

Open Water Market Limited

Company Number 08791025

Annual Report and Financial statements

For the period 26th November 2013 to 31st March 2015

THURSDAY

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Chairman's Introduction

I am pleased to present OWML's Report and Accounts for its period of operations from formation in November 2013 to 31 March 2015.

At the beginning of this period, the Bill which was later enacted as the Water Act 2014 was still passing through Parliament and a number of its provisions remained under debate. Nevertheless, the decision was taken to begin preparatory work for implementation of the Bill's proposed reforms, in particular the opening of the non-household retail market in water and sewerage supplies to provide choice for all business customers in England as well as in Scotland where the market is already open.

The High Level Group, formed by Defra to oversee this work with participation by Ofwat, WICS and representatives of incumbent and new entrant companies, agreed to form OWML as a vehicle through which the preparatory work for retail market opening could be progressed. The initial members were Ofwat and WICS.

In the period from establishment to August 2014 (the Phase 1 period), the activities of OWML were chiefly focused on:

- Constituting the company as a Member owned entity open additionally to all Appointed Undertakers, Water Supply and Combined Supply licensees, Scottish Water, Licensed Providers under the Water Services (Scotland) Act 2005 and, potentially, other new entrants, with a board of directors on which both industry and the regulators were represented with an independent Chair;
- Developing plans for delivery of market opening by the target date of April 2017;
- Assembling the team of people, suppliers, and facilities needed to resource implementation of the plans; and
- Engaging with market participants through a series of workshops to develop a design for the market architecture, building on the Blueprint published in January 2014.

This culminated in the publication in July 2014 of the Market Architecture Plan.

During the Phase 1 period, OWML was resourced and funded on a voluntary basis by market participants. Initially, work was undertaken by personnel provided by the economic regulators, advisers and consultants appointed by the regulators, and a number of the Appointed Undertakers, the associated costs being borne by their respective employers. In May 2014 OWML invited applications for membership from all eligible companies and in June 2014 received donations from the Appointed Undertakers which were used to defray costs in the remainder of the Phase 1 period.

Without the commitment of the organisations and individuals who gave of their time and energy and provided funding in this way, it would not have been possible to make the considerable progress that was achieved in the Phase 1 period, which has provided a sound base from which to take the Programme forward on a timetable that stakeholders may be confident will deliver market opening successfully in April 2017. As a tangible demonstration of their support for the Programme's objectives, their contribution was timely, helpful and welcome. On behalf of the OWML Board, I should like to express our warm appreciation.

In August 2014, the High Level Group appointed Alan Sutherland, Chief Executive of the Water Industry Commission for Scotland, to the role of Programme Leader and Ofwat put in place the necessary regulatory measures to secure funding for the Programme. Following approval by Her Majesty's Treasury of a Supplementary Estimate to cover OWML's expenditure in connection with the Programme, from September 2014 onwards, OWML had in place the resources and the funding to deliver its business plan. This work included developing the detailed Programme plan integrating the actions required of all market participants, exploring options and developing proposals for procurement and governance of the market operator, and further developing the Market Architecture Plan leading to publication of a second iteration in December 2014.

At that stage it was expected responsibility for delivery would then pass to Ofwat. In the event this did not happen as Ofwat was unable to secure agreement to its preferred arrangements for the future resourcing of the Programme under its leadership. Accordingly, in February 2015 Ofwat asked OWML to continue in the same role for a further period at least until the publication of the third iteration of the Market Architecture Plan scheduled shortly following the General Election in May 2015. Thereafter, Ofwat would itself assume overall leadership of the Programme, and responsibility for delivery of those elements of the Programme being undertaken by OWML would be transferred in part to Ofwat and in part to the industry-owned, -led and -funded Market Operator Services Limited (MOSL) which would be charged with procuring the central market systems and potentially become the market operator in due course. The exact allocation of roles and responsibilities was subsequently announced by Ofwat on 21 May, 2015.

Your Board agreed to this request subject to a number of assurances regarding the continued availability of the leadership, funding and other resources required for the Programme, which were received in respect of the period to 31 May 2015.

This enabled us to maintain momentum in the work of the Programme and to deliver the third iteration of the Market Architecture Plan on 11 May 2015, as planned. The Programme has now delivered a substantially complete wholesale-retail code (including the business, operating and market terms), market arrangements code and standard wholesale contract. It has also taken forward work on developing the assurance framework and an approach to maximising company readiness.

