

**MINUTES OF MEETING OF THE BOARD OF
OPUHA WATER LIMITED
HELD 1.00PM, WEDNESDAY 30th JULY 2014
AT THE BOARDROOM OF OPUHA HOUSE, PLEASANT POINT**

- PRESENT:** T Lambie (Chair), D O’Sullivan (Vice-Chair), A Reid, N Gormack, J Boys, N Hyslop.
Also in attendance was T McCormick (CEO), R Wells (Consultant) and C Gardner/A Bennett (minutes).
- APOLOGIES:** N Hyslop (lateness), A Bennett (lateness).
- AGENDA:** The agenda was distributed prior to the meeting with the July 2014 Management Report.
An additional agenda item was added to confirm and appoint Directors at the start of the meeting.
It was **Resolved** that Mr Lambie be reconfirmed as Chairman. This was moved by Mr Reid and seconded by Mr Howey. The motion was carried.
It was **Resolved** that that Mr Boys be elected as an Independent Director for a period of three years. This was moved by Mr O’Sullivan and seconded by Mr Howey. The motion was carried.
It was **Resolved** that Mr Gormack be reconfirmed as an Independent Director for a period of two years. This was moved by Mr Howey and seconded by Mr O’Sullivan. The motion was carried.
It was **Resolved** that Mr Wells be elected to the Board as a consultant until the Annual General Meeting. In this role, Mr Wells would not have voting rights. This was moved by Mr Reid and seconded by Mrs Hyslop. The motion was carried.
- PREVIOUS MINUTES:** It was **Resolved** that the Minutes of Meeting of the Board on 25th June 2014 be confirmed as a correct record of that meeting. This was moved by Mr O’Sullivan and seconded by Mr Reid. The motion was carried.
- CONFLICTS OF INTEREST:** The Conflicts of Interest register was reviewed and the following was recorded:
Mr Howey advised of his involvement as a board member of Horticulture New Zealand.
It was noted that the register should be updated once the merger companies had been struck off to remove Directors interests in other irrigation companies (LPIC, SCFIS, and KIL).
- MATTERS ARISING (from previous minutes):** The Action Points status table was reviewed and the following was recorded:
Mr Reid commented that he expected that more action points should be green now that the Merger is finished. Mr Boys suggested that they remain green for one month and are then removed. He also suggested that those points currently on the list be reviewed and realistic time targets be set (rather than the default to the next Board meeting).
Mr Gormack requested that the completion targets are actual dates rather than just months. Mr McCormick commented that, for the purposes of this table, the dates were aligned to board meeting dates.
Mr Gormack added that the minutes from the recent SCFIS meetings may need to be presented and approved.
Insurance
Mr McCormick noted that there would be a presentation to Directors at the August meeting on the recently renewed insurance portfolio. Steve Sugrue from Willis would be assisting with the presentation which would cover what the policies are covering and the exclusions, the key things we are not covered for.
- CEO REPORT:** The CEO report was circulated to Directors before the meeting. The report was taken as read and general discussions on the following were noted:

Financials

The financial reports were based on the period of June 2014 and the provisional year end position.

Mr McCormick introduced the new reporting table to the Directors. In the discussion it was suggested that the red and green sections (exceedances greater than +/- 5%) did not need to be scaled.

Mr McCormick requested that Directors consider whether there are other key performance indicators that ought to be included on the summary table.

The provisional year end position suggested that, despite the significant over-run in costs for the merger and the unbudgeted swap break fee, the overall position finished with a \$329k surplus after depreciation. This was \$76k (30%) better than budget.

There was a discussion on the money from LPIC, Totara and Kakahu. Mr Gormack reminded everyone what had been reported in the Prospectus and that this should be what is followed:

Totara Valley – surplus funds (est ~\$175k) used to retire debt (est ~\$238k) *(note that funds available exceeded the total debt, so OWL has received net cash of ~\$196k)*

LPIC – surplus funds into a Term Deposit (est ~ \$ 79k)

Kakahu – surplus funds to retire debt (est \$396k)

Mr Boys asked how we were going to report back to the three identities. Mr McCormack replied that we would hold annual general meetings, where the budgets would be presented; these meetings would be held at the end of each irrigation season.

