

Meeting held on Thursday 30 March 2017
 Venue: 21 Bloomsbury Street, London WC1B 3HF

Members in attendance

Board attendees	
Jonson Cox	Non-Executive Director, Chairman
Martin Lawrence*	Non-Executive Director
Tim Waggott	Non-Executive Director
Mark Bayley	Non-Executive Director
Catherine Waddams	Non-Executive Director
Alison Munro	Non-Executive Director
Christine Farnish	Non-Executive Director
Cathryn Ross	Chief Executive
John Russell	Executive Director
Richard Khaldi	Executive Director
Aileen Armstrong	Executive Director
Other attendees	
Keith Mason	Senior Director, Thames Tideway Tunnel
David Black	Senior Director, Water 2020
Claire Forbes	Senior Director, Corporate Communications
Liz Herridge	Delivery Director, Business Transformation Programme
Tim Griffiths	Director, Water 2020
Jon Ashley	Associate Director, Water 2020
Alison Cullen	Principal, Water 2020
Colin Green	Director, Water 2020
Dena Barasi	Principal, Water 2020
Jas Oberoi	Principal, Water 2020
Jake Wood	Principal, Water 2020
Lesley Ferrando	Principal, Water 2020
Tom Handysides	Principal, Water 2020 – Engagement
Ronan Palmer	Director, Strategy and Planning

Gurpreet Sahota	Principal, Strategy and Planning
Ben Groom	Senior Associate, Casework
Patrick Ellis	Director, Alternative Delivery Models
Adam Cooper	Director, Retail Market Opening
Sally Irgin	Associate Director, Casework
Mark Anderson	Principal, Corporate Communications
Clare Moriarty	Permanent Secretary, Defra
Apologies	
Jenny Block	General Counsel and Board Secretary

* Attended by phone

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 23 February were agreed, subject to one minor amendment.
- 1.2. There were no conflicts of interest to declare by reference to the matters on the agenda.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting:
 - Thames Water's proposed change of ownership: the Board noted the intention to formally consult in the usual way.
 - Thames Water: the Board noted that correspondence had been received recently from Thames in relation to the recent mains bursts and on its asset health position more generally. The Board also noted the impact of the recent £20m fine imposed in relation to a series of pollution incidents.
 - UU – Surface Water Drainage: the Board noted the recent letters to Defra.
 - The forthcoming attendance of the Chief Executive at a hearing before the PAC alongside other regulators on 8 May to discuss the NAO's report on Protecting

Vulnerable Consumers in Regulated Industries which is expected to be published on 31 March.

3. Water 2020

Overview

- 3.1 The Executive presented the overview of the Water 2020 programme seeking approval from Board on some of the main aspects of the PR19 methodology consultation, due to be published in July 2017. The Board received an update on progress on the licence modifications that are required for the PR19 methodology, and the development of market information for water resources and bioresources markets.

Introduction to the approach on outcomes and customer experience measures

- 3.2 The Board discussed potential improvements to outcomes. The Board considered three key areas: the approach to common performance commitments, the incentives for innovation and potential improvements to the service incentive mechanism.
- 3.3 The Board discussed the merits of common performance commitments, by increasing comparability of performance across companies.
- 3.4 The Board noted the role of innovation in improving services for customers and the scope for outcome delivery incentives to provide greater incentives for innovation by companies. The Board noted the success of the current service incentive mechanism in driving customer service improvements across the sector. The Board noted that gains have potentially reduced over time and discussed options for improving customer experience incentives in the water sector.

Approach to affordability

- 3.5 The Board discussed the importance of affordability and its role as one of the key themes for PR19. The Board noted in this context the objectives on affordability contained in the draft Strategic Policy Statements of both governments.
- 3.6 The Board discussed the approach for assessing affordability of company business plans. The Board discussed principles for affordability, in particular the

importance of customer engagement and support and the effectiveness of any affordability measures.

- 3.7 The Board agreed the proposed approach to affordability to be reflected in the July methodology consultation subject to some points of detail.

Approach to vulnerability

- 3.8 The Board discussed the proposed approach to assessing vulnerability in the PR19 methodology consultation.
- 3.9 The Board noted the difference between vulnerability and affordability, in that vulnerability relates to people who have difficulty accessing services, while affordability relates to people struggling to pay their water bills. The Board noted that the customers with affordability and vulnerability issues overlap and this should be recognised in our policy.
- 3.10 The Board discussed appropriate tests for how companies deal with vulnerability, noting the importance of customer engagement, company ownership and understanding of vulnerability issues, including the issues highlighted in the 2016 Ofwat report into vulnerability.
- 3.11 The Board agreed the proposed approach to vulnerability to be reflected in the July methodology consultation subject to some points of detail.

Approach to Wholesale form of control

- 3.12 The Board discussed the proposed approach to the wholesale form of control for the PR19 methodology consultation.
- 3.13 The Board discussed issues related to the setting of separate price controls for water resources and bioresources to aid the development of these markets.
- 3.14 The Board discussed water resources volume risk in relation to bilateral market entry and market wide changes in demand.
- 3.15 The Board also discussed the allocation of risk between companies, investors and customers, in particular to ensure efficient investment within and across companies.
- 3.16 The Board discussed potential volume metrics for the bioresources control and how to create incentives for accurate measurement and forecasting of volumes.