In short, very considerable progress has been made and I believe that we can be justifiably proud of the achievement, which has met the expectations of stakeholders and put the Programme firmly on track to deliver successful market opening on target in April 2017. Two factors in particular have made this possible. First, we have had excellent collaboration from stakeholders, especially through the workshops that have successfully enabled all parties to engage in the market design process. We greatly appreciate the support shown for this way of working which will be continued in the future. The second has been the energy, commitment, collaboration and vision of the teams engaged in the work of the Programme under the energetic leadership of Alan Sutherland, whose experience and expertise, deep knowledge and understanding, and tireless commitment have earned the respect of stakeholders and colleagues alike. Alan has now stepped down as Programme Leader. I should like to express the Board's gratitude to Alan and to all members of the teams working under him for all they have done, individually and collectively, for the Programme and for the Company.

Working with Defra, Ofwat, WICS and MOSL we have developed a plan to implement the transfer of our responsibilities after Ofwat assumes overall leadership while minimising risks to continuity and momentum. These arrangements have now been announced and envisage the progressive transfer of OWML's responsibilities for the Programme over the period from mid-June to end-July 2015. Implementation of these arrangements requires the approval of OWML's Members and, accordingly, we are convening a meeting of

OWML's Members to consider and, if thought fit, approve the necessary resolutions. In the meantime, we have received further assurances from Ofwat regarding the continuing availability of funding and we have put arrangements in place to secure the other resources we shall need to complete our work.

I should lastly like to express my gratitude to our Chief Operating Officer, James Rickleton, and his predecessor, Roy Field, for their dependably sound administration of the Company's affairs, and to my colleagues on the Board, past and present, who have given unstintingly of their time, wisdom and good judgment to the governance and direction of the Company and supported me through what has been a challenging time for all of us.

Peter Bucks

Chair

Programme Leader's report to members

I write this update in my capacity as the Open Water Programme Leader, having been appointed in August 2014, and as a non-executive board member of OWML.

There is no reason why the non-household retail market in England should not open in April 2017. This has been made possible by the dedication of the Open Water team and the level of engagement that has been forthcoming from both the incumbent water companies and new entrants. My confidence is founded upon straightforward comparisons with my previous experience in opening the non-household retail market in Scotland.

Open Water is further ahead in developing the codes, rules and processes; more advanced in procuring the central systems, has made more progress in considering how the market operator will fulfil its role and the processes to support company readiness and provide assurance to the Secretary of State are further developed. I am immensely grateful to each and every member of the Open Water team and I should also like to recognise the commitment of the staff of the incumbent water companies and new entrants who have attended well over 40 days of workshops in not much more than a year. Their tolerance and enthusiasm was noteworthy.

I should also like to thank the officials at Defra for their supportive approach and wise counsel over the past year. All too often the contribution of officials can be overlooked: to do so now, looking back at the past year, would be especially egregious.

There is however still much to be done. The codes and processes need to be finalised and agreed with the vendor of the central systems such that a definitive design that will meet the needs of market participants can be developed. There is a clear need to support companies in their preparations for market opening and ensure that they can provide appropriate assurances on their readiness as required by the assurance framework. It will not necessarily be straightforward to establish a market operator and considerable thought needs to be given to how the integrity of the design authority will be maintained over the next two years. Perhaps the greatest challenge will be to maintain the constructive dialogue that has characterised the Open Water programme over the past fifteen months.

Although the past year has been very productive, we have operated with significant uncertainty and some false starts. On May 21st Ofwat published Information Note 15/08 providing an update on the roles, responsibilities and governance of the Open Water programme and transition of activities from OWML to Ofwat and MOSL post May 2015. At the time of writing there was still considerable uncertainty about how this transition process would be taken forward. This needs to be resolved swiftly and the momentum that has been created has to be maintained and, no doubt, further built upon.

Since its establishment in November 2013, Open Water has worked through two distinct phases. In January 2014, Open Water and the High Level Group (HLG, a group of key stakeholders including Defra, Ofwat and WICS) published the first Market Blueprint for consultation, setting out an initial very high level view of how the market could work.

