage.
- The drought in the South East, including the possibility of a third dry winter and the importance of ensuring all stakeholders fully consider the implications and their responses to a third dry winter.
- Our response to the issues raised in the House of Lords sub-committee report into water management. The Board welcomed the report and sought to ensure that the recommendations were reviewed strategically.
- Whether Ofwat should be seeking amendments to reflect the independence of the economic regulators in the Regulatory Reform Bill.
- The submission of our evidence to the planning inquiry into Thames desalination plant.

- Progress on the Thames Tideway strategic study and our aim to achieve the outcome which represents best value to customers.
- The odour complaint at Mogden Sewage Treatment Works and whether we should seek to intervene in the court case. (Hanifa Dobson & others v Thames Water). The Board agreed to delegate the decision whether to intervene to the executive.

3. Update on leakage.

The Board received an update on the continuing discussions with Thames Water on their leakage performance. Analysis of the company's June return and Reporter's report would show whether Thames had achieved its leakage target. The Board considered what action to take if Thames missed its target by a significant amount. The Board agreed that subject to the analysis to be completed, unless a robust S19 undertaking was received from Thames, we would provisionally plan to proceed with S37 enforcement action.

4. Consultation on the length of the periodic review period.

Almost all responses to Ofwat's consultation on the length of the periodic review period had favoured keeping a 5 year review period. However, the House of Lords sub committee report had suggested a 6 year review period. The Board agreed that it was important to consider our response to the consultation in conjunction with our response to the House of Lords report, bearing in mind the interaction between the review period, the periodicity of the Water Framework Directive and other factors. A discussion of the length of the review period would be added to the agenda for the Board away day.

5. MoU with CCWater.

The Board considered the proposals for a Memorandum of Understanding (MoU) with CCWater. Ofwat is required under the terms of the Water Act 2003 to have MoU's with its key stakeholders. The MoU with CCWater had progressed further than the others. The Board agreed that since not all of the required MoUs would be ready at the same time for approval, they should approve the CCWater MoU first. The Board agreed that a sub-committee of the Board comprising Philip Fletcher, the executive directors and one non-executive director could sign off the MoU.

6. Risk management.

The Board was pleased that the previous Audit Committee had contributed to the risk management strategy. The Board felt that it was important for the strategy to use both top-down and bottom-up approaches to identifying and managing risks. It agreed that the new Audit Committee would take the strategy further and bring it back to the Board for approval.

7. Forward programme.

The responses to the draft forward programme consultation and proposed consequential amendments were considered. We agreed that Philip Fletcher would adjust his foreword to acknowledge the House of Lords report into water management. We also agreed to raise the prominence of sustainable development in the document. The forward programme would be published on 30 June 2006.

8. Board away day.

The Board discussed the aims and objectives for the Board away day on 2 and 3 August. The Board suggested a number of issues to be considered for the agenda. It was agreed that the discussion should consider long term issues and would feed into the forward programme for 2007/08.

9. Budget 2006-07.

The Board considered the financial report for May 2006. A small underspend against profile was noted. A contingency fund against the cost of litigation had been established although the Board noted that it would be insufficient if there were several large court cases.

10. Future Papers.

The Board noted that the paper for the next Board meeting on 24 July summarising the issues from the June returns could only be written and circulated after Ofwat's June return meeting on 18 July.

Louise Craig.