

Meeting held on Thursday 22 September 2016
 Venue: Centre City Tower, 7 Hill Street, Birmingham B5 4UA

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
Mark Bayley	Non-Executive Director
Cathryn Ross	Chief Executive
Richard Khaldi	Executive Director
John Russell	Executive Director
Rachel Wright	Board Secretary
Other attendees	
Keith Mason	Senior Director, Thames Tideway Tunnel
David Black	Senior Director, Water 2020
Alena Kozakova	Chief Economist
Rob Powell	Director, Operations
Liz Herridge	Director, Operations
Ruth Gibson	Principal, Strategy and Policy
Amanda Rooney	Principal, Retail Market Opening
Chris Daly	Principal, Casework
Tim Griffiths	Director, Analytics
Alex Whitmarsh	Principal, Analytics
Andy Duff	Principal, Analytics
Elinor Mathieson	Principal, Analytics
Jacob Wood	Principal, Analytics
Martyn Andrews	Director, Analytics
Trevor Bishop	Director, Strategy and Policy
Michael Roberts	Chief Executive, Water UK

Rob Wesley	Head of Policy, Water UK
Apologies	
Christine Farnish	Non-Executive Director
Aileen Armstrong	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:
- Ofwat's Residential Retail Review which was submitted to government on 8 September and published the following week. The Board discussed the media reaction to the review;
 - Defra's preparation for its Strategic Policy Statement;
 - Resilience in water and wastewater services; and
 - People changes, including the transition to a new Board Secretary.

3. Retail Market Opening

- 3.1 The Executive gave an update on progress made in preparation for Retail Market Opening for business customers.
- 3.2 The Executive confirmed that the shadow market opening was scheduled for 3 October 2016.
- 3.3 The Board discussed the future regulation of the sector and Ofwat's role in this context as a regulator of competitive markets.

- 3.4 The Board discussed possible scope to progressively remove regulation as the market develops.

Assurance letters

- 3.5 The Executive presented the assurance letters to be sent from Ofwat to Defra which include certification statements on Ofwat's achievement of its milestones in preparation for business market opening.
- 3.6 The Executive presented the milestones for the Ofwat programme to date and confirmed that all of these milestones had been met and that it had received external assurance from Grant Thornton on these aspects.
- 3.7 The Board thanked the team for their hard work in delivering these milestones.
- 3.8 The Board agreed to sign the associated text within the Assurance Letter for the Secretary of State, subject to a minor amendment.
- 3.9 The Executive presented the remaining milestones for Ofwat ahead of the market opening and provided evidence to support Ofwat's commitment to meeting these and highlighted associated risks.
- 3.10 The Board agreed to sign the Executive's proposed statement to Defra relating to the delivery of the remaining Ofwat milestones.
- 3.11 The Executive presented the key risks identified by existing companies in the sector on their ability to be ready for market opening which the Board noted.
- 3.12 The Board agreed to delegate authority to Jonson Cox (Chairman), Cathryn Ross (Chief Executive) and Alison Munro (Chair of Audit and Risk Assurance Committee) to sign off our review of company and MOSL letters.

Transition scheme

- 3.13 The Board presented the proposed statutory transition scheme ahead of consultation. This scheme will revoke the existing retail licences and terminate existing wholesale agreements to ensure that there is a seamless transition from the existing retail market arrangements to the new market arrangements.
- 3.14 The Board discussed the responses to the recent informal consultation on the proposed transition scheme.

- 3.15 The Board agreed to the issue of the proposed transition scheme for consultation and agreed to delegate the final approval of the scheme to the Chief Executive.

4. Water 2020

Update on licensing

- 4.1. The Executive gave an update on the progress of licensing modification discussions which had taken place with companies over the previous months.
- 4.2. The Board discussed the policy areas which require licence modifications and the points raised by companies through the engagement process.
- 4.3. The Executive proposed a governance process for taking forward the formal Section 13 consultation notice for licence changes recognising the need to modify licences before issuing the PR19 methodology paper in 2017.
- 4.4. The Board agreed with the proposed governance process, including a Board discussion at the October meeting on the key features of the proposed licence modifications in respect of the Water2020 policy framework.

Charging

- 4.5. The Executive presented its proposed approach to the rules for new connections charges and confirmed that there were no significant changes proposed to the rules from the set consulted on in July 2016.
- 4.6. The Board discussed the responses from the sector to the consultation on the draft rules.
- 4.7. The Executive presented the proposed publication timetable, noting that it was awaiting Defra's guidance. The Executive proposed to publish the rules no later than the end of 2016.
- 4.8. The Executive committed to return to Board if the guidance from Defra resulted in a material change to the agreed rules.
- 4.9. The Board agreed to the final rules for new connections charges.

Outcomes

- 4.10. The Executive presented the key themes of the proposed content for its November consultation on the outcomes framework for PR19.
- 4.11. The Board discussed the presentation of the consultation and noted that it should be clear on the options Ofwat is proposing in relation to comparative information.
- 4.12. The Board discussed the importance of the consultation being clear that rewards must only be available for stretching levels of performance.
- 4.13. The Board agreed that the consultation should include options for setting levels for common performance commitments.
- 4.14. The Board approved the proposed contents of the November consultation on outcomes and agreed that the Executive should proceed on that basis and issue the consultation.

Blind year (2014-15)

- 4.15. The Executive presented proposals to recover expenditure from four companies which had allowed revenue set on the basis of providing stable serviceability in the 2010-2015 period. These companies provided poor service to their customers in 2011-2012 and 2014-2015.
- 4.16. The Board discussed the performance of the four companies against the serviceability framework set out in PR09 and the persistency framework set out in PR14.
- 4.17. The Board agreed to recover the proposed amounts for the four companies and that draft decisions should be issued to the relevant companies for consultation.

5. Finance and Governance

Annual Company Performance Reports

- 5.1. The Executive presented companies' financial and non-financial results which were included in the Annual Company Performance Reports submitted to Ofwat in July.

- 5.2. The Board discussed the role of the company performance reports going forward in informing interested stakeholders of companies' relative performance, based on consistent data, and the resilience of the water and waste water sector.
- 5.3. The Board considered the relative performance of the companies and the impact of their performance on their customers.
- 5.4. The Board noted the aim to publish the 2016 Financial Monitoring Report at the end of October.

Sector strategic dashboard – Water UK in attendance

- 5.5. Michael Roberts, Chief Executive, Water UK, and Rob Wesley, Head of Policy, Water UK joined the Board meeting for a discussion on the sector strategic dashboard. Water UK is leading on the development of the dashboard.
- 5.6. The Board thanked Michael Roberts and Rob Wesley for attending the Board and for their contribution.

6. Strategic Conversation – strategic challenges, risks and opportunities for PR19

- 6.1. The Executive led a discussion on PR19 in the context of the risks and opportunities facing the sector, and how Ofwat can deliver good outcomes for customers.
- 6.2. The Board discussed the policy context for PR19 and the possible areas of focus to deliver and protect the services in the sector.
- 6.3. The Board considered how best to deliver the price review, and the need to learn from its PR14 process, including in terms of staff impacts.

Rachel Wright

Board Secretary

22 September 2016