At its conception and during Phase 1, OWML operated largely as a funding vehicle, passing funds from participating companies to the existing Open Water programme, which continued to be the delivery agent. When the Blueprint was published, there was still much to be done to bring future market participants up to speed and inject momentum into the programme. During the first few months of 2014, under the auspices of Open Water, seven workshops were held with incumbent companies and potential entrants in preparation for the publication of the first Market Architecture Plan (MAP 1) in July. This process kick-started a pattern of consultation and engagement. Following the passing of the Water Act 2014 in May, Open Water began to move into Phase 2, taking on the expanded role of developing the detailed implementation of the market arrangements as set out in the Act. By the end of the summer, new funding arrangements were formalised

with Ofwat through the introduction of a temporary licence condition. OWML's Articles of Association also allowed for the possibility that OWML could transition to become the market operator at a later date – a potential third phase that, as discussed further below, was eventually decided against.

In August 2014, I was appointed Programme Leader – a move intended as a precursor for WICS to become Ofwat's delivery partner for the market. This de facto formalised a role that I had been playing for several weeks. From the end of the Spring workshops, Open Water had played a progressively more active role in developing the market architecture and developing a full plan of what needed to be done by when and what resources were likely to be required.

As I noted earlier, since entering its second phase, Open Water has made great progress towards finalising the market arrangements.

Open Water's work in recent months has built up a great deal of momentum and engagement, fuelled by the willingness of incumbent companies and potential entrants to help shape the future of the market. Our engagement work has included:

- Over forty working level workshops over the year, usually attended by in excess of thirty attendees, on subjects including assurance, planning, settlement, data migration, codes and processes
- Working groups on a range of technical issues including assurance, charging and performance frameworks
- A multi-stakeholder work plan review group to track progress
- Water UK-led task and finish groups, working with the DWI and Environment Agency to understand the regulatory implications of proposed processes
- An industry-led CIO Forum looking at the practical implications of the new technical interfaces created by the market
- CEO engagement, in the form of one to one meetings as well as roundtable discussions
- Dedicated sessions for Financial Directors and legal teams
- Regular update calls open to all potential new entrants, incumbents and regulators

Periods of intense consultation have been punctuated by formal Market Architecture Plan (MAP) documents, which have set out the latest draft of market rules, processes and procedures and also identified the strategic issues that companies may want to consider. In December 2014, we published MAP 2, and in May 2015 the technical appendices of MAP 3, the assurance framework and some issues on company readiness that incumbent companies and new entrants might find helpful. These documents have reflected the considerable work on understanding how the legal architecture set out in the Water Act 2014 could be translated into codes and processes, and a painstaking process of drafting and mapping, constructively scrutinised and challenged by companies to ensure a workable outcome. At this point, I should also recognise the assistance of Thomas Sharpe QC in helping us to map out an appropriate legal architecture for the non-household retail market.

Open Water also pulled together the multiple and wide ranging activities required for a successful market opening into an integrated plan with Ofwat and Defra, enabling all parties to track progress and ensure accountability. We have supported the procurement of the central systems for the market operator to time, and commissioned the development by Deloitte of a draft assurance framework.

This progress has been made in the face of significant uncertainties about the future of OWML.

In August 2014, Ofwat signalled that it would take over governance of the Open Water programme at the start of 2015, with WICS as a delivery partner. The OWML Board was supportive of this decision. However, agreement on the partnership arrangement between the WICS and Ofwat Boards could not be reached, because of a lack of clarity on roles, responsibilities and budgets, and transition did not take place. OWML subsequently agreed to continue in its existing role in the interim.

As this financial year closes, OWML is again preparing for transition.

In February 2015, Ofwat announced that the work of the programme would transition to Ofwat and Market Operator Services Limited (MOSL), with Ofwat retaining overall control of programme management. The transition is expected to take place after the end of May. I am proud to report that OWML will be handing over a programme that is in good shape and well on track.

In conclusion, great momentum has been built up. On behalf of Open Water, I should like to thank the whole team and those who have been so supportive of the team's efforts over the past year. As long as this momentum is kept up, and the collaborative spirit maintained, I am confident that all non-household customers in England will be able to choose their supplier in April 2017.

Alan Sutherland

Directors' report for the Period ended 31 March 2015

The directors present their annual report and financial statements for the period ended 31 March 2015.

Principal activity and business review

The Open Water Programme was set up by the UK Government to deliver a competitive market for water and sewerage services for non-household customers in England by April 2017. Open Water is charged by Government to coordinate the development of the market rules, framework and systems required for an effective non-household retail market. Open Water Market Limited (OWML) was established in November 2013 as the entity to take forward that programme of work. The Programme is led by its Programme Leader who is appointed by and reports to and is accountable to the High Level Group, and through that Group to DEFRA, Ofwat and market participants.

