

Members in attendance

Board attendees	
Jonson Cox	Non-Executive Director, Chairman
Martin Lawrence	Non-Executive Director
Catherine Waddams	Non-Executive Director
Alison Munro	Non-Executive Director
Tim Waggott	Non-Executive Director
Cathryn Ross	Chief Executive
Aileen Armstrong	Executive Director
Richard Khaldi	Executive Director
Rachel Wright	Board Secretary
Other attendees	
Keith Mason	Senior Director, Thames Tideway Tunnel
David Black	Senior Director, Water 2020
Adam Cooper	Director, Retail Market Opening
Tim Griffiths	Director, Analytics
Giles Stevens	Director, Analytics
Ben Smithers	Interim Principal, Analytics
Elinor Mathieson	Principal, Analytics
Andrew Chesworth	Principal, Analytics
Apologies	
Mark Bayley	Non-Executive Director
Christine Farnish	Non-Executive Director

1. Opening Items and Declarations

- 1.1. The minutes of the previous Board meeting were agreed subject to minor comments.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting:
- The forward look for Ofwat in the run up to retail market opening for businesses and PR19;
 - Focus of the National Infrastructure Commission;
 - Upcoming National Audit Office reports;
 - Development of the Better Markets Bill;
 - Update on Water 2020; and
 - The use of regulated assets by companies for non-regulated business.

3. Retail Market Opening

- 3.1 The Executive gave an update on the progress being made on the opening of the business retail market in April 2017.
- 3.2 The Board discussed the key risks to the delivery of the programme for April 2017 and the progress being made against the overall programme plan.
- 3.3 The Board discussed the critical path and upcoming key milestones for Ofwat and for the whole programme, noting that the Board would review, for sign off, the second letter of assurance at its September meeting.

Issue of Appointment

- 3.4 The Executive set out the proposals for updating the Instruments of Appointment for incumbent companies to prepare for the business retail market. The proposals include inserting new obligations and updating existing obligations to the Instruments of Appointment.
- 3.5 The Executive gave an update on the responses from consultation on the changes which closed in early June 2016, noting that companies have agreed in principle with the proposed changes to the Instruments of Appointment.

- 3.6 The Board discussed the proposed approaches by the Executive to address the concerns of stakeholders raised through the consultation.
- 3.7 The Board delegated authority to the Chief Executive to approve the final modifications to the Instruments of Appointment in August 2016.
- 3.8 The Executive set out the next steps to issue a 28 day statutory notice period setting out the changes and provide a recommendation to the Chief Executive following analysis of the responses to the notice. The final notices of modifications will be issued to all appointed companies in August 2016.
- 3.9 The Board noted the next steps.

Transition Arrangements

- 3.10 The Executive presented Ofwat's approach to the statutory transitions scheme which will ensure that there is a seamless transition from the existing retail market arrangement to the new market arrangements, avoiding disruption for customers and water companies. This will ensure customers can switch their retailer once the market has opened.
- 3.11 The Executive noted that the Board would be required to make a decision on the statutory transition arrangements at its September 2016 meeting.
- 3.12 The Board noted the update.

Self Supply under the WSSL

- 3.13 The Executive presented the recommendations for self-supply conditions in the new business retail market. These conditions were consulted on with the sector during April.
- 3.14 The Executive set out a summary of the responses to the self-supply conditions consultation, which were generally supportive.
- 3.15 The Executive highlighted some specific concerns that were raised through the consultation process.
- 3.16 The Board discussed the role of third party intermediaries and their interaction with self-suppliers in the sector, noting that it was important that there was legitimacy in the market.

- 3.17 The Board discussed insurance arrangements of self-suppliers. The Board discussed the information that the regulator may in future want on from WSSL licensees, including those on self-supply licences, to enable market monitoring.
- 3.18 The Board agreed to the recommendations for self-supply conditions in the new business retail market.

4. Finance and Governance

- 4.1 The Executive gave a snapshot of company performance for six companies for 2015-16 period, recognising it as the first year of the current price review.
- 4.2 The Board discussed the role of the regulator with regards to company performance and results, and any associated impacts on customers.
- 4.3 The Board highlighted the importance of having timely and accurate information on the right measures available to the public domain for external challenge by wider stakeholders and customers.
- 4.4 The Executive noted that the remaining four water and wastewater companies' results were expected to be published in the coming months.

5. Water 2020

Cost of Debt

- 5.1. The Executive presented the issues relating to how we set the cost of debt for PR19 and any future implications of those decisions.
- 5.2. The Board discussed Ofwat's current approach to setting the cost of debt and how the changes through Water 2020 which will introduce separate price controls will impact on the approach to setting the cost of debt.
- 5.3. The Board considered how different approaches to setting the cost of debt could impact on the customer, and referenced the findings of the recent National Audit Office report on The Economic Regulation of the Water Sector in relation to company outperformance (October 2015).
- 5.4. The Board agreed to return to this topic at its July meeting ahead of issuing a consultation on our preferred approach to setting the cost of debt.

Residential Retail Review

- 5.5. The Executive set the context of the residential retail review ahead of publishing the emerging findings in July, highlighting engagement with key stakeholders through the review.
- 5.6. The Executive presented an overview of approach taken to the analysis of the costs and benefits of introducing retail competition to residential customers.
- 5.7. The Board discussed the evidence from experience in other sectors that could inform the assumptions for the cost benefit analysis.
- 5.8. The Board agreed to have another discussion on the emerging findings ahead of the publication in July.

Residential Retail Review – lessons learnt from the energy sector

- 5.9. Alistair Buchanan and Nicola Cocks, KPMG, presented the findings from the review on the lessons learnt from the energy sector which was commissioned by Ofwat and will be published alongside the emerging findings.
- 5.10. The Board considered the key lessons and the comparisons between the energy sector and the water and wastewater sector.
- 5.11. The Board thanked Alistair and Nicola for attending the meeting.

6. Audit and Risk Assurance Committee update

- 6.1. Alison Munro, as Chair of the Audit and Risk Assurance Committee gave an update on the Committee's previous meeting on 8 June.

7. Strategic conversation – the sector in Wales

- 7.1. Prior to the Board meeting, the Board met with Welsh stakeholders to discuss how the water and wastewater sector takes account of the Welsh natural resource and wellbeing agenda. This discussion was attended by Severn Trent Water, Natural Resources Wales and WWF Cymru.

Rachel Wright
Board Secretary
23 June 2016