

**MINUTES OF MEETING OF THE BOARD OF  
OPUHA WATER LIMITED  
HELD 1.00PM, WEDNESDAY 27<sup>th</sup> MARCH 2013  
AT THE BOARDROOM OF OPUHA HOUSE, PLEASANT POINT**

**PRESENT:** Messrs T Lambie (Chair), T McCormick, D O'Sullivan, T Howey, N Gormack, R Wells and A Reid. Mesdames N Hyslop, A Bennett (minutes).

**APOLOGIES:** R Wells (for lateness).

**AGENDA:** The agenda was distributed to Directors before the meeting as part of the March 2013 Management Report.

**PREVIOUS MINUTES:** Correction to the Previous Minutes

Mr Howey questioned the wording on page 2 under irrigation for water users over 80% in regards to the 'penalty that shall be applied' and whether it is meant to be 'penalty that should be applied'. There is no 'penalty' as such applied, it is an 'additional water charge rate' that applies for usage over the standard 80% allocation.

It was noted that water users have not been receiving usage reports and a discussion was held around future reporting and functions of recording water usage. It was agreed that the water user agreements of LPIC and SCFIS be reviewed to conclude what 'charges' will apply and in the meantime water users are to be sent details of their usage to date.

**It was agreed that all minutes under the heading of 'Collett Property' be recorded as the discussion being 'legally privileged'.**

On page 4, the time of welcoming Mr Leete to the meeting from 3.00am to 3.00pm.

On page 5, within the last paragraph under the heading Collett Property, the wording 'sellable' was updated to 'equitable'.

Mr O'Sullivan updated the wording on page 5 under amalgamation and restructure of OWL from 'Tengawai minimum flows are so low' to 'Tengawai flows are nearing minimum flow limits'.

It was **Resolved** that the Minutes of Meeting of the Board on 27<sup>th</sup> February 2013 be confirmed as a correct record of that meeting. This was moved by Mr Howey and seconded by Mr Gormack. The motion was carried.

**CONFLICTS OF INTEREST:** No amendments were made to the Conflicts of Interest Register.

**MATTERS ARISING (from previous minutes):** **Repossession of Diesel Unit from Mr Pemberton**

Mr O'Sullivan advised that he spoke to Mr Tim O'Sullivan. Mr Pemberton has been promising to pay and Mr O'Sullivan would follow up with Mr Pemberton again. It was agreed that if no response is received within 14 days then the issue be followed up with a debt collection letter.

**Action Point: Mr McCormick**

**CEO REPORT:** The CEO report was circulated to Directors before the meeting. General discussions were held on matters arising and the following points were noted:

**Financials**

Mr McCormick advised that the financial reports are based on the period of February 2013.

The current operating position is \$746k better than budget with good generation revenue still the main driver. Generation prices for February were set via the current contract with an overall average price achieved of \$67/MWh.

Expenditure year to date is \$171k below budget and the main underspent area is consultants (\$128k). Expenditure for February was 12% under budget (\$46k) and the main areas of under expenditure for the month was consultants, interest charges and maintenance expenses.

Legal fees are running ahead of budget from activity relating to the restructure and Colletts water.

#### Cash Holdings

Mr McCormick advised that on the 4<sup>th</sup> March \$900k was paid off term debt (part of the \$1m not subject to swaps). \$250k was placed on term deposit in February (expires Jun 2013).

#### **Operations**

February was the driest and hottest month locally for the past two seasons. All schemes have been running at high capacity and are all operational. Additional work has been required in and around the supply races due to the climatic conditions encouraging vegetation growth.

#### Irrigation

Irrigation demand peaked around 5.6 cumecs in mid-February and has sat consistently above four cumecs throughout the month. There were two incidents in February of overtopping races seeping into paddocks and disrupting harvest schedules. Mr McCormick advised that he has worked with the affected farmers to mitigate or compensate for the disruption caused.