OWML was first registered as a company in the United Kingdom, limited by guarantee under the Companies Act 2006, on 26 November 2013 (Company registration number: 08791025), and the Articles of Association were adopted on 31 January 2014. Company members comprise (a) Funding Members, being undertakers holding appointments issued under the Water Industry Act 1991; (b) Non-Funding Members, being companies holding water or sewerage supply licences issued under the Water Industry Act 1991; Scottish Water, and companies holding licences granted under the Water Services (Scotland) Act 2005 and; (c) Regulator Members, being the Water Industry Commission for Scotland (WICS) and the Water Services Regulation Authority (Ofwat). The Regulator Members hold special rights including a right of veto over certain matters.

OWML is governed by a Board of Directors. In accordance with the provisions of its Articles of Association, the Board comprises three industry Directors, two Directors nominated by the Regulator Members and an independent Chair. In terms of the Companies Act, the Board of OWML is accountable to its Members as a whole.

In consequence of the special rights of the Regulator Members and of the provision of funding by way of licence fees, OWML has been classified as a Public Body. OWML is subject to regulations including the requirements of Managing Public Money framework through our Memorandum of Understanding with Ofwat.

In terms of these provisions, Ofwat's Accounting Officer is responsible for ensuring the regularity and propriety of OWML's use of public resources and OWML's financial statements are consolidated in Ofwat's Resource Accounts. As such, OWML is indirectly accountable to Parliament.

OWML has entered into a Memorandum of Understanding with Ofwat regarding the operation of its systems of governance and control, pursuant to which Ofwat has appointed an Accounting Officer with responsibilities so far as they relate to OWML's use of Public Funds.

As a consequence of OWML's Public Body classification, in July 2014 Ofwat decided that the company would be wound down and the delivery of the market architecture would be taken forward under different delivery arrangements. Having explored several delivery models, in February 2015 Ofwat proposed that OWML activities would be transferred to Ofwat and Market Operator Services Limited, a private company set up by the water industry. By the period end (31 March 2015) all parties had engaged in discussions around how best to execute the transfer of responsibilities whilst managing the risk to the timely delivery of the Open

Water Programme and, at the time of publishing this Annual Report plans were well advanced for the transition of OWML activities in accordance with this new delivery arrangement.

Funding

Following incorporation on 26 November 2013, the period up to 31 March was spent on establishing full membership and governance in accordance with OWMLs Articles of Association. The company began trading in April 2014.

OWML activity for the financial year 2014-15 was divided into two phases:

Phase 1 covered activity undertaken during the period 1 April 2014 -7 September 2014 and was funded through voluntary donations from the OWML Funding Members. These contributions amounted to £780k.

Phase 2 covered the period 8 September 2014 – 31 March 2015 which was funded from licence fees payable at the direction of Ofwat by all holders of Appointments issued under the Water Industry Act 1991.

The total of the above funding was intended to cover OWML activity to 31 December 2014 when the work was expected to transfer to WICS under a delivery partner arrangement with Ofwat. Unfortunately, the two parties were unable to reach an agreement and Ofwat asked OWML to continue pending agreement to transition to alternative delivery arrangements.

Directors

Director appointments have no entitlement to remuneration, performance related pay or pension entitlements.

The directors who held office during the year and up to the date of signing the financial statements were as follows:

Liz McRobb appointed 26 November 2013. Resigned on 31 January 2014.

Charlotte Secretaries Limited appointed 26 November 2013. Resigned on 31 January 2014.

Peter Bucks (Interim Chairman) appointed on 15 April 2014.

Sonia Brown appointed on 31 January 2014.

Johanna Dow appointed on 25 October 2014.

Heidi Mottram appointed on 15 April 2014.

Mark Powles appointed on 15 April 2014. Resigned on 24 October 2014.

Peter Simpson appointed on 15 April 2014.

Alan Sutherland was appointed on 31 January 2014. There is no contractual or fee arrangement (OWML does, however, reimburse WICS for the costs of Mr Sutherland's time and expenses since he took up his role as Programme Leader in August 2014)

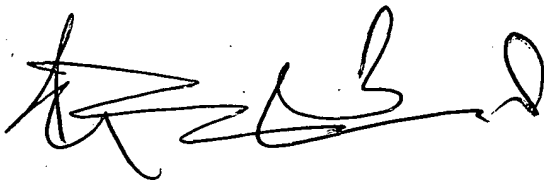
Finally, we are grateful to Dawn Jefferson from Anglian Water for her efforts in preparing these financial statements and to her predecessor as Financial Controller, Andrew Griffiths, also of Anglian Water, for his assistance in establishing the system of financial control and accounting.

