

Meeting held on Thursday 24 October 2019
 Venue: Bloomsbury House, 21 Bloomsbury Street, London WC1B 3HF

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
Christine Farnish	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
Other attendees	
Claire Forbes	Senior Director, Corporate Communications
Alena Kozakova	Chief Economist
Dena Barasi	Associate Director, PR19
Clothilde Cantegreil	Principal, Strategy Hub
Andrew Chesworth	Director, PR19
Andy Duff	Director, PR19
Alison Fergusson	Associate Director, PR19
Ynon Gablinger	Director, PR19
Grace Garner	Principal, PR19
Colin Green	Director, PR19
Tim Griffiths	Director, PR19
Simon Harrow	Principal, PR19
Peter Jordan	Associate Director, PR19

Martin Malinowski	Principal, PR19
Sunny Mehta	Senior Associate, PR19
Anita Payne	Director, PR19
Jonathan Read	Director, Strategy Hub
Bart Schoonbaert	Director, PR19
Sophie Shaw	Director, Legal, PR19
Andy Titchen	Principal, PR19
Asen Velyov	Senior Associate, PR19
Jacob Wood	Associate Director, PR19
Juliet Young	Director of Economics
Non-Ofwat attendees	
Andrew Lilico*	Executive Director, Europe Economics

*Attended for discussion on Allowed Cost of Capital and Financeability

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 26 September 2019 were approved.
- 1.2. There were no conflicts of interest to declare by reference to the matters on the agenda.

2. Chief Executive's Report

- 2.1. The contents of the Chief Executive's report were noted and discussed.

3. PR19

Overview and corporate quality assurance

- 3.1. The Executive presented an overview of the PR19 programme providing a summary of key issues to be discussed in more detail at the meeting, including an update on issues arising from company representations and on the representation meetings that had been held with companies.

- 3.2. The Board noted and confirmed that in light of the exit of Yorkshire Water from the business retail market, those elements of its draft determination relating to the business retail control should be removed from its final determination.
- 3.3. The Board also discussed the proposal to retain the default gearing sharing mechanism subject to the adoption of a glide path, as proposed by the Executive.
- 3.4. The Board discussed the corporate quality assurance that had been undertaken, and was continuing, as Ofwat prepares to make final decisions for PR19.

Overall level of stretch

- 3.5. The Executive presented to the Board a set of proposals on the overall level of stretch on cost efficiency, outcomes performance commitments and cost of capital for the final determinations.
- 3.6. The Board discussed the proposals in detail and agreed the Executive's proposals in principle.

Overall level of challenge on cost efficiency

- 3.7. The Executive presented to the Board an update on the cost efficiency challenge for companies, including with respect to enhancement cost claims. The Executive provided an update on proposed allowances for large and medium-sized schemes and strategic water resources, including regional solutions.

Overall level of challenge on common and comparable performance commitments

- 3.8. The Board discussed proposals on the approach and principles for setting: 1) the performance commitment levels for common and comparable PCs (that they be stretching yet achievable); and 2) outcome delivery incentives (ODIs) for all common and comparable PCs, for all companies, on the basis of further evidence and representations received.
- 3.9. The Board agreed the recommendations in principle subject to the team's consideration of further evidence and cross-checking on the overall balance of the package of outcomes measures, including in terms of customer protections.

Allowed cost of capital recommendation for final determinations

- 3.10. The Executive presented recommendations on the overall allowed cost of capital and its components for the purposes of reaching final determinations. The Board agreed in principle with the overall approach and recommendation, considering carefully the risks of setting the cost of capital too high or too low, but deferred a final decision so that it could consider the implications in the round.

Financeability: approach to final determinations

- 3.11. The Executive provided an update on the proposed response to representations made on company financeability in draft determinations.
- 3.12. The Board considered, for the notional capital structure, options to address outstanding financeability concerns and discussed the proposed changes made to the assessment of financeability for the final determinations, taking account of the updated proposals on the cost of capital. In that context, the Board considered the potential impact of the proposed approach on financial ratios and credit ratings.

Havant Thicket reservoir

- 3.13. The Executive presented an overview of developments in relation to the Havant Thicket reservoir project and set out recommendations for the regulatory treatment of the project for final determinations. The Board discussed and endorsed the recommendations. The Board delegated to the SRO, PR19 the decision on whether to make the necessary modification to Portsmouth Water's licence to accommodate a separate control, in the event Portsmouth Water agreed to the enabling licence modification.

Past delivery on interventions for final determinations

- 3.14. The Board considered proposals on how to address key issues in the context of reconciliations required to reflect past delivery (other decisions having been delegated to the SRO, PR19), including with respect to the outcome delivery incentive and totex reconciliations required in relation to Counters Creek, and the funding of Loughor Estuary costs.
- 3.15. The Board received for information, details of revenue claims under the wholesale revenue forecasting incentive mechanism for some companies and a summary of the other representations made on past delivery and our proposed responses. Decisions with respect to these matters had been delegated to the Executive.

4. Strategy Hub

Innovation funding

- 4.1. The Board considered and approved the Executive's recommendation to provide companies with additional financial support over the period 2020-2025 as part of PR19 through a collectively-funded innovation competition.
- 4.2. The Board noted the next steps to publish the decision on additional funding ahead of final determinations.

5. Business Improvement

Regulatory outcomes dashboard

- 5.1. Discussion of this item was deferred to a later Board meeting.

Board Rules of Procedure

- 5.2 The General Counsel presented to the Board proposed revisions to the Rules of Procedure and the Board agreed to consider this by email, subject to changes being made to reflect comments already received.

6 AOB

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

Jenny Block

Board Secretary

24 October 2019