Kakahu has experienced problems at the intake from high algal debris loading in the river. A moderate step change increase in river flow (as well as the flushing flow) was enough to dislodge algal debris and required constant attendance by staff at the screen on two occasions.

A water order graph was provided summarising irrigation for period October 2012 to March 2013.

#### Generation

Generation was moderately high for February driven by steady irrigation demand and also the flushing flow mid-month. Overall February is historically a low output month. Total generation in February was 1,813 MWh and the station ran for 294 hours (44%). The average release from the downstream weir was 6.6 cumecs.

#### Lake Levels and Storage

The lake level dropped steadily through February and with the step up in downstream river flows required for March, the lake level has continued to fall around 150mm per day and at that rate is likely to hit 385m (50%) in the first week of April.

There have been problems getting the replacement lake level recorder commissioned and NIWA have been working on it for around a month. They have since indicated that they have devised a fix for the problem.

#### Flushing Flow Trial

Mr McCormick advised that he is still awaiting the final report from NIWA on the trial carried out on 13<sup>th</sup> February. Interim feedback following their post-flush river survey indicated that the flush had been reasonably effective in the central channels but significant amounts of didymo still remained on the outer areas of the river. The flush had been more effective in shifting phormidium from all the areas.

NIWA have been back to carry out their final assessment on the 27<sup>th</sup> February and advised that the phormidium seems to have bounced back more so than the didymo.

Mr McCormick advised that he expects the draft report at the end of March and intends to make this available to the OOP Zone Committee and will be presenting it at the SCWEG meeting on the 15<sup>th</sup> April in Timaru. Mr McCormick commented that Mr Peter Shutt prepared a very supportive article on the flushing trial which was published in a supplement to the Chch Press on 4<sup>th</sup> March.

**Action Point: Mr McCormick**

#### **Asset Maintenance and Management**

##### Scheme Maintenance

Mr McCormick reported that maintenance around the schemes has mainly focused on vegetation control to maintain high flows in the distribution races. Due to vegetation growth we have been caught out a couple of times recently and lost control of the water.

Mrs Hyslop commented that we need to keep demonstrating that we have a process in place for these circumstances and asked whether it would be beneficial to have a few high level alarms installed around LPIC.

Mr McCormick replied that we have good flooding road signs for these events and a number of water users have offered their land should a large volume of water need redirected. Mr McCormick added that Mr Emmerson has been regularly spraying these last few months around LPIC and it has been extremely difficult to keep up with the high growth.

Mr Wells commented that a power outage is a major concern within the LPIC scheme as it takes some hours to slow the water and there are some 'dumping holes' around the scheme for excess water. It was agreed that Mr McCormick review the flood safety procedures within the schemes.

**Action Point: Mr McCormick**

Some of the signage put up around the waterways and hazardous areas has already been vandalised, pulled off and thrown in the ditch. Mr Reid suggested putting up video surveillance signs as a warning to assist with deterring vandals.

The intake screens at all three schemes (LPIC, TVI and KIL) have required repair and/or ongoing maintenance. Mr McCormick advised that enhancements are required for the KIL screen to handle surges of algal debris that are triggered by even moderate step changes in river flow.

The final scope of repair for the Sutherlands pipeline has been determined and involves only moderate work on the right bank to rebury the exposed line.

Power Station and Dam Maintenance

Mr McCormick advised that further problems have occurred at the overflow embankment at the Downstream Weir. Slumping on the upstream face was detected in early March and the operating level was lowered while repairs were carried out. A few days later Mr Mark Williams advised that a leak was evident from the centre of the downstream face of the embankment.

The operating level of the pond has been lowered again while Tonkin & Taylor look at the repair options. It is likely that a different approach will be taken possibly using filter cloth. Tonkin & Taylor have advised that the embankment is still safe but are treating it with some urgency. The structure was re-built in 2009 under poor wet wintery conditions and was only ever a 'temporary' structure.

