

Meeting held on Thursday 21 September 2017
Venue: 7 Hill Street, Birmingham B5 4UA

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
Aileen Armstrong	Executive Director
David Black	Executive Director
Jenny Block	General Counsel and Board Secretary
Other attendees	
Keith Mason	Senior Director, Thames Tideway Tunnel
Claire Forbes	Senior Director, Corporate Communications
Alena Kozakova	Chief Economist
Emma Kelso	Senior Director, Customers and Casework
Lisa Commane	Senior Director, Operations
Tim Griffiths	Director, Water 2020
Andrew Chesworth	Director, Water 2020
Martin Malinowski	Principal, Water 2020
Jon Ashley	Associate Director, Water 2020
Dena Barasi	Principal, Water 2020
Jas Oberoi	Principal, Water 2020
Jake Wood	Principal, Water 2020
Angela Maher	Principal, Corporate Communications, Water 2020
Colin Green	Director, Water 2020

Peter Hetherington	Principal, Water 2020
Sally Irgin	Director, Market Outcomes and Enforcement
Margaret Pyne	Principal, Market Outcomes and Enforcement
Michael Deakin	Principal, Market Outcomes and Enforcement

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 29 June were agreed, subject to a minor amendment.
- 1.2. There were no conflicts of interest to declare by reference to the matters on the agenda.
- 1.3. The Board noted that Mark Bayley and Martin Lawrence had each been appointed to additional roles and that this would be reflected in the updated Register of Interests.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting the following:
 - The recent successful event on resilience and publication of a report on resilience and asset health. At the resilience event it was refreshing to have speakers largely from other sectors presenting their perspectives on the underlying issues. The Board noted that a report on the management of bad debt in the industry would be published the following week.
 - The publication of the UK Government's Strategic Policy Statement and the work undertaken within Ofwat to ensure that this was embedded across Ofwat's programmes and projects.
 - A meeting attended by the Chair, Chief Executive, Tim Waggott and members of the Executive with the Board of the Competition and Markets Authority. We discussed at a high level the broad portfolio of work within Ofwat and the initial insights on business retail market opening and compared notes on the potential for markets to deliver better outcomes for customers.

- The prominent wider debate on the corporate and regulatory model for the sector. The Board noted the debate and the importance of Ofwat ensuring the accuracy of information about how the regulatory regime functions.

2.2 The Board approved the award of a contract to provide advisory services to support Ofwat's cost modelling work.

3. Water 2020

Comms overview of stakeholder engagement

3.1 The Board received for information an overview of the PR19 methodology consultation process and stakeholder engagement.

3.2 The Board noted the communications campaign on the price review. The Board noted the generally positive response to the draft methodology, as well as the spread of respondents to the consultation. The Board noted the outline of proposed communications and engagement planned as Ofwat's decision was finalised.

Water 2020 overview of stakeholder responses

3.3 The Executive presented an overview of responses to the PR19 methodology consultation and the main issues raised by respondents with reference to the comprehensive summary of respondents' views provided to the Board.

3.4 The Board noted the support for the four key themes of the price review and for many elements of the methodology. Stakeholders had welcomed the extensive engagement and the development of the policy framework building on earlier consultations. There were nevertheless some issues of principle raised by the consultation responses, to be discussed in more detail at this and the Board's next meeting in October.

3.5 The Board agreed the proposed approach for October Board in terms of the focus on key areas for detailed discussion and decision.

Key issues from responses: balance of risk and return

3.6 The Board noted key themes raised from responses to the proposals in the PR19 methodology consultation on risk and return including: 1) balance of risk and return and 2) cost of equity.

- 3.7 The Board discussed the nature and extent of the decisions required for the final methodology in December. The Board noted that the overall balance of risk and return would depend on both the approach taken in the final methodology and the final determination of baselines and companies' relative positions.

