



Ofwat Board meeting held on Monday 8 December 2014

Members in attendance

Chairman:

Cathryn Ross

Jonson Cox

Chief Executive:

Non-Executive Directors:

Chris Burchell
Wendy Barnes
Christine Farnish
Catherine Waddams
Robin Paynter Bryant

Executive Directors:

Cathryn Ross
Keith Mason
Sonia Brown
Richard Khaldi

Apologies

Martin Lawrence

General Counsel

Elizabeth Hillman

In attendance:

Rachel Wright	(Board Secretary)
Claire Forbes	(Senior Director, Corporate Communications)
Shane Anderson	(Delivery Director)
Giles Stevens	(Delivery Director)
David Black	(Delivery Director)
Andrew MacGeoghan	(Delivery Director)
Claire Simpson	(Principal)
Andrew Chesworth	(Principal)
Peter Jordan	(Principal)
Graham Taylor	(City Advisor)
David Lancefield	(PwC)

Stuart Cook (PwC)
Henrietta Farrell (PwC)

1 Declarations of interest

1.1 None

2 Opening items including minutes

2.1 With minor amendments the Board agreed the minutes and actions of the meeting held on 20 November. The minutes will be published on the website.

3 PR14 – Programme update

- 3.1 The Executive provided an update of the PR14 programme and the process up to publication of final determinations on 12 December.
- 3.2 The Executive presented the PR14 quality assurance process that has been followed for all final determinations. The Executive confirmed that this had included independent academic reviews and peer reviews.
- 3.3 The Executive proposed licence modifications for three companies (Anglian Water, Severn Trent Water and South West) that would enable these companies to receive penalties and rewards in-period for one or more performance commitments. The Board agreed to the recommendations.
- 3.4 The Executive presented a proposal in relation to Thames Water's licence in order to set a separate price control for its Thames Tideway expenditure, as agreed in October Board meeting. The Board agreed to the separate price control proposal for Thames Tideway Tunnel.
- 3.5 The Board agreed to delegate authority to a Board sub-committee to finalise decisions subject to any material changes, in which case the Board would be reconvened. It was agreed that this Board sub-committee would meet on Thursday 11 December to formally sign off recommendations.

4 PR14 - Financeability

- 4.1 The Executive presented the financeability assessment and decisions on companies' proposed changes to cost recovery rates.
- 4.2 The Executive gave an update on the financial markets. The Board discussed the financeability of actual and notional company structures.
- 4.3 The Executive presented proposals from companies to use cost recovery tools (PAYG and RCV run off rates) between price control periods.
- 4.4 The Board agreed to the use of cost recovery tools to bring money forward from future control periods for four companies on receipt of adequate assurance from those companies that the money will remain within the regulated company.
- 4.5 In relation to Bristol Water bringing revenue forward (to allow it time to adjust to lower revenue and bills) the Board discussed options around the glidepath to achieve efficient costs. The Board agreed to a one year glide path for Bristol Water in recognition of the significant reduction in water bills for its customers in year one.
- 4.6 The Executive presented its recommended financeability ratios and revenues for all the companies. The Board approved the recommended ratios.
- 4.7 The Board accepted the Executive's recommendation to align customer bill profiles with the company recommendations.
- 4.8 The Board agreed to adjust the PAYG rate to glide path to efficient cost level by 2016/17.
- 4.9 The Executive presented the customer bill profiles for each of the companies.

5 PR14 – Company Monitoring programme

- 5.1 The Executive presented a proposed company monitoring programme for the next price control period (2015-2020).
- 5.2 The Board endorsed the recommendations on the company monitoring proposals.

6 PR14 – CIS

- 6.1 The Executive provided a recap on the company representations on the CIS methodology received since the draft determinations.
- 6.2 The Executive recommended that position on CIS be maintained as at draft determinations. The Board endorsed this recommendation but mandated the Executive to review company RCVs as part of PR19 to ensure that they are appropriate and consistent with a broader package of changes that Ofwat expects to make.
- 6.3 The Board delegated this decision to the sub-committee following a legal review.

7 PR14 – Final Determinations Formal Sign off

- 7.1 The Executive presented the final recommendations for Anglian Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.2 The Executive presented the final recommendations for Dwr Cymru Welsh Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.3 The Executive presented the final recommendations for Northumbrian Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.4 The Executive presented the final recommendations for South West Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.5 The Executive presented the final recommendations for Severn Trent Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.

- 7.6 The Executive presented the final recommendations for Southern Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.7 The Executive presented the final recommendations for Thames Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.8 The Executive presented the final recommendations for United Utilities' business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.9 The Executive presented the final recommendations for Wessex Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.10 The Executive presented the final recommendations for Yorkshire Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.11 The Executive presented the final recommendations for Affinity Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.12 The Executive presented the final recommendations for Bristol Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations. Are we prepared if equity increases?
- 7.13 The Executive presented the final recommendations for Dee Valley Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.14 The Executive presented the final recommendations for Portsmouth Water's business plan. The Board discussed the overall package for the

company including average bill impacts on customers and revenues. The Board agreed to the recommendations.