The planning for the outage to carry out a penstock inspection has been initiated. The inspection is an overdue dam safety management activity and has been postponed previously due to the lake level being too high to allow the diving activities that are an essential part of the inspection/isolation procedure. At this stage the inspection is planned for the first two weeks in June and a major power station inspection/maintenance programme is being scoped to coincide with it.

Mr Reid asked how long the Power Station will be shut down for and how do we maintain minimum river flows. Mr McCormick replied that the inspection is planned for a duration of around 2 weeks and there is a small I bypass line parallel to the main penstock that will be used to maintain minimum river flows. This line was tested last year while completing the anchor block.

The Chairman asked whether we can look at alternate divers who can go lower. Mr McCormick replied that it may be possible but is likely more expensive. He explained that it is a combination of the lake elevation, 400m above sea level, with the moderate dive depth of 25-30m that limits the dive time available. Mr McCormick provided a diagram on the whiteboard showing the procedure for the isolation and inspection. He advised that Mr John Clarke (ex Doug Hood Ltd) from Christchurch was involved in the last inspection at commissioning time and Mr Clarke has offered his assistance and advice if required.

Mrs Hyslop asked whether we can approach Alpine Energy for previous reports or documents on inspections undertaken while they were involved. Mr McCormick replied that yes we could see if Alpine have any previous information and the Chairman commented that the main issue is that none of the original guys at Alpine work there now. (Note: no inspections were carried out during Alpine's ownership/management period)

Mr McCormick commented that the crane installed on the intake tower at the Dam has never been certified and to complete this we would need to organise a 3 tonne load dead weight – could possibly float a 30,000 litre tank out and lift it up. (Correction - this requires a 5 tonne test load or 50,000 litre tank)

The Annual Dam Safety inspection was carried out on Tuesday 26<sup>th</sup> March.

## **Major Maintenance & Capital Works**

No major condition assessment activities were carried out. The outage planned for June will complete much of the outstanding inspection and assessment work at the Dam and Power Station.

### Downstream Weir Modifications

Mr McCormick advised that Tonkin & Taylor are continuing to work on the detailed design and consenting phase.

### Standby Generator for Power Station

Final commissioning of the new stand-by generator has not yet been completed but is scheduled for April.

### New Storage Facility

Mr McCormick advised that he intends to establish a permanent steel span workshop and storage facility at Opuha House to replace the two shipping containers. Being within zone rural B there may be some constraints with what is constructed.

Mr McCormick added that recently while investigating whether Opuha House required an annual building inspection, it was brought to his attention that no Building Consent was issued for the modifications in 2007. It was agreed that Mr McCormick follow up with the insurers to check whether this has an impact on the cover policy.

**Action Point: Mr McCormick**

## **Management Reporting**

### Training & Development

The Irrigation Managers Training day is planned for 4<sup>th</sup> April in Pleasant Point. Notices have been circulated to all shareholders and to date the response has been quite slow with only 11 currently enrolled. With the training day cancelled at Lincoln a number of attendees are travelling down.

### Share Tender

Mr McCormick advised that there has been both SCFIS and KIL shares available for purchase and lease over the last four months but there has been little interest shown in them.

### Energy Contract

Mr McCormick reported that March has seen spot prices rise to unprecedented levels as hydro storage levels have dropped dramatically from high levels in January. This is the first month this season that our fixed contract prices will be below average spot prices. March is traditionally a high generation period and by the end of the month we will have achieved our full year generation revenue budget and exceeded the annual generation amount 'budgeted'.

Mr McCormick advised that he has met with TrustPower to discuss the performance of the contract and to look ahead at renewal options and enhancements.

### Operations & Maintenance Contract

Mr McCormick travelled to Tauranga and spent a very productive day at TrustPower's offices meeting with various groups covering operations, maintenance and the power purchase agreement.

## **Strategic Water Projects**

### Strategic Storage Options for OWL

Mr McCormick advised that Aqualinc are underway with the study covering strategic storage and also the impact a change of consent condition to move to a rolling 24 hour target flow at Saleyards Bridge may have.