Key issues from responses: the cost of capital

- 3.8 The Board received an update on the emerging thinking for some of the key elements of the Weighted Average Cost of Capital (WACC) including the risk-free rate, equity betas and capital structure.
- 3.9 The Board considered the key decisions that needed to be taken on the initial view for the WACC and margin for retail services in the final methodology document in December. The Board noted the work being undertaken by other regulators and the UKRN on related issues.

Key issues from responses: outcomes

- 3.10 The Executive highlighted the key issues raised in responses to the PR19 methodology consultation on outcomes.
- 3.11 The Board noted the views expressed across the range of issues consulted upon, including the outcomes framework generally, the proposed balance between common and bespoke performance commitments and the proposal to strengthen outcome delivery incentives and need to ensure the level of the challenge was appropriate.
- 3.12 The Board noted the importance of engagement from CCGs on these issues in the context of company business plans.

PR19 draft methodology – overview of other issues

- 3.13 The Board received an overview of other issues raised in responses to the PR19 methodology consultation including on securing long-term resilience, affordability, the appropriate duration of the proposed retail price control, proposals in relation to Direct Procurement for Customers, cost assessment and financeability.
- 3.14 The Board discussed the further development of the approach to the Initial Assessment of Plans.

- 3.15 The Board discussed and provided comments on other issues. The Board agreed which issues should be brought back for discussion and decision at the October Board.

Update on Water Resource Management Plans

- 3.16 The Board received for information an update on pre-consultation meetings with companies on their water resources management plans (WRMPs) which are an important input to the price review. The initial assessment following discussions with individual companies on their proposed plans had helped to focus the further work needed in this area. The Board noted the key themes of WRMP19 across the sector.
- 3.17 The Board noted the proposed approach to managing Ofwat's input as a statutory consultee to company plans and that it was intended to bring the Executive's initial views back to Board for discussion in March and May next year, reflecting the different timing of receipt of company WRMPs (in January 2018 for companies in England and March 2018 for companies in Wales). In the absence of any new issues of principle or matters of particular sensitivity, the Board confirmed that Ofwat's input to this process be delegated to the SRO, Water 2020.

4. Market Outcomes and Enforcement (MOE)

Review of the New Appointments and Variations (NAV) market – findings and next steps

- 4.1. The Board discussed the review carried out by Frontier Economics on the NAV market. The Board noted the themes that had emerged in the following areas and the proposed plan to address them:
- Process – the regulatory and policy requirements and administrative processes relating to NAV applications;
 - Behavioural – the transparency, timeliness and effectiveness of incumbents' provision of information and input services needed by NAVs; and
 - Pricing – the margin that NAVs are able to earn, including the underlying methodology of the incumbents' charges underpinning those margins, and whether there is a level playing field.
- 4.2. The Board noted a number of other issues that were highlighted in the review's findings that will require further consideration going forward.

- 4.3. The Board delegated sign-off of the publication of the Frontier Economics report and accompanying Ofwat paper to the Chief Executive.

Code for Adoption Agreements

- 4.4 The Board discussed the proposed approach to the new Code for Adoption Agreements in light of responses to the consultation Ofwat published in June 2017.
- 4.5 The Board endorsed the proposed approach to take a principles based approach whilst targeting key areas of concern and benefit raised by stakeholders in a proportionate way. The Board sought clarity on whether the timeline for delivery was sufficiently stretching given the importance of an improved framework for contributing to a more rapid pace of housing development. The Board noted, however, that the proposed staggered timetable for implementation addressed stakeholders' principal areas of concern more quickly whilst allowing for meaningful engagement with customers on longer term elements.
- 4.6 The Board also noted the importance of communicating simply and clearly to customers and wider stakeholders how the Code and wider work being undertaken by the sector is contributing to improving the delivery of developer services.
- 4.7 The Board delegated sign off of the final Code to the SRO, MOE programme, subject to there being only non-material changes to the approach outlined.

5. Update from Committee Chair

Remuneration and People Committee

- 5.1 The Chair of the Committee reported on the June meeting at which the Committee discussed, among other things, the issues arising from the Heartbeat survey and the non-SCS pay remit.

6. Any Other Business

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

Jenny Block
Board Secretary
21 September 2017