- 3.17 The Board also discussed how to improve incentives through the price control for water companies to meet the needs of developers.
- 3.18 The Board agreed the proposed approach to the wholesale form of control to be reflected in the July methodology consultation subject to some points of detail.

Approach to Retail form of control

- 3.19 The Board discussed the proposed approach to the form of control for the retail price control for PR19. In discussing the appropriate form of control, the Board noted the different extent of competition in the business retail market in England and Wales and the UK government's statements relating to the residential retail market in the draft Strategic Policy Statement.
- 3.20 The Board discussed the different properties of different forms of control for cost efficiency, bill stability, simplicity and flexibility. The Board also noted when information on the impact of business retail competition may become available to inform future price control decisions.
- 3.21 The Board agreed the proposed approach to the retail form of control to be reflected in the July methodology consultation subject to some points of detail.

Introduction to initial assessment of business plans

- 3.22 The Board received an introduction on the proposed approach to the initial assessment of business plans (IAP). The Board noted the approach taken for the risk based review (RBR) (the IAP's predecessor) at PR14. The Board noted the success of the RBR at PR14 and the lessons learned from the process. The Board emphasised the importance of the IAP in the price review process and, in particular, for encouraging companies to submit high quality, ambitious business plans.
- 3.23 The Board discussed the principal objectives of the IAP and how it complemented other incentives in the price review. The Board discussed the proposed categories for the IAP, the type of incentives that might apply and how decisions on categorisation might be made.

PR19 engagement strategy and plan

- 3.24 The Board received an update on the proposed approach to PR19 engagement with stakeholders and how this was expected to develop in the period towards PR19.

- 3.25 The Board noted the importance of stakeholder engagement in the price review process more generally.

4. Strategic Conversations:

View from Whitehall

- 4.1 The Board was pleased to welcome Clare Moriarty, Permanent Secretary at Defra. The Board shared with Clare the breadth of Ofwat's work and the effectiveness of our approach to regulation and discussed the broader issues facing Defra and the Government which may have an impact on our work.
- 4.2 The Board discussed the impact of EU exit on Defra and the water sector.

5. Strategy and Planning

Customer data

- 5.1. The Executive provided an update on emerging thinking on customer data and in particular on good data management and the themes coming through our work on unlocking the value in customer data, on which we intend to publish a report in June 2017.
- 5.2 The Board considered the central themes, and agreed that data security and quality is an area in which Ofwat's guidance could add value. The Board considered the potential risks of value being interpreted purely in terms of the sale of data, but that guidance could add significant customer benefit through improvements to more targeted services, resources and behaviour change.

6. Business Transformation

Alternative Delivery Model

- 6.1. The Board considered the report which summarised the business case for the Alternative Delivery Model (ADM) project which aims to create a new operating model for Ofwat's support services. Having discussed the report (and in particular noting the risks, opportunities and benefits), the Board agreed that the In Source option was the best approach. The Board therefore agreed the recommendation,

and asked that expenditure on the project not exceed a projected 2 year pay back period without further agreement from Board.

- 6.2. The Board agreed to delegate authority to the Chief Executive to proceed with the business case.

7. Casework / Market Outcomes and Enforcement

Retail Market Opening

- 7.1. The Board received an update on retail market opening, just ahead of market opening on 1 April 2017. The team confirmed that Ofwat, MOSL and industry were now ready for market opening and that there had been a smooth handover of ongoing risks and issues to the Market Outcomes and Enforcement programme. The market opening delivery partners, Defra, MOSL and Ofwat, will undertake a lessons learned exercise facilitated by KPMG to capture best practice for other multi-partner projects, particularly residential retail market opening, should Government decide to take that forward.
- 7.2. The Board thanked Adam Cooper and the Retail Market Opening programme team for delivering such a complex project on time and within budget. The Board also expressed its appreciation for the work of the wider Open Water team including Defra and MOSL.

Business retail market

- 7.3. The Board discussed the ways in which our approach to regulation may develop in light of business retail market opening and the agility that would be required to ensure that Ofwat was responsive to issues raised by customers and other market participants, while providing sufficient flexibility to enable the market to develop. The Board considered the important role of communications in supporting Ofwat's vision of trust and confidence in the sector, the market and Ofwat as a respected regulator. It also recognised the role communication plays in Ofwat's regulatory toolkit and how it can incentivise behaviours, an approach already highlighted in Ofwat's published casework strategy and approach to enforcement.
- 7.4 The Board agreed that it will be important for Ofwat's communications to be proactive during the early days of the market, recognising that the market narrative would likely be set early. This approach would give customers and stakeholders assurance that we are monitoring and understand what is happening in the market, and are ready and willing to step in if appropriate. Ofwat should

communicate actively on the areas where we have a role, particularly monitoring the market and safeguarding customers, but maintaining objectivity and being conscious of the limits of our influence. Nevertheless, Ofwat may also choose to communicate where the lead role for intervention sits elsewhere, for example with MOSL or a retailer.

- 7.5 The Board supported the use of the separate Open Water and Ofwat communications channels as means of reaching different, but overlapping, audiences, and the use of distinct voices and areas of focus in each. It also commended the proposal to monitor external social media as a means of obtaining early sight of emerging issues.

8. Update from Committee Chair

Audit and Risk Assurance Committee

- 8.1. The Chair of the Committee reported on the March meeting at which the Committee provided comments on the governance statement and internal review plan.

9. Any Other Business

- 9.1. There was no other business and the Chairman closed the meeting.

Kate Knight
Executive Assistant
30 March 2017