### Tekapo Water Project (New Water)

Mr McCormick is continuing to work to try and finalise a terms of reference for this study with Genesis and Meridian. After meeting with them on 22<sup>nd</sup> March, ECan (Dennis Jamieson) is now preparing a revised ToR to present back to Commissioners.

Restructuring of OWL

Mr McCormick, Mr David Stock and Mr Andrew Leete met with KPMG to review the proposed restructure with regards to tax issues. Following on from this meeting KPMG will now review the proposal in more detail to provide more formal advice on the tax issues.

Mrs Hyslop asked whether the suggested ‘co-operative’ is still an option. Mr McCormick replied that yes this structure option is still on the cards.

Mr McCormick advised that to be able to carry out the restructure process, it would be necessary to convene a series of shareholder meeting of the various entities including SCFIS. The current membership of the Board of SCFIS needs to be tidied up since, as advised by Mr Edward Sullivan, Mr Tom Henderson (SCFIS Chair) and Mr Quintin Mitchell cannot continue as SCFIS Directors since they no longer hold SCFIS shares.

The Chairman commented that these two positions have possibly carried over thinking the restructure would have taken place by now and a meeting will need to be held to elect replacement Directors and appoint a new Chair.

It was agreed that OWL organise a Special Shareholder Meeting and Mr McCormick come back to Mr O’Sullivan (as vice Chairman) on the best procedure.

**Action Point: Mr McCormick**

Colletts Property

Following the February board meeting, Mr McCormick met with Mr Peter Scott to discuss options and a way forward. As a result of these discussions, the following four options were identified:

1. Seek approval from ECan for modification of the consent conditions to enable an ‘agreement’ to be sufficient for ‘affiliation’.
2. Transfer or modify the new water take consent on the Collett block to OWL or LPIC
3. OWL to acquire/access shares and lease to Two Penny Farms
4. Issue new shares

Mr McCormick indicated that his preference is point ‘2’ and his main reasons for this are that there it is consistent with a future position whereby OWL may well hold consents at various locations and also there is a precedent with an existing LPIC consent on the site. a. Mr McCormick added that he is not seeking to specifically include or exclude LPIC with the notion of OWL taking on the consent – he is simply trying to make the next move one that aligns best with the intended future structure. Mr Andrew Leete is continuing to provide assistance and advice on these matters.

It was agreed that Mr McCormick continue to look at options, in particular point ‘2’, make contact with ECan and when appropriate provide a final recommendation to the Board.

**Action Point: Mr McCormick**

Audit Review

Mr McCormick advised that he has met with KPMG to provide feedback on their performance on their first financial audit of OWL. Mr McCormick was able to provide a number of specific examples where he felt they had under-performed or did not deliver on what they put forward in their proposal. This included change of team member during the audit process, attending the board meeting with no presentation and not providing an audit management letter post audit.

Mr McCormick advised they had little in the way of justification for their omissions and disappointing performance. We should not expect the same issues to arise as they have identified some specific things to be addressed for this year’s audit post 30<sup>th</sup> June.

Field Visit to Australia, Irrigation NZ, July 2013

Mr McCormick provided a copy of the proposed itinerary for an irrigation field trip facilitated by Irrigation NZ to Australia in July 2013. The board approved Mr McCormick’s attendance.

It was **Resolved** that Directors who wish to attend the field trip would be subsidised up to a value of \$1,500. This was moved by Mr Howey and seconded by Mr O’Sullivan. The motion was carried.

LEGALLY PRIVILEGED

Board Self Evaluation

Mr McCormick advised that the Board Self-Assessment is underway with two parts – board and chair - to be completed by 31<sup>st</sup> March.

Mr Edward O’Sullivan was asked to complete the assessment and declined.

Audited Self-Management (ASM)

Mr McCormick advised that he met with Mrs Claire Mulcock and her initial view was we should await the completion of the LWRP before we attempt to roll out our ASM programme.

After further discussion it was agreed that a pilot programme be carried out this year using 3-4 properties to give good coverage of land uses and enterprise sizes.