Registered office

c/o Shepherd and Wedderburn LLP
Condor House
10 St Paul's Churchyard
London
EC4M 8AL

Auditors

National Audit Office,
157-197 Buckingham Palace Road,
Victoria,
London,
SW1W 9SP

A large, stylized handwritten signature in black ink, appearing to read 'Peter Bucks'.

Peter Bucks

Chairman, OWML

A small, stylized handwritten signature in black ink, appearing to read 'June'.

June 2015

Governance Statement

As Accounting Officer and working together with the Board of Open Water Market Limited (OWML), I have responsibility for maintaining effective governance and a system of internal control that supports the achievement of OWML's policies and objectives, while safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities delegated to me by the Accounting Officer of the Water Services Regulation Authority (Ofwat).

Governance Arrangements

Our governance system is designed to reduce the risk of failing to meet targets and milestones set to ensure the Open Water Programme is ready for market opening in April 2017, in so far as OWML is responsible for delivery of those elements of the Work Programme agreed and adopted by the High Level Group for that purpose. In addition it is designed to ensure OWML complies with all other legal and regulatory requirements placed upon it. The system aims to keep this risk to a level the OWML Board finds acceptable, but not to eliminate it completely. As with any governance system it can only provide reasonable, not total, assurance.

Given the point at which OWML was set up, the governance system has been developed over the course of the financial year and remains in operation at 31 March 2015.

OWML Board

The role of the OWML Board is to provide effective support and challenge in ensuring the business remains on track to deliver its strategic objectives, providing additional rigour and discipline in decision-making and bringing insight from the wider experience of the members to inform strategic thinking.

To fulfil its duties the Board is supported by the Audit and Risk Assurance Committee which provides assurance to the Board and to me as Accounting Officer, on risk management, internal control and governance.

Between May and June 2014 the Board also resolved to establish a Nominations Committee and a Remuneration Committee to assist it, and approved terms of reference for each Committee. However, in view of the external sponsorship of Director Appointments to the OWML Board, and that there were no staff or direct employees of the company neither committee was actually formed.

OWML maintains a register of interests to ensure potential conflicts of interest can be identified and addressed. Directors are asked to declare any new interests at the start of each Board meeting, and the register is updated accordingly.

Attendance at Board and ARAC meetings: January 2014 – May 2015

Members	Board meetings	ARAC
(NE) Non-Executive		
(*) ARAC Member		
	(18 in period)	(4 in period)
Peter Bucks (NE – Chair)	15 (of 15)	
Liz McRobb	1 (of 1)	
Charlotte Secretaries Ltd	1 (of 1)	
Sonia Brown (NE)	13 (of 15)	
Alan Sutherland (NE)	17 (of 17)	
Heidi Mottram*	13 (of 15)	4
Mark Powles	4 (of 7)	
Peter Simpson*	15 (of 15)	4
Johanna Dow (*Chair)	8 (of 8)	4

The Audit and Risk Assurance Committee (ARAC)

ARAC met 4 times between December 2014 and May 2015. In addition to providing me and the Board with assurance over the preparation and audit of OWML's Financial Statements for the period ending 31 March 2015, the Committee considered the findings contained in two reports prepared by Internal Audit. These reports covered financial systems controls and OWML governance arrangements. The Board was pleased to record that no major control failures or unmanaged risks were reported.

Risk Management and Control

The OWML Risk Management Strategy describes:

- The importance of having a simple manageable approach to the management of risk;
- The mechanisms we have for managing and reporting risks.

We have developed and maintained a high level Open Water Programme plan with clear milestones for use by senior management and industry as well as a detailed level 2 plan with specific actions through to market opening in April 2017. The plan is reviewed and updated on a regular basis and is supported by a detailed risk register.

Each risk is assigned a risk owner and the risk register is managed by the Open Water Programme Manager. Risks are updated every two weeks, following discussions with the risk owners, and reported to the monthly meetings of the OWML Board and to the ARAC.

Although OWML has only been in existence since November 2013, several significant events/decisions have occurred that have impacted on the risks facing the business. By 31 March 2015 OWML was beginning preparations for the transition of its activities to other delivery organisations after which the company will be wound up. So by this time the main risks had become those associated with completing the agreed work plan up to the point of transition, and in doing so, ensuring that OWML is fully prepared to complete the transition process without unnecessarily increasing risk to the delivery of the Open Water Programme.

