

Members in attendance

Board attendees	
Jonson Cox	Non-executive Director, chairman
Chris Burchell	Non-executive Director
Christine Farnish	Non-executive Director
Martin Lawrence	Non-executive Director
Cathryn Ross	Chief Executive
Keith Mason	Executive Director
Richard Khaldi	Executive Director
Elizabeth Hillman	General Counsel
Rachel Wright	Board Secretary
Other attendees	
Claire Forbes	Senior Director, Corporate Communications
David Black	Senior Director, Analytics
Aileen Armstrong	Observer
John Russell	Observer
Andrew Chesworth	Principle, Analytics
Andrew Beaver	Director, Strategy and Policy
Jamie Tunnicliffe	Director, Analytics
Georgina Mills	Director, Analytics
Andrew Walker	Director, Analytics
Giles Stevens	Director, Analytics
Ruth Gibson	Principal, Casework
Rowaa Mahmoud	Principal, Strategy and Policy
Tim Griffiths	Director, Retail Market Opening
Iain McGuffog	Director, Strategy and Planning
Adam Cooper	Director, Retail Market Opening
Rob Powell	Director, Operations
Andrew Duff	Principal, Analytics

Alison Cullen	Principal, Strategy and Policy
Gareth Forrester	Senior, Strategy and Policy
Apologies	
Catherine Waddams	Non-executive Director
Wendy Barnes	Non-executive Director

1. Opening Items and Declarations

- 1.1. The Chairman, Jonson Cox, gave apologies on behalf of Wendy Barnes and Catherine Waddams.
- 1.2. Jonson Cox welcomed Aileen Armstrong and John Russell who would observe the meeting and will be joining Ofwat as Executive Directors in the coming months.
- 1.3. The minutes of the previous Board meeting were agreed subject to minor comments and will be published on the website.
- 1.4. Martin Lawrence declared a consultancy project he was undertaking.
- 1.5. Jonson Cox gave an update on his role on the Advisory Council for I-squared.

2. Chief Executive Report

- 2.1. The Board discussed the internal and external environments. This included:
 - an update on the outcome of the Star Chamber meeting which took place in February;
 - an update on the outcome of the March 2016 Budget and impacts on Ofwat and the water and wastewater sectors; and,
 - a discussion on the updated risk by Market Operator Services Limited (MOSL) to the non-household market opening project. The Board noted that there was no action needed by Ofwat Board at this stage.

3. Water 2020

- 3.1 The Executive provided an update on the progress made on the Water 2020 programme ahead of publishing the May publication on the PR19 regulatory framework.
- 3.2 The Executive gave an overview on stakeholder views following engagement with the sector through bilateral meetings and the December consultation. The Executive provided an update on areas of concern relating to the policy proposals, noting the discussions had with the Board on these areas at its February meeting.
- 3.3 The Board discussed the potential impact on the policy proposals and regulatory framework arising from the forthcoming new Strategic Policy Statements from UK and Welsh Governments. The Executive confirmed that there were ongoing conversations with both Governments to understand what these policy statements will include and were confident that the programme was in line with what was expected to be contained in the statements. Similarly, both Governments have been engaged with on the proposals and are aware of the changes to the regulatory framework. Nevertheless, the programme would need to check the framework acted in accordance with these statements once they were released.

Outcomes and Customer Engagement

- 3.4 The Executive presented recommendations to inform and incentivise good quality customer engagement by companies and explicitly on the role of Customer Challenge Groups (CCG).
- 3.5 The Executive noted that these proposals build on the progress made at PR14 on customer engagement. They also place particular emphasis on learning lessons and shifting the sector frontier at PR19 and wanting to further strengthen the role of CCGs to challenge companies in the development of business plans.
- 3.6 The Board discussed the role of the CCGs, including the importance of on-going engagement between Chairs and Ofwat, the importance of regulatory experts and customer experts and measures that could enhance the strength of challenge put by CCGs, including comparative information on company performance. The Board noted that the CCGs act in an advisory capacity to Ofwat.
- 3.7 The Board discussed the Water 2020 advisory panel, noting and agreeing the recommendation to add further customer expertise to this panel. The Board

emphasised the importance of the make-up of the panel in ensuring it has expertise on all relevant types of customer.

- 3.8 The Board considered the impact of publishing early information on the Cost of Capital in PR19 to support more informed engagement with customers and challenge by the CCGs. The Board highlighted the importance for Ofwat to retain discretion to modify the cost of capital up until Final Determinations are published.
- 3.9 The Board agreed that in-period performance should be taken into consideration in the Risk Based Review (RBR) and PR19 determinations

Market designs: sludge and water resources

- 3.10 The Executive presented proposals for introducing market mechanisms for sludge activities, highlighting the changes from the December consultation proposals.
- 3.11 The Board considered the costs and benefits of the proposals.
- 3.12 The Board endorsed the recommendations for sludge activities.
- 3.13 The Executive presented proposals for introducing market mechanisms for water resources activities, highlighting the changes from the December consultation proposals.
- 3.14 The Board discussed the importance of information and data to support the market and considered the risks and costs of associated infrastructure.
- 3.15 The Board discussed the interaction of the development of these policies alongside the development of abstraction reform. The Executive confirmed their considered view that the water resources market mechanisms should support the new abstraction reforms which are being led by Defra.
- 3.16 The Board endorsed the recommendations for water resources proposals.

