

Meeting held on Thursday 26 July 2018
 Venue: Ashridge House, Berkhamsted, Hertfordshire HP4 1NS

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
Rachel Fletcher	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
Lisa Commane	Senior Director, Business Improvement
Alena Kozakova	Chief Economist
Tim Griffiths	Director, PR19
Andy Chesworth	Director, PR19
Ynon Gablinger	Director, PR19
Jacob Wood	Associate Director, PR19
Peter Jordan	Associate Director, PR19
Matthew Greetham	Principal, Analytics (PR19)
Martin Malinowski	Principal, Analytics (PR19)
Amelia Daair	Principal, Analytics (PR19)
Rebekah Eden	Director, Programmes and Project Management
Annelise Bunce	Senior Associate, Strategy Hub

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 28 June 2018 were approved subject to some minor amendments.
- 1.2. There were no conflicts of interest to declare by reference to the matters on the agenda. The Chair noted some amendments that would be made with respect to his interests in the public Register.

2. Chief Executive's Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting the following:
 - Hot weather update: the Chief Executive reported on the National Drought Group meeting early in the week, chaired by the EA, and the different positions of the water companies. She noted that many of the lessons learned from our report on the Freeze / Thaw were as applicable in the current situation, including the need for effective communications between water companies and their customers, including retailers, and for effective coordination and collaboration. The Chief Executive noted the key importance of water companies' management of leakage and the priority given to this issue by customers who may be facing water usage restrictions. The discussion also reinforced the priority of improved arrangements for long-term water resource planning and the Board discussed the initiatives Ofwat might take.
 - WINEP: the Board discussed the Secretary of State's decision on the Water Industry National Environment Programme and the consequences for forthcoming decisions in PR19 and more generally, as well as Ofwat's ongoing engagement with Defra.
 - Quarterly Portfolio Report: the Board considered the Q1 portfolio report.
 - The Board approved two contracts: for the provision of technical advice to Ofwat in relation to the Thames Tideway Tunnel; and for interim financial specialist support to the Finance & Governance programme. The Board delegated approval of the award of two legal call-off contracts to the Chief Executive.

3. PR19

PR19 overview

- 3.1. The Executive presented an overview of the PR19 programme. The Board noted that some companies (Thames Water and Affinity) are expected to re-consult on their draft Water Resource Management Plans (WRMPs), with a possibility of revisions to business plans being submitted after 3 September.

Initial Assessment of Plans: Red Run lessons learned

- 3.2. The Board received for information an overview of the lessons learned through the red run of the Initial Assessment of Plans (IAP) exercise and changes that it was proposed to make to the internal process and documentation as a result. It was acknowledged that the lessons learned exercise was limited to the scope of the red run, and therefore not all elements of the IAP were assessed as part of this exercise.
- 3.3. The Board noted how useful the exercise had been and agreed with the adjustments proposed. The Board noted the next steps for implementation of improvements to the IAP process resulting from the red run exercise.

Cost assessment – cost models and cost adjustment claims

- 3.4. The Board received an update on two key components of Ofwat's approach to cost assessment: econometric modelling and the cost adjustment claims process.
- 3.5. In relation to Ofwat's econometric models, the Board noted the follow up to the consultation in March 2018 and the further progress made in developing models for PR19.
- 3.6. The Board noted the early submissions of cost adjustment claims received from water companies with respect to additional cost allowances due to unique and exceptional expenditure expected at PR19 and the emerging themes arising. The number of claims is expected to reduce in light of further guidance provided, and final submissions will be made in September.

Methodology for Company Specific Adjustments to the WACC

- 3.7. The Board discussed the proposed policy approach to assessing benefits for any company specific adjustments to the cost of capital for water companies for the

purpose of the IAP. The Board considered what might be an appropriate range for any uplift which might be awarded to companies that pass the other components of the benefit assessment in accordance with Ofwat's methodology.

- 3.8. The Board noted and agreed the proposed approach that would be applied if such claims were made. The Board noted that it would have an opportunity to consider the evidence on the benefits assessment as part of the outcome of the IAP and ahead of draft and final determinations.

Severn Trent PR14 Outcome Delivery Incentive cap

- 3.9. The Board received for information a pack highlighting relevant issues for the Board when considering Severn Trent Water's application to remove the cap on PR14 outcome delivery outperformance payments.
- 3.10. Board noted the issues raised and that it would need to be convinced of the benefits from raising the cap. The Board noted that the matter would be brought back to the Board for decision later in the year.

4. Business Improvement

Strategic Risks and Opportunities and Risk Appetite

- 4.1 The Executive presented to the Board the proposed approach to strategic risks and opportunities and the current set of risks and mitigations. The Board considered whether the risks identified reflected the key matters that could have a negative impact on Ofwat's ability to deliver its strategic outcomes. The Board provided a steer on elements of the description of risks and opportunities.
- 4.2 The Board considered the proposed approach to Ofwat's risk appetite, i.e. how much risk Ofwat is prepared to take, in particular having regard to the nature and severity of the potential risks under each theme.
- 4.3 The Board agreed the overall approach to Ofwat's risk appetite, and in particular that in general it was appropriate for Ofwat to have an open appetite in relation to policy matters and operational issues where this would provide benefits to customers. A more cautious risk appetite was likely to be appropriate in relation to issues that could impact adversely on customers. The Board noted that the general statement of Ofwat's risk appetite needed to be applied with flexibility in relation to each decision but the approach proposed reflected the desire of the

Board to be innovative and ambitious in delivering positive outcomes for customers.

- 4.4 The Board noted and agreed the next steps proposed and the important role the Audit and Risk Assurance Committee would play in supporting the Executive in ensuring an effective and proportionate control environment.

5. Updates from Committee Chair

Remuneration and People Committee

- 5.1 The Chair of the Committee reported on the June meeting at which the Committee discussed and received an update on the following matters:

- the Business Improvement Programme and specifically an update on the People workstream;
- an overview of the People strategy that is in the early stages of development;
- the Heartbeat survey and actions to address key themes; and
- the next steps for the pay remit following the publication of the Government's 2018/19 pay remit guidance on 25 June.

- 5.2 The Board agreed with the Committee's view that the timing of RemCo meetings should be adjusted from quarterly to every four months.

6. Any Other Business

- 6.1. The Board agreed that a short operating procedures note should be prepared to support the Board Committees.
- 6.2. There was no other business and the Chairman closed the meeting.

Jenny Block
Board Secretary
26 July 2018