The Risk Management Strategy and Risk Register are maintained, alongside other corporate documentation, on our secure, cloud based software (Huddle) platform.

Personal Data Incidents

We have a data security policy to keep all confidential information and documents private and secure. There were no recorded losses of personal data between November 2013 and May 2015.

The Accounting Officer's review of effectiveness

As the Accounting officer, I am responsible for reviewing the effectiveness of our governance system. I base my review on the work of our internal auditors and the executive managers at OWML who are responsible for developing and maintaining the governance system. I also take into account the comments made by external auditors. The Board and Risk and Audit committee have told me about the implications of the result of my review, and, notwithstanding the short term nature of OWML's expected future, we will seek to address weaknesses we find and make sure we continuously improve the system.

This year we took steps to develop our governance structure:

- Producing and updating our Financial Procedures manual
- Developing staff related policies, including Health & Safety
- Putting in place a new cloud based platform (Huddle) to capture and manage records
- Developing a high level plan regularly shared with Defra and Ofwat and published on the website
- Identifying and managing risks facing the organisation and the wider Open Water Programme.

We agreed a Memorandum of Understanding with Ofwat to provide and allocate responsibilities to ensure the proper management of public monies and to provide for my appointment as Accounting Officer to ensure compliance with HM Treasury requirements.

We have also concluded a service level agreement with Ofwat for the provision of accommodation, information technology and office services.

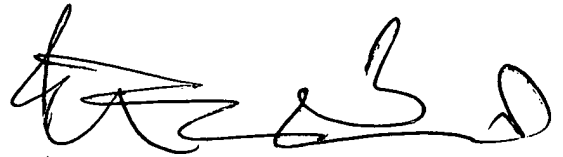
No significant problems with our governance system came up during the financial year. In this regard, and having regard to those principles of the Code assuming either longevity of company existence or the formal employment of company directors, neither of which apply to OWML, I am satisfied that OWML has complied with the requirements of the Corporate Governance Code in all material respects.

Keith Mason

Keith Mason

Accounting officer, OWML

2nd June 2015



Peter Bucks

on behalf of the Board of Directors

PB June 2015

Remuneration report

OWML does not directly employ any staff. It either seconds staff from other organisations (the water companies and water industry regulators) or utilises contractors or consultants.

Senior Executive team

The composition of the Senior Executive team in the reporting period was as follows:

John Parsonage - Interim Programme Director [to September 2014]

Alan Sutherland – Programme Leader [from August 2014]

Roy Field – Interim Chief Operating Officer [from September 2014 to March 2015]

James Rickleton – Interim Chief Operating Officer [from 31 March 2015]

Service contracts

John Parsonage (PA Consulting) was recruited through a sub-contract with Shepherd & Wedderburn (OWML's legal advisors). Roy Field was recruited through open competition as a contractor with Claygate Management Consultancy, as was James Rickleton, through Quantica Technology, and Alan Sutherland is on secondment from the Water Industry Commission for Scotland. None of the individuals worked for OWML on a full time basis nor were they employees of OWML.

Staff remuneration and Remuneration Committee

As indicated above there were no staff or direct employees of OWML. As a result, OWML has not utilised the need for a Remuneration Committee.

Directors

The Chairman was appointed as a contractor and is remunerated on an agreed daily rate basis.

The Directors do not receive any remuneration or honorarium (OWML pay WICS for the time and expenses of Alan Sutherland in his capacity as Programme Leader).

Senior Executive Officers of OWML

	Fee paid to	Amount
John Parsonage	PA Consulting	£150-155k
Alan Sutherland	Water Industry Commission Scotland	£180-185k
Roy Field	Claygate Management Consultancy	£145-150k
James Rickleton	Quantica Technology	£0-5k

Non-executive members of OWML

	Fee paid to	Amount
Peter Bucks Chairman	Peter Bucks	£45-50k

Peter Bucks (Interim Chairman) appointed on 15 April 2014, day rate is £1,500*.

Alan Sutherland was appointed on 31 January 2014. There is no contractual or fee arrangement (OWML does, however, reimburse WICS for the costs of Mr Sutherland's time and expenses in his role as Programme Leader at a day rate of £1,320*.

James Rickleton – Interim Chief Operating Officer [from 31 March 2015], day rate of £1,100*.

John Parsonage (Interim Programme Director [to September 2014]) day rate of £1,100*.

Roy Field – Interim Chief Operating Officer [from September 2014 to March 2015] day rate of £1,750*.