Relationships

Following the February board meeting, Mr McCormick has had discussions with MacKenzie District Council and Timaru Rowing Club on the topic of providing a facility at the lake for the storage of their boats.

Mr Gormack advised that he is on the board of Roncalli College. Mr Wells added that he is on the board of proprietors at Craighead School. Both use Lake Opuha for recreational activities.

**BOARD PAPERS:**

**OWL Health & Safety Management System**

Mr McCormick presented an overview of the Health & Safety Management System via a PowerPoint presentation. A hard copy of the policy, contents of the manual, tailgate meeting minutes and weekly staff meeting notes were also supplied to Directors.

The policy itself is summarised as: ‘OWL is committed to health and safety and believes that the safety and wellbeing of its employees, representatives, contractors, visitors and customers is paramount in all aspects of business’

The presentation covered three main areas:

1. Purpose of the presentation – to give an understanding of our approach to Health & Safety Management
2. Purpose of health and safety management
3. Health & Safety Management within OWL

It was **Resolved** that the Health & Safety Management System be adopted by the Board of Directors. This was moved by Mr Howey and seconded by Mr Reid. The motion was carried.

Mr McCormick intends for staff to attend a similar presentation next week to be introduced to the new management system.

Emergency Action Plan

Mr McCormick advised that he has been reviewing the Emergency Action Plan and is meeting with Timaru Answering Service in Timaru tomorrow regarding an alternative service they can provide for emergency communications (advising downstream residents).

**Action Point: Mr McCormick**

**FINANCIALS: February 2013 Financial Statements**

It was Resolved that the Financial Statements for the month ended 28<sup>th</sup> February 2013 be Received. This was moved by Mr Howey and seconded by Mr Reid. The motion was carried.

Mr Gormack asked what losses are brought forward from the 2012 financial year. Mrs Bennett advised that the current tax losses are \$814k. Mr Gormack commented that with a current YTD profit of \$738k (4 months remaining budget), we will be looking at utilising these losses. We may need to look at tax provisions for the 2013/2014 financial year. Mr McCormick added that with the power house shut down in June, it may provide some relief, however he would look at building a tax provision into the budget.

Mr Wells asked Mr McCormick if he knows the buy-out cost for swaps, in particular the \$4.4m swap that expires in 2016. Mr McCormick replied that only a few weeks ago he received a report from ANZ Bank which indicated the buy-out would be around \$4.5m for all the debt currently under swaps. Mr McCormick will forward a copy of the ANZ report to Directors.

Overdue Debtors

It was agreed that the outstanding amount for motorbike repairs charged to Dirragh Farm Ltd should have the same treatment applied as Mr Pemberton – a debt collection letter if no response is received from a final notice requesting payment.

Debtors Management Policy

Mrs Bennett advised that a policy has been drafted and is yet to be reviewed by Mr McCormick. The policy will be presented to the Board at the next meeting.

**Action Point: Mrs Bennett**

**GENERAL  
BUSINESS:**

Director Development

The Chairman advised that Mrs Hyslop will be attending a full Institute of Directors’ training course that will cost around \$7k and asked whether OWL agrees to pay or contribute to this cost.

It was **Resolved** that OWL will pay up to half of the course at the discretion of the Chairman. This was moved by Mr Wells and seconded by Mr Howey. The motion was carried. Mrs Hyslop abstained from voting.

It was noted that a Professional Expenses Policy be prepared for Board and Director training courses and seminars.

**Action Point: Mr McCormick**

Insurance

Mr McCormick advised that he has initiated a Request for Proposal process for 2013/2014 year insurance. The RFP closes at the end of April and at this stage has approached Marsh Ltd (current insurers) and Willis. Marsh have been involved since the Dam was first built (they were Alpine Energy’s broker). The insurance providers/underwriters have changed over the years.

The next Board meeting was scheduled for Monday 22<sup>nd</sup> April 2013 @ 8.00am.

There being no further business, the meeting closed at 3.35pm.

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Chairman

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Date