RPI / CPI allocation

- 3.17 The Executive presented the proposals on moving from RPI to CPI/CPIH as the rate of inflation used to index company revenues and the RCV.
- 3.18 The Board considered that we should not pre-define the future transition of RCV to CPI in the licence.

- 3.19 The Board discussed the political and legal risks for moving from RPI to CPI and the importance of stakeholder engagement around this change.
- 3.20 The Executive recommended to publish proposals in May to transition from 2020 starting with 50% of RCV linked to CPI/H including setting out the principles that will be taken into account for transition at PR24 and beyond.
- 3.21 The Executive recommended to leave the CPI or CPIH decision until the PR19 methodology consultation in 2017 in order to take account of developments including the National Statistician's further advice to the UKSA on CPIH due in September 2016.
- 3.22 The Board endorsed the recommendations.

Residential market review

- 3.23 The Executive gave an update on the progress being made on the review of the costs and benefits of introducing competition to residential customers.
- 3.24 The Executive gave an overview of the position of the Water 2020 Advisory Panel who had been engaged with on this review.
- 3.25 The Board agreed that it was necessary to consider the development of technology and future customers' expectations in the review, which could be significantly different to those of today's customers.

Restructuring of business retail activities

- 3.26 The Executive presented an update on restructuring in the sector of business retail activities.
- 3.27 The Board discussed the possible new entrants to the market.
- 3.28 The Board noted the update.

4. Retail Market Opening

- 4.1 The Executive gave an update on the Retail Market Opening Programme.
- 4.2 The Executive updated the Board on the responses it had received on the market readiness condition. The Board agreed with the Executive's proposed approach

and agreed to delegate the decision on the final modification to the Chief Executive.

- 4.3 The Executive updated the Board on the progress of the independent review.
- 4.4 The Executive presented proposed further modifications to all Instruments of Appointment for incumbent companies.
- 4.5 The Executive confirmed that these changes will be presented to the Board at its May meeting for a decision, following a soft consultation with the sector.
- 4.6 The Board noted the update.
- 4.7 The Executive presented the consultation responses and final policy recommendations for the retail exit code.
- 4.8 The Board approved the recommendations. The Board agreed to use the statutory definition of employees for SME's.
- 4.9 The Board agreed to delegate the final Retail Exit Code to the Chief Executive.
- 4.10 The Executive presented the Interim Supply Code, summarising the recent consultation responses on the draft text of the Interim Supply Code.
- 4.11 The Executive presented the proposed changes following the consultation in particular those relating to the wholesale contract termination. The Executive proposed to remove the requirement for Ofwat to approve wholesale contract termination.
- 4.12 The Board agreed to the proposed amendments and to delegate the final Interim Supply Code to the Chief Executive.
- 4.13 The Executive presented proposals on the form of licence and standard conditions for the new self-supply licence.
- 4.14 The Board agreed with the proposals and agreed to delegate the sign off of the self-supply licence following consultation to the Chief Executive.
- 4.15 The Board raised a query on how wholesalers will notify customers if there are public health issues, and emphasised the importance of wholesalers retaining the ability and the incentive to deal with customers if and when necessary.

5. Company Performance

- 5.1. The Executive presented a preview of company performance, ahead of the company year end results for the first year of the current five year price control.
- 5.2. The Board discussed what these results would mean for customers, noting the total expenditure (totex) 50:50 sharing mechanism for gains and losses.
- 5.3. The Executive confirmed that an analysis of the 2015-16 results would be presented to the Board in the summer.

6. Alternative Delivery Model

- 6.1. The Executive gave an update on the Alternative Delivery Model project which is looking at how Ofwat delivers its corporate enabling functions, as part of a commitment to explore opportunities to develop a more collaborative and innovative delivery model.
- 6.2. The Board discussed the opportunities that the alternative delivery model project could afford the organisation, including in creating resilience amongst the corporate enabling functions.

7. Five Year Business Plan

- 7.1. The Executive presented a draft five year business plan which will support delivery of the strategy.
- 7.2. The Board agreed to sign off the draft business plan.

8. ARAC Committee Update

- 8.1. Christine Farnish, as a member of the Audit and Risk Assurance Committee gave an update of its recent meeting on 16 March 2016.

9. Strategic Conversation: Customer Data

- 9.1. The Board had a conversation on the opportunities and risks associated with customer data.

10. AOB

10.1. The Board agreed to a future discussion on changing the regulatory landscape.

Rachel Wright

Board Secretary

31 March 2016