- 7.15 The Executive presented the final recommendations for Sembcorp Bournemouth Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.16 The Executive presented the final recommendations for South East Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.17 The Executive presented the final recommendations for South Staffordshire and Cambridge Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.18 The Executive presented the final recommendations for Sutton and East Surrey Water's business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations.
- 7.19 The Executive presented the final recommendations for Cholderton and District Water business plan. The Board discussed the overall package for the company including average bill impacts on customers and revenues. The Board agreed to the recommendations. The Board instructed the Executive to include clear narrative on the efficiency challenge in relation to small companies.

8 PR14 - Communications

- 8.1 The Executive gave an overview of the communication strategy for the Final Determinations on 12 December
- 8.2 The Board noted the plans.

9 CTA – WICS/ Ofwat Memorandum of Understanding (MoU)

- 9.1 The Executive presented the MoU between Ofwat and WICS and explained its significance in the need for the two regulators to work

together on the opening of the non-household customers' retail market in England.

- 9.2 The Executive confirmed that there was a two tier arrangement with WICS consisting of a MoU, to be agreed by Board, and a Delivery Partner Arrangement (DPA), to be concluded by the Executive.
- 9.3 The Board noted the statement in a press interview from the CEO of WICS confirming his role in delivering Open Water. The Board expected that future statements would be coordinated.
- 9.4 The Board requested that the CEO include within the DPA requirement of the CEO of WICS as Ofwat's Delivery Partner to attend Ofwat Board meetings as required.
- 9.5 The Board agreed to the MoU subject to no material changes and agreed to its publication.
- 9.6 The Board endorsed the CEO's work to finalise the Delivery Partner Arrangements. This will be published in due course with the MoU.
- 9.7 The Board requested that CEO comes back to the Board in three months' time to present a review on how the arrangements with the delivery partner were working.

10 2015-2016 Budget update

- 10.1 The Executive presented an update on the 2015-2016 budget and a business case for an increase to the budget to cover the Water Act delivery costs and Thames Tideway delivery costs.
- 10.2 The Board approved the business case and noted the budget for the next financial year.

11 CEO report

11.1 The Executive presented the Chief Executive Report which covered:

- New strategy launch will be on 14 January 2015;
- Publication date for the Forward Programme to be 15 January 2015;
- An Update on the Autumn Statement;
- Interim six month company financial results.

Rachel Wright
8 December 2014

Actions log for meeting held on 8 December 2014

Agenda Item	Action	Action Owner	Date action was placed	Action to be completed by (initially)	Update provided by action owner
Opening items	Make amendments to the November Board minutes to reflect that the decisions were made for the purposes of financial modeling. Publish minutes.	Rachel Wright	8 December	29 January	Published 21 January 2016
Opening items	Establish a Board sub-committee for 11 December to formally sign off Board decisions, subject to no material changes.	Rachel Wright	8 December	11 December	Complete – Members: Jonson, Catherine, Christine, Cathryn, Keith In attendance: Sonia, Rachel.

Agenda Item	Action	Action Owner	Date action was placed	Action to be completed by (initially)	Update provided by action owner
PR14	The Executive to request assurance from companies proposing to bring money forward from future control periods that the money will remain within the regulated company. Provide update in the sub-committee.	Sonia Brown	8 December	11 December	Complete
PR14	The Executive and General Council to review the text in final determinations relating to CIS – option 2 to encompass RCV. Review at sub-committee meeting.	Sonia Brown Elizabeth Hillman	8 December	11 December	Complete
PR14	Claire to share with Board members the responses to ‘difficult questions’ that may be asked on 12 December publication date.	Claire Forbes	8 December	12 December	Complete
PR14	Ensure key messages in the final determinations focus on outcomes rather than the PR14 process	Claire Forbes	8 December	12 December	Complete

Agenda Item	Action	Action Owner	Date action was placed	Action to be completed by (initially)	Update provided by action owner
PR14	CEO to return to Board in three months' time with a review on how the arrangements with WICS (as delivery partner) were working. Include in this review a contingency plan.	Cathryn Ross	8 December	26 March 2015	Close: added to Forward Planner
CTA / Open Water	Alan Sutherland as CEO of the Delivery Partner to attend a Board meeting in early 2015.	Cathryn Ross	8 December	30 April 2015	Close: added to Forward Planner
AOB	Share the draft Forward Programme with Board members for comment	Rachel Wright	8 December	5 January 2015	Complete
AOB	Share the MoU between Ofwat and Cabinet Office for comment.	Rachel Wright	8 December	29 January 2015	To be sent with January Board papers.