Mr Boys suggested that a post-merger action be that these three operating groups/committees be set up.

Mr Reid commented that Mr Pagan had good relationships already in place with Kakahu and Totara Valley. It was suggested that Mr Hayden Cartwright, Mr Gerard Scott and Mr Kevin Cahill be the contacts for the Levels scheme.

Action Point: Mr McCormick

Cash Holdings

At year-end 30th June, \$33k was held in the cheque account and \$271k in the call account. On 22nd July, \$566k was held in the cheque account and \$0 was in the call account.

Operations

Generation

Generation in June was higher than planned as we operated to lower the lake level.

Lake Levels and Storage

We have reached our target level of 388m and intend to operate to not lower the lake further.

Water Quality

Mr McCormick reported that there are no unusual water quality issues at the lake or in the rivers at present.

Mr McCormick advised that he had received the completed draft report from NIWA on the river studies they conducted over the summer period including the flushing flow in February.

He intends to hold a workshop early August with NIWA, ECan, Fish & Game to review the current level of knowledge on the impact and options of the river operation on water quality.

There was a discussion on this proposed workshop. Mr Reid commented that we need to be careful about how widely our results and information is distributed and, accordingly, the expectation that is built up regarding on-going investigations and their associated costs. Mr McCormick acknowledged those concerns and said that there was no intention of committing to any further work as a result of this workshop. Any future study programme would be subject to budget approval.

Mrs Hyslop commented that it seemed to be difficult to obtain relevant historical data on water quality in the region. Mr O'Sullivan advised that the Zone Committee had had

presentations (mainly from ECan) on the data available and that these presentations were available on the Zone Committee website. Mr O’Sullivan to update the board on trends etc.

Action Point: Mr O’Sullivan

Asset Maintenance & Management

Scheme Maintenance

The operations team have been working through planned maintenance activities. All schemes and the dam have had attention.

Mr Reid suggested that Mr Pagan’s report be sent to the three operating groups and only report to the board with any high budget items.

Power Station & Dam Maintenance

TrustPower attended the power station during the two day outage in mid-July to attend to several maintenance issues. Routine condition monitoring oil analysis has detected traces of acetylene in the main transformer oil. This indication suggests some localised overheating arising from an internal fault may be occurring. The oil test will be repeated to check these readings. TrustPower will carry out a series of tests and inspections that may conclude with the transformer needing to be opened for inspection and repair. Any repair work to the internals of the main transformer potentially constitute a major maintenance and outage undertaking.

Management Reporting

Health and Safety

Mr Boys stated that it would be appropriate for the Board to have a Health & Safety session and he suggested that a two hour slot be allowed for the September board meeting. Mr Boys commented that although staff were attending courses, ie the chainsaw course, the Board need to know that a relevant and sufficient management system was in place and that safety practises were being upheld. Mr Howey commented that the new legislation for Health & Safety went to government April 2014 and that there were greater legal responsibilities for everyone.

Mr McCormick to complete a gap analysis as part of the presentation to the Board in September.

Action Point: Mr McCormick

Dam & Power Station Management

Dam Safety Management

Mr McCormick commented that this report would be done internally and was a big job.

Energy Contract

Mr McCormick advised that he had been unable to progress PPA contract discussions with Trustpower as their contact person was on leave. A meeting is planned for early August to discuss the contract. Mr Boys suggested that a small subcommittee within the board be formed to assist Mr McCormick with this. It was moved by Mr O’Sullivan that Mr Boys, Mr Gormack and Mrs Hyslop formed this committee. This was seconded by Mr Reid. The motion was carried.

Strategic Water Projects

Ms Bennett joined the meeting at 2.45pm.

