



OFWAT BOARD

Meeting held on Thursday 5 April 2007

Members in attendance

Chairman:

Philip Fletcher

Chief Executive:

Regina Finn

Non-Executive Directors:

Peter Bucks

Mike Brooker

Penny Boys

Jane May

Gill Owen

Executive Directors:

Keith Mason

Melinda Acutt

In attendance:

Roger Dunshea (Director of Operations)

Andrew Dunn (Director of Consumer Protection)

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

Huw Brooker (Head of Legal Services)

Jonathan Hodgkin (Interim Director of Network Regulation)

Louise Craig (Minute Secretary)

Kieran Duffy (Head of Transfer Pricing) item 2

Christopher Pepper (Transfer Pricing Analyst) item 2

Robert Wright (Legal Assistant) item 2

1. Minutes and actions arising

The Board approved the minutes of the meetings on 6 and 14 March 2007. The minutes will be published on the Ofwat website.

2. Regulatory action on transfer pricing at United Utilities Water

The Board discussed whether United Utilities Water Plc ('United Utilities') had met the requirements of Condition F of its licence. Having considered the available evidence, the Board decided that the company had not met the requirements at paragraph 6.8 of Condition F of its appointment in relation to trading arrangements with a number of associated companies.

The Board agreed that:

- The alleged breach was significant and had the potential to impact customers. It was considered not trivial and should have been apparent to a diligent undertaker.
- It was appropriate to propose a financial penalty in this case, which should act as a deterrent.
- The period in relation to which any fine could be imposed was 11 October 2005 to 31 March 2007.
- To delegate authority to issue the Section 22A(4) notice to Regina Finn or in her absence Keith Mason.

The Board agreed that the starting point for the proposed penalty would be 0.8% of United Utilities' turnover. The proposed penalty would be increased by 0.2% of turnover to reflect the aggravating factors and reduced by 0.3% of turnover to reflect

the mitigating factors. The proposed fine was agreed at 0.7% of turnover which rounded to £8.5million.

The Board also agreed that

- There would be a period of 28 days for representations or objections in response to the Section 22A(4) notice of intent to fine.
- The Board would consider representations or objections at their meeting on 14 June 2007.

3. Budget for April 2006 to February 2007

The Board received and accepted an update on Ofwat's financial performance.

4. Report from the Audit Committee

Peter Bucks reported to Board the outcome of the last Audit Committee meeting held on 12 March 2007. The Board asked that the Audit Committee provide it with a report prior to approval of the resource accounts.

5. Quarterly risk register

The Board was presented with Ofwat's quarterly risk register for comment. The Board asked to see the quarterly risk register and strategic risk register together in future.

6. Chief Executive's report

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

- an update on the Competition Commission's remedies hearing on 23 March into the merger between Mid Kent Water and South East Water and the timetable for next steps;
- The Government announcement on the construction of an interceptor sewer for the Thames Tideway;
- The results of Ofwat's consultation on the change of ownership of Thames Water and the implications for the governance of the company.
- Key messages from the international comparisons report;
- and quoted companies' trading updates.

7. Board effectiveness

The Board discussed the Chairman's proposal for a framework to assess their effectiveness. Each Board member and regular attendee agreed to contribute to an assessment of the effectiveness of the Board. The Chairman would hold review meetings with each Board member and regular attendee.

8. AOB

The Board thanked Melinda Acutt for her work and wished her well whilst she is on maternity leave.

Louise Craig