(*Inclusive of Agency fees if applicable but exclusive of VAT)

Pension liabilities

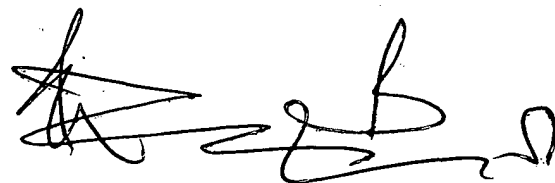
As OWML did not employ any direct employees it does not maintain any pension scheme or incur any pension liabilities.

Keith Mason

Keith Mason

Accounting Officer, OWML

2nd June 2015



Peter Bucks

on behalf of the Board of Directors

DP June 2015

Statement of Accounting Officer's responsibilities

Under the Companies Act 2006, we are required to prepare, for each financial period, accounts detailing the resources acquired, held or disposed of during the period, and our use of resources during the period. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the OWML and of its comprehensive income, and financial position for the financial period. As a public body the financial results of OWML will be consolidated into the Annual Report and Accounts of the Water Services Regulation Authority (Ofwat).

In agreement with Ofwat, OWML has designated that Keith Mason, a Senior Director of Ofwat, is our accounting officer. The responsibilities of our accounting officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding our assets, are set out in Managing Public Money, published by HM Treasury, and confirmed in his letter of delegation issued by the accounting officer of Ofwat. In particular he must ensure:

- propriety and regularity in the handling of funding received under licencing arrangements, and;
- that OWML operates within the budgetary limits approved by Parliament.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and which they know the auditors are unaware of.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law, and with the approval of Ofwat, the directors have elected to prepare financial statements in accordance with FRS 102: the financial Reporting Standard applicable in the UK and Republic of Ireland. Under Company Law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors report**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OPEN WATER MARKET LTD**

I have audited the financial statements of Open Water Market Ltd for the period ended 31 March 2015 which comprise the Statement of Comprehensive Income and the Statement of Financial Position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard applicable in the UK and Republic of Ireland, FRS 102 (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the directors and the auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2015 and of the profit for the period then ended; and
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Emphasis of matter – preparation on a basis other than going concern

Without modifying my opinion, I draw attention to the disclosures made in note 2 to the financial statements concerning the directors' decision to apply a basis other than going concern in the preparation of those statements. The directors made this decision as a result of Ofwat's publicly announced intention to transfer the company's activities elsewhere.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act; and
- the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.



Matthew Kay (Senior Statutory Auditor)

~~[Date]~~ 4 June 2015

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

London

SW1W 9SP

Primary statements**Statement of comprehensive income for the period 26 November 2013 to 31 March 2015**

	Note	£
Revenue	2	4,824,514
operating costs	3	4,824,514
Operating surplus		(0)


Revenue and operating Surplus derive wholly from continuing operations. These operations are expected to cease during 2015-16.

C. No. 08791025

Statement of Financial Position at 31 March 2015

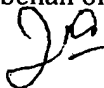
	Note	£
Current Assets		
Cash	4	1,214,746
Receivables	5	453,000
Total Assets		<u>1,667,746</u>
Current Liabilities		
Amounts falling due within one year	6	1,627,746
Provisions	7	40,000
Total liabilities		<u>1,667,746</u>
Net Assets		<u>-</u>

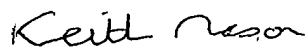
The financial statement were approved by the Board of Directors on May 20th 2015 and signed on their behalf by



Peter Bucks


On behalf of the Board of Directors

 June 2015



Keith Mason

Accounting Officer

 June 2015

Notes to the Accounts

1.Accounting policies

The following principal accounting policies and estimation techniques have been applied to the financial statements for the period. The period is longer than a year due to the company becoming incorporated but not trading.

a. Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'), Companies Act [2006] and FRC abstracts, as well as any additional requirements for the consolidation with the Ofwat financial statements. The cash flow exemption has been adopted as the accounts of Open Water will be fully consolidated into the accounts of Ofwat.

b. Going Concern

In February 2015, Ofwat decided that at a point during the next financial period yet to be finalised the activities of OWML in support of the Open Water Programme, will be transitioned to alternative delivery arrangements. As at 31 March 2015 discussions were ongoing regarding the detailed arrangements and timing of the transition process. Once transition has taken place steps will be taken to formally wind up the company.