Saleyards Bridge Flow Recording and Compliance

Mr McCormick advised that he is awaiting the return of Richard de Joux from Environmental Consultancy Services to complete further modelling on the 24 hour measurement regime and results will be presented to interested parties.

Tekapo Water Project (New Water)

Mr McCormick has had initial discussions with Fulton Hogan (who completed the repair works on the Tekapo Canal) about completing a review of the cost and constructability of the

Tekapo transfer option. It was questioned whether the acceleration fund would be available to look at concerns on demand and opportunity or whether the fund is available for construction, getting to project started. Mr O’Sullivan commented that Aoraki Water Trust (AWT) may be able to assist with funding if OWL was to drive it.

Mr Brett Painter has called a meeting of parties with an ‘interest’ in the Rangitata node for 21st August. Will wait to see what comes out of this meeting.

Mrs Gardner left the meeting at 2.50pm.

Shareholder and Water User Surveys

To date around 90 surveys have been returned covering approximately 45% of the shareholding. Mrs Crossman is following up by phone.

Returned surveys have indicated that only five shareholders have calculated their baselines, driven by resource consent processes. Approximately one third of the surveys returned indicate that a nutrient budget has been prepared or is in the process, and these are largely dairy enterprises. A number of shareholders are requiring or wanting FEPs sooner rather than later and Mrs Crossman will work through a prioritisation exercise.

Restructure and Merger

Quantum Advantage and Pivot (previously One to One) are working on finalising 30 June 2014 reports to provide us with a 1st July opening position.

Tavendale & Partners provided a paper of outstanding and upcoming matters which was provided to Directors in the management report. Matters needing attendance to included:

- Totara and Kakahu being wound up and removed from the Companies Office
- Attending to annual reporting requirements
- OWL board elections
- Redemption of ‘D’ Shares

Board Elections

Elections will be done through postal vote and will go out with nomination forms in early September. The Merger proposal provided that the current Directors will be available for re-election at the next annual meeting. The current farmer directors need to give notice as to whether or not they wish to retire (prior to nomination forms being issued) and Mr McCormick suggested that the Directors advise at or prior to the next board meeting (a notice to be out with next management report to remind Directors).

Action Point: Farmer Directors

Redemption of ‘D’ Shares

Following receiving a notice from a D shareholder requesting that OWL redeem it shares for \$50.00 per share, it was agreed that any applications for redemption be accepted and those redeemed be reported back to the Board. Redemption funds are to be paid from the Levels cash introduced following the merger.

Action Point: Mr McCormick / Ms Bennett

Share Transfers and Leases

Tavendale & Partners are reviewing the share transfer document and will put together a new document for the lease of shares (likely to be called a licencing agreement). This new document will be sent to all current leases that OWL is aware of to confirm arrangements are still in place.

Mr McCormick suggested that from now on, all changes in ownership are presented at the regular board meetings for consideration and approval of the Directors. A list of ‘changes to shareholding’ will be circulated prior to the meeting with the management report.

A summary of ‘changes to shareholding’ for the month of July 2014 was presented. It was **Resolved** that the share transfers and lease agreements presented be approved and water supply agreements and direct debit authority forms be sent out for completion. This was moved by Mr Gormack and seconded by Mrs Hyslop. The motion was carried.

[Note - a copy of transfers and leases approved at the meeting will accompany the Minutes.]

It was **Resolved** that Direct Debit will be the method of payment required for all future water levies and associated charges. In the instance a direct debit authority is not received then it needs brought back to the Board. This was moved by Mr Boys and seconded by Mr Howey. The motion was carried.

The leasee' or shareholder can pay the water charges but the shareholder is ultimately responsible.

Kemford Farm

Mr McCormick provided a letter received from Mr Hayden Cartwright in regards to seeking approval to physically abstract water outside the Kakahu command area and abstract water from a well in Waitohi. The 80 shares in question are not currently being used for irrigation and this request is separate to the surplus water they are applying for. The share transfer from The Escape Trust to Kemford Farm (name change) has already been approved but was subject to approval of change of abstraction point.

