



OFWAT BOARD

Meeting held on Thursday 17 July 2014

Members in attendance

Chairman:

Jonson Cox

Chief Executive:

Cathryn Ross

Non-Executive Directors:

Chris Burchell
Martin Lawrence
Christine Farnish
Catherine Waddams
Wendy Barnes
Robin Paynter Bryant

Executive Directors:

Keith Mason
Sonia Brown
Richard Khaldi

General Counsel

Elizabeth Hillman

In attendance:

Rachel Wright	(Board Secretary)
Giles Stevens	(Delivery Director) – Item 2
Georgina Mills	(Associate Director) – Item 2
Shane Anderson	(Associate Director) – Item 2
David Black	(Director of Economics) – Item 2
Colin Sawyer	(PR14 Programme Director) – Item 2
Laurie Macfarlane	(Portfolio Manager) – Item 2
David Lancefield	(PwC) – Item 2
Stuart Cook	(PwC) – Item 2
Andrew Beaver	(Director of Strategy) – Item 3
Ruth Gibson	(Head of Market Framework) – Item 3
Sally Irgin	(Principal Case Officer) – Item 5
Ronan Palmer	(Environment Director) – Item 7
Mala Shetty	(Principal Case Officer) – Item 7
Rob Powell	(Delivery Director) – Item 8
Claire Forbes	(Senior Director of Corporate Communications)
Bev Messinger	(Senior Director, Operations) – Item 9

1 Declarations of interest

- 1.1 The Chairman referred to his role as Chairman for Harworth Estates and notified the Board that Harworth Estates is currently involved in land sales. The Chairman confirmed that he will abstain from all discussions on property sales and purchases in this role.
- 1.2 The Chairman informed the Board that he is attending a Canadian investors talk. He confirmed that travel costs will be paid by a consortium of investors and this had been agreed with the CEO and Chair of Audit and Risk Committee.
- 1.3 Christine Farnish confirmed that she will be leading on an independent review of the Money Advisory Service for Treasury.

2 Minutes

- 2.1 With minor amendments the Board agreed the minutes and actions of the meeting held on 19 June. The minutes will be published on the website.

3 PR14 Delivery and company recommendations

- 3.1 The Executive provided Board with an update on the delivery and forward plan for the PR14 programme.
- 3.2 It was confirmed that for the purposes of all draft determination discussions, Sonia Brown would not be regarded as a decision making Board member, given her involvement in the assessment of companies' business plans.
- 3.3 The Executive presented to the Board proposals for the capping of cost baselines for the remaining draft determinations. The Board considered the level of any cap in relation to the enhanced companies and companies who received draft determinations in June. The Board agreed to a cap that limits any cost threshold to be no more than 5% above the forecast level of totex.
- 3.4 The Executive presented the representations made by companies on the wholesale cost models. The Board agreed to retain the upper quartile efficiency challenge for draft determinations based on the evidence presented by companies, for both wholesale water and sewerage wholesale costs.

- 3.5 The Executive provided the Board with an assessment of Severn Trent's resubmitted business plan. In particular, the Executive highlighted the amendments made by the company to its original business plan that was submitted in December 2013.
- 3.6 The Board discussed the resubmitted business plan, and in particular focused on the areas of the plan that Severn Trent had issues to address. The Executive highlighted to Board the key areas in the plan where there remained a risk that Ofwat would need to intervene as part of our draft determinations to protect the interests of customers.
- 3.7 Consistent with the approach taken for the companies who prequalified as enhanced and the companies who received draft determinations in June, the Board agreed to delegate authority to the Chief Executive and Chief Regulation Officer to determine the quantum of any interventions and to finalise the draft determination for Severn Trent based on the discussion that had taken place.
- 3.8 It was agreed that this delegated authority would remain in place apart from in the event that any Board member wished to discuss a particular issue, or that any material issues were to arise from the ongoing assessment of Severn Trent's business plan. If this were to happen, it was agreed that the relevant issues would be discussed with Board at a short-notice Board meeting to be convened if necessary.
- 3.9 The Executive provided the Board with an update on the emerging key issues and risks with the remaining 13 draft determinations ahead of the August Board meeting.
- 3.10 The Board noted the emerging issues for the remaining companies.

4 Choice and Trading Arrangements

- 4.1 The Executive presented an update on the Choice and Trading Arrangements programme which focused on proposals for the industry code change process and the governance and funding of the market operator.
- 4.2 The Board agreed to the proposals presented by the Executive.

5 Thames Water Sewer Flooding Case

- 5.1 The Executive presented the final form Section 22A Penalty Notice against Thames Water for breaching its licence obligations in relation to the reporting of sewer flooding information.
- 5.2 The Board agreed to the final form Section 22A Penalty Notice and delegated authority to the Executive to publish the Penalty Notice.
- 5.3 The Penalty Notice would be published no later than 25 July 2014.

6 New Connections

- 6.1 The Executive updated the Board on Ofwat's activities in relation to new connections, with particular focus on improving the industry's customer relationships with developers and self-lay organisations and how to ensure the industry is enabling development and economic growth.
- 6.2 The Board discussed and agreed the strategic significance of the new connections issues. The Board commented on the importance of continued discussions with stakeholders, specifically the energy market, in relation to new connections.
- 6.3 The Board noted that it hopes to see companies deliver significant improvements themselves in this area by the end of the year rather than requiring Ofwat to set prescriptive service standards, but noted that remains an option if improvements are not visible.

7 Thames Tideway Tunnel

- 7.1 The Board received for information an update on the investors market for procurement of the Infrastructure Provider for the Thames Tideway Tunnel.
- 7.2 The Board noted the update.

8 Strategy Development

- 8.1 The Executive presented the Board with an update on the Strategy Project ahead of the Board Strategy Workshop in September.
- 8.2 Board noted the update, and discussed the vision of trust and confidence for the sector and for Ofwat.

- 8.3 Board provided a range of comments on what Members would like to discuss at the Strategy Workshop in September.

9 Risk and Opportunities Strategy

- 9.1 The Executive presented Ofwat's Risk and Opportunities strategy.
- 9.2 The Board approved the Risk and Opportunities strategy with slight amendments.

10 Quarterly Performance, Budget and Risk Report Q1 2014-15

- 10.1 The Executive provided the Board with its Quarterly Report for Q1 which included the organisation's financial position as at the end of June. The Executive also sought approval for two contract awards.
- 10.2 The Board noted the update and approved the relevant contracts.

11 Chief Executive's Report

- 11.1 The Board received an update on key issues. These included the:
- business transformation;
 - Cabinet reshuffle; and
 - Open Water Market Limited.
- 11.2 The Board noted the ongoing discussions between Ofwat, Treasury and Cabinet Office on the options for the future of Open Water Market Limited.

12 Update from the Chair of the Audit and Risk Assurance Committee

- 12.1 As Chair of the Audit and Risk Assurance Committee, Wendy Barnes provided Board with an update on key points discussed by the Audit and Risk Assurance Committee at its 18 June meeting, including the minutes.

13 Any Other Business

- 13.1 None

Rachel Wright
17 July 2014