



OFWAT BOARD

Meeting held on Wednesday 5 March 2014

Members in attendance

Chairman:

Jonson Cox

Non-Executive Directors:

Penny Boys
Chris Burchell
Martin Lawrence (by telephone)
Robin Paynter Bryant
Catherine Waddams
Wendy Barnes
Christine Farnish

Executive Directors:

Cathryn Ross (by telephone)
Keith Mason
Sonia Brown
Richard Khaldi

In attendance:

Noel Beale	(Director of Legal Services)
Dan Mason	(Assistant Board Secretary)
Antony Cook	(PwC)
Stuart Cook	(PwC)
David Lancefield	(PwC)
Andrew Walker	(Delivery Director)
Andrew Beaver	(Director of Strategy)
David Black	(Director of Economics)
Bill Easton	(PA Consulting)
Mark Worsfold	(Chief Engineer)
Giles Stevens	(Delivery Director)
Graham Taylor	(City Adviser)
Shane Anderson	(Associate Director)
Georgina Mills	(Associate Director)
Claire Forbes	(Director of Corporate Communications)
Claire Simpson	(Strategic Adviser to the Chief Regulation Officer)

1. PR14 context and policy

- 1.1 The Executive set out to Board the context of the risk based review as well as highlighting a number of policy areas which Board would be required to make decisions.

2. PR14 - overview of the process followed and assurance

2.1 The Executive set out the quality assurance process that had been applied throughout the risk based review, noting that this process was still ongoing. The Executive also updated Board on external legal advice that had been received.

2.2 Board noted the update.

3. PR14 – new information

3.1 The Executive highlighted to Board an issue in relation to the wholesale wastewater cost assessment that had emerged from the quality assurance process. In particular, the Executive highlighted to the Board that the new information raised an issue for two companies.

3.2 The Executive suggested an approach to provide a solution to the issue so that the two relevant companies were not unduly affected in the risk based review scoring. The Board noted the issued and agreed to the proposed approach.

4. PR14 – outstanding policy considerations

4.1 The Executive presented to the Board a number of areas where there remained outstanding policy issues. This included the subset of tests for the pre-qualification process, and the possibility of attaching conditions alongside the pre-qualification decision-making process for enhanced companies.

4.2 The Board discussed the proposal of attaching conditions alongside the pre-qualification process. In particular, the Board highlighted the need to ensure that any areas where conditionality is attached can be sufficiently addressed by any pre-qualified companies via a clear and transparent process in advance of enhanced draft determinations.

4.3 The Board agreed to the principle of attaching conditions alongside the pre-qualification process.

4.4 The Executive also proposed a move away from the ‘standard’ and ‘resubmission’ categories that had been set out in the methodology statement. For those companies not pre-qualified for enhancement, a separate process would be established.

5. PR14 – risk based review test area results

- 5.1 For the purposes of this discussion, it was agreed that Sonia Brown would not be regarded as a decision making Board member, given her involvement in the categorisation of companies' risk based review.
- 5.2 The Executive set out the results of the risk based review, with each Accountable Lead providing an overview of each test area – wholesale costs, outcomes, legacy issues and retail. The Accountable Leads for the two relevant whole company tests for prequalification, Board Assurance and Affordability, also provided an overview of those tests.
- 5.3 The Board provided general challenge on some of the test areas. In particular, the Executive agreed to bring further detail on the wholesale costs and Board Assurance to the Board meeting later in the week.

6. PR14 - company recommendations

- 6.1 Again, for the purposes of this discussion, it was agreed that Sonia Brown would not be regarded as a decision making Board member, given her involvement in the categorisation of companies risk based review.
- 6.2 The Executive set out the process by which it would provide Board with recommendations on all of the companies' business plans over the two Board days. The Executive highlighted that there were two recommendations for companies business plans to be prequalified as enhanced, and two recommendations that were marginal – one concerned a water and sewerage company and one concerned a water only company.
- 6.3 The Executive provided Board with recommendations on two company business plans - South West Water and Affinity Water. The recommendations were that, owing to the high quality of their business plans, that South West Water and Affinity Water be prequalified for enhanced, subject to minor conditions.
- 6.4 The Board discussed the proposed pre-qualification decisions. The Board agreed to the recommendation for South West Water's business plan. The Board concluded that it was minded to categorise Affinity Water's business plan as pre-qualified for enhanced.

Dan Mason
6 March 2014