It has been agreed prior to the winding up of Kakahu Irrigation, that sufficient shares will remain within the scheme to guarantee at least one cumec of water (operational viability) The request from Kemford Farms still maintains this one cumec minimum.

Mr Reid suggested a register of shares being used outside of the Kakahu scheme be kept.

It was **Resolved** that the Board approves the request for 80 "K" shares to be moved outside of the Kakahu area to Waitohi for water abstraction. This was moved by Mr Reid and seconded by Mr O'Sullivan. The motion was carried.

Mr McCormick will respond by letter to Mr Cartwright and inform that they are still responsible for "K" infrastructure charges.

Action Point: Mr McCormick

Insurance

Mr Steve Surgue from Willis will attend the August board meeting to present and discuss the renewed insurance portfolio and its exclusions.

Public liability insurance for each of the sub-schemes has been cancelled and Mr McCormick is now looking at finalising D&O run-off cover. The statutory limitation is seven years and is looking to be around \$10k per entity to cover this period. Kakahu had \$5m cover and Levels had \$1m cover. Totara Valley didn't have any D&O insurance in place.

Mr McCormick is looking into whether there is a policy to cover all sub-schemes and will look at options for 1-3 years cover and come back to the Board with prices.

Action Point: Mr McCormick

Electricity Market

Electricity Retailing Pilot

The retail pilot runs until September and as volumes are very low through winter and expect to result in the net cost for the remaining months.

DRP Contract

The demand response contract actually terminated mid-May, prior to the station outage and not at the end of April as previously reported. The additional 16 days provided additional income of \$13k with total contract income of \$91k.

OWL Systems Update

Web Based Farm Environment Plans

Mrs Crossman is working through final changes and modifications using the pilot FEPs and it is anticipated that the package will be finalised by the end of the month.

Mr Reid asked whether there has been any more financial input. Mr McCormick replied no, not to date. Mr Reid commented that we need to try and link the farm environment plans to the water ordering and website.

Commercial Eel Fishing

An issue has arisen since we advised the commercial eel fishers that we intended to ban commercial eeling at the lake.

They responded that if they are to be excluded from the lake then they would withdraw their support for the four mataitai applications that are currently underway in the South Island.

Ngai Tahu expressed their concern of this local issue to jeopardise the wider mataitai processes. Mr McCormick and Mrs Crossman are meeting with Arowhenua tonight.

Action Point: Mr McCormick/Mrs Crossman

Other Matters

Land Sale - Collett Property

The sale of the Collett property is imminent and the Board will be required to approve assignment of the Water Agreement associated with the property. A paper was provided to Directors and a copy of the Deed of Assignment of Water Agreement was included.

The water agreement will be transferred through a 'Deed of Assignment' since the Collett water agreement is differs from the standard short form agreement with shareholders. The Board agreed that the transfer of the agreement is subject to the consent being transferred.

Mr McCormick is aware that Mr Ellis is wanting to change the abstraction point so will be looking at a consent variation once transferred. If he is looking for a direct take from the river then it will have an effect on is. All consent change application and variance costs are payable by Mr Ellis, not OWL.

After discussion the Board requested that Mr McCormick speak with Mr Grant Proudfoot whether a condition of payment of \$270k can be done through settlement. Settlement is 11th August and Mr McCormick to confirm that this payment is zero-rated for GST.

It was **Resolved** that the Board approves the assignment of the water agreement to Ellis Lea Farms (2000) Ltd and the transfer of the Two Penny Farm Ltd water consent to Opuha Water Ltd. This was moved by Mr Howey and seconded by Mr O'Sullivan. The motion was carried.

BOARD PAPERS:

Environmental Management Strategy

Mrs Crossman joined the meeting at 4.00pm.

An updated Environmental Management Strategy (EMS) was presented based on discussion and suggestions put forward at the Board workshop on 14th July.