As a result of Ofwat's decision to introduce alternative delivery arrangements for the Open Water Programme, it is not appropriate to prepare the financial statements for OWML on the going concern basis. The financial statements have been prepared under the historical cost convention on the basis that the business is expected to cease trading during 2015-16. The future funding of OWMLs liabilities are expected to be met by Ofwat through the provision of licence fees. Ofwat's liabilities will be met by future grants of supply and the application of future income, both to be approved by Parliament. There is no reason to think that future approvals will not be forthcoming. For these reasons there is no impact on the measurement basis used for assets and liabilities in the preparation of these financial statements.

c. Property, plant and equipment

OWML does not own any assets. Assets needed to support the operation of OWML are leased from Ofwat under terms of a Service Level of Agreement signed by both parties. The total expense for operating leases over the period is £110,720.

d. Revenue

Between 1 April 2014 and 7 September 2014, OWML was resourced through voluntary donations from the OWML Funding Members. Since 8 September 2014 OWML has been resourced by licence fees payable at the discretion of Ofwat by all holders of Appointments under the Water Industry Act 1991. Income, from both voluntary contributions and licence fees, is recognised on the basis of invoices raised

in advance. Any licence fee income that exceeds the level of operating costs is returned to the funding companies.

e. Value Added Tax (VAT)

OWML's activities are outside the scope of VAT and output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category.

f. Provisions

OWML provides for legal or constructive obligations which are of uncertain timing or amount at the date of the Statement of Financial Position on the basis of the best estimate of the expenditure required to settle the obligation. We have included a material provision within the accounts for the expected wind up of the company. See note 7.

g. Staff costs and pensions

The company had no employees during the year.

h. Accounting estimates

No material accounting estimates or judgements were made by OWML in the preparation of these financial statements.

Note 2.

Revenue	£
Donations	779,984
Licence fees	<u>4,044,530</u>
	<u>4,824,514</u>

Note 3.

Operating Expenses	£
Legal Fees	1,841,671
Consultancy fees	1,867,784
Seconded recharges	710,262
intercompany recharges	143,744
Recruitment	41,340
professional fees	117,948
public engagement	65,930
Audit Fees	24,000
Other	<u>11,835</u>
	<u>4,824,514</u>

Note 4.

Cash at Bank	£
Current account	10,524
Deposit account	<u>1,204,222</u>
	<u>1,214,746</u>

Note 5.

Receivables	£
Ofwat	<u>453,000</u>

Note 6.

Current liabilities	£
creditors	889,305
accruals	710,021
Excess income to be re-paid	28,420
	<u>1,627,746</u>

Note 7.

This provision is held within the year end accounts to cover Open Water's obligations upon ceasing to trade and the winding up of the company. Currently the close down of the company is of uncertain timing but is expected within the new few months. Open Water expects the out flow of resources to amount to £40k to cover legal costs and employment costs for the Chairman and the COO.

Note 8.

Related Party Transactions

Alan Sutherland

Non-Executive director of OWML

Chief Executive of WICS.

As disclosed within the remuneration report, £180,617.63 was payable to WICS by OWML in respect of Alan's services to OWML during the year.

The total expenditure on WICS consultancy services during the period was £349k, including a period end creditor of £229k.

Sonia Brown (Non exec) and Keith Mason (accounting officer)

Senior Members of Ofwat.

Ofwat expenditure during the year amounted to £144k (including a period end creditor of £ 22k and a period end debtor of £453k), which included rent for accommodation and Keith Mason's fees. Income amounted to £1,153k.

Peter Simpson

Director

Chief Executive of Anglian water Services.

Transactions undertaken in the year include expenditure of £163k, including a period end creditor of £57k, which all relates to staff secondment, in addition to donations of £88k and license fee income of £257k. Mr Simpson is also on the board of MOSL, but there have been no transactions with this company. No other interests have been declared.

Heidi Mottram

Director

Chief Executive of Northumbrian Water.

Donations of £61k and License fee income of £ 172k have been transacted in year. Heidi is also on the board of MOSL, but there have been no transactions with the company.

Note 9.

Events after the balance sheet date

Since the Balance Sheet date of 31 March 2015, discussions have been on-going involving OWML, Ofwat and Market Operator Services Limited (MOSL) seeking to confirm the transfer of OWML responsibilities between Ofwat and MOSL, and how best and when to execute the transfer. Once the details are agreed the Directors of OWML will be seeking a member's resolution to approve the terms of the consequential transfer of OWML assets and liabilities to Ofwat and MOSL and for the subsequent winding up of the company.