

Meeting held on Thursday 6 June 2019  
 Venue: Bloomsbury House, 21 Bloomsbury Street, London WC1B 3HF

## Attendance

<b>Board attendees</b>	
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
Rachel Fletcher	Chief Executive
Aileen Armstrong	Executive Director
David Black	Executive Director
John Russell	Executive Director
Jenny Block	General Counsel and Board Secretary
<b>Other attendees</b>	
Alena Kozakova	Chief Economist
Andrew Chesworth	Director, PR19
Alison Cullen	Associate Director, PR19
Alison Fergusson	Associate Director, PR19
Tim Griffiths	Director, PR19
Colin Green	Director, PR19
Dawn Harrison	Principal, PR19
Simon Harrow	Principal, PR19
Anita Payne	Director, PR19
Bart Schoonbaert	Director, PR19
Stephen StPier	Director, PR19
Sophie Shaw	Director, Legal, PR19
Jamie Tunnicliffe	Director, PR19 (Investor Relations)
Dena Barasi	Associate Director, PR19

Martin Malinowski	Principal, PR19
Andy Titchen	Principal, PR19
Jake Wood	Associate Director, PR19
<b>Apologies</b>	
Christine Farnish	Non-Executive Director
Ynon Gablinger	Director, PR19

## 1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 23 May 2019 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.

## 2. PR19

### Overview

- 2.1. The Executive presented an overview of the PR19 programme providing a summary of key issues to be discussed in more detail at the meeting, and noting the overall implications of proposed interventions to company plans and draft determinations for significant scrutiny and slow track companies.
- 2.2. The Board considered and approved revised proposals on in-period allowances for cost sharing. The Board received an update on the Manchester Resilience DPC scheme, and on Ofwat's engagement with water companies. The Board noted the Board forward agenda for the remainder of the slow-track and significant scrutiny draft determination process, with decisions on draft determinations for each company to be made at the late June Board meeting.
- 2.3. The Board recorded their thanks to the PR19 team for all their work to date.

### Cost efficiency assessment

- 2.4. The Executive provided an update on the overall assessment of cost allowances at an industry level, noting key developments since the Initial Assessment of Plans (IAP). The Board carefully considered and agreed the proposed overall scale of challenge to costs put forward by water companies and noted the remaining challenge on enhancement costs and the impact of current proposals on large schemes put forward by companies.

## **Risk and return**

- 2.5 The Executive presented the overview of the initial financeability assessment for draft determinations for a group of water companies and initial views of proposed interventions. The Board noted the approach to the assessment of financeability and the key ratios used in the assessment, and discussed the proposed interventions in certain companies' proposed Pay As You go (PAYG) and RCV run off rates.

## **Risk and return – Havant Thicket reservoir**

- 2.6 The Executive presented a proposal for the cost of capital for the proposed separate Havant Thicket price control for Portsmouth Water's draft determination. This reflected the specific circumstances of the project and of the company concerned.
- 2.7 The Board carefully considered the options for the cost of capital for Havant Thicket and agreed with the Executive's recommendations.

## **Outcomes – key issues**

- 2.8 The Executive presented an overview of the service levels and financial incentives associated with slow track and significant scrutiny (ST/SS) companies' performance commitments (PCs) for draft determinations, building on the paper provided to the last Board meeting in May. The paper presented a number of other elements of the framework including further commentary on bespoke PCs and an overview assessment of how companies had used customer engagement in putting forward PCs and ODIs.
- 2.9 The Board considered the proposed recommendations on the approach and principles to provide customer protection from higher than expected outperformance payments and the proposed approach to enhanced outcome delivery incentives. The Board also noted the overall impact of proposed interventions for draft determinations on companies' outcomes packages. The Board agreed with the approach proposed.

## **Past delivery**

- 2.10 The Executive presented the proposed approach to accounting for past delivery interventions for draft determinations. This included consideration of the proposed reconciliation of the financial incentives set at PR14 based on 2015-20 performance (and any remaining issues from PR09); and interventions resulting

from an assessment of the deliverability of companies' PR19 plans based on their past performance and the measures companies have put in place to improve performance.

- 2.11 The Board considered the overall value of interventions proposed in relation to past delivery. The Board also considered the proposed out and underperformance payments for the service incentive mechanism (SIM). The Board agreed with the proposed approach.

### **PR19 strategic regional water resources funding**

- 2.12 The Executive provided an update on the proposed approach to enabling the development of strategic regional water resources in the 2020-25 period including the latest company position and how the current thinking has developed in the light of revised business plan submissions.
- 2.13 The Board considered and agreed the proposal to introduce an end of period reconciliation mechanism to allow funding to be refined during the period.

### **Company level summaries – draft determinations**

- 2.14 The Executive presented initial views on key elements of the draft determinations for a number of water companies. The Board made a number of comments on the proposals put forward. Final decisions on companies' draft determinations are to be made at the late June Board meeting.

## **3 Update from Committee Chair**

### **Casework Committee**

- 3.1 The Chair of the Casework Committee provided an update on the enforcement case against Southern Water.

## **4 AOB**

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

**Jenny Block**  
**Board Secretary**  
**6 June 2019**