Mr Boys commented that he is not clear that the Board has specifically considered debated the fundamental aspect of the EMS – i.e. whether OWL has a role "inside the farm gate" relating to the use of water. We have previously been a water supply company and the EMS direction now has us in a role previously covered by ECan.

In Mr Boys view, it becomes unclear where the responsibility of the water user/farmer begins and ends if OWL is 'inside the gate'. Are we responsible for the outcomes or just facilitating the outcomes? How far in the gate do we go and how much control do we want? Mr Lambie replied that as we hold resource consents we have some responsibility to record and monitor how this water is used and its effects (through audited self-management). Mrs Hyslop added that it would be irresponsible of us to not step into this space and result in our resource consents not being renewed. If a farmer breaches a consent, then it needs to be the farmer who is liable, not OWL, even though they used our FEP template for example.

It was agreed that the strategy and plans need to be a bit more descriptive on where the responsibility for compliant water use rests between OWL and the water users.

Mr Howey left the meeting at 4.30pm.

It was noted throughout the document to remove 'OWL will' and replace with 'OWL will encourage'. It was **Resolved** that the Environmental Management Strategy be adopted subject to further amendments. This was moved by Mrs Hyslop and seconded by Mr Reid. The motion was carried.

It was agreed that Environmental Management Strategy not be publically available on the website until the procedures for developing are finalised by a sub-group.

Mrs Hyslop and Mr Reid agreed to be included in the sub-group and are to meet with Mrs Crossman on 11th August.

Action Point: Mrs Crossman/Mr Reid/Mrs Hyslop

Farm Environment Plan Roll-Out

A paper accompanied the management report to provide information regarding the implementation and resourcing of the Farm Environmental Plan programme, subsequent to discussion held at a Board workshop on 14th July.

A discussion was held on farmers who already have a plan through, for instance, their industry group. It was agreed that while we will have a template available, if the farmer already has or wishes to adopt an alternative, then we are happy to use their plan if it meets our conditions. It is imperative however that, if they are using someone else's template, they must make their plan information available to us.

Mrs Crossman provided a table to assess the charging options. The regime was discussed and delegated to a sub-group to look at annual and long-term plan charging.

Action Point: Mrs Crossman/Mr Reid/Mrs Hyslop

Opuha House Upgrade

Mr McCormick presented a paper for the proposal to upgrade Opuha House office accommodation and site facilities. Plans were included to show the proposed upgrade and key aspects of the upgrade were highlighted. Three tender responses were received from prospective builders. The 2015 capital budget included a provision of \$220,000 for this work and Mr McCormick advised that the estimated final cost is \$210,770.

It was **Resolved** that the upgrade of Opuha House building and facilities be approved and accept the offer from Robinson Design & Build Solutions for the building work and Wright Tanks for the replacement of the site septic system. This was moved by Mrs Hyslop and seconded by Mr O'Sullivan. The motion was carried.

FINANCIAL STATEMENTS:

June 2014 Financial Statements

The Financial Statements for the month ended 30th June 2014 were taken as Read.

GENERAL BUSINESS:

Mrs Hyslop left the meeting at 4.57pm.

Annual General Meeting

The annual general meeting of shareholders was proposed for 6th November 2014. Following discussion it was noted that Tuesday 4th or Wednesday 5th of November would be preferable. Ms Bennett to circulate these dates to Directors for availability and then advise KPMG to ensure the audit will be completed within the timeframe. The audited financial statements need to be prepared within 5 months after balance date (30th November 2014).

Action Point: Ms Bennett

Next Board Meeting

Mr Lambie asked if the next board meeting could be changed to the morning of 27th August instead of the afternoon. Ms Bennett to check with Mr Howey and Mrs Hyslop if the morning is suitable and then send out a calendar invitation.

Action Point: Ms Bennett

There being no further business, the meeting closed at 5.05pm.

Chairman

Date