

**MINUTES OF MEETING OF THE BOARD OF
OPUHA WATER LIMITED
HELD 8.00AM, WEDNESDAY 29th MAY 2013
AT THE BOARDROOM OF OPUHA HOUSE, PLEASANT POINT**

- PRESENT:** Messrs T Lambie (Chair), T McCormick, T Howey, N Gormack, R Wells and A Reid.
Mesdames N Hyslop and A Bennett (minutes).
- APOLOGIES:** Mr D O’Sullivan.
- AGENDA:** The agenda was distributed before the meeting as part of the May 2013 Management Report.
- PREVIOUS MINUTES:** Correction to the Previous Minutes
On page 2 of the minutes under Power Station and Dam Maintenance, Mr Gormack questioned the sentence ‘The Chairman requested that we do not support/approve any eel fishing/harvesting within our facilities’. It was agreed that this was referring to ‘commercial’ fishing and harvesting and that the following be added to the end of the sentence ‘unless supported by Arowhenua’. The word ‘requested’ was also replaced with ‘investigate’.
Mr Howey requested that a glossary be included at the back of the management report for terms of reference to abbreviations in reports for Directors to refer to.
It was **Resolved** that the Minutes of Meeting of the Board on 22nd April 2013 be confirmed as a correct record of that meeting. This was moved by Mr Wells and seconded by Mr Gormack. The motion was carried.
- CONFLICTS OF INTEREST:** Mr Reid advised that his Directorship of Glenire Farm Ltd be added to the Conflicts of Interest Register. His Directorship was effective from 4th April 2013.
Mr Gormack provided an update on the status of Hunter Downs Irrigation which is one of the options that may provide some ‘new water’ into the OOP Zone. Mr Gormack advised that a formal agreement had been signed between Meridian Energy and Hunter Downs and a development entity had been established. Mr Gormack is an interim director of this development entity and so Mr Gormack wishes to continue recording his representation as a low risk conflict.
- MATTERS ARISING (from previous minutes):** Diesel Unit - Mr Pemberton
Mr McCormick advised that he decided he doesn’t want the diesel unit returned to OWL’s yard and has spoken to both Mr Tim O’Sullivan and Mr Pemberton and the matter should be resolved in the coming weeks. Mr McCormick commented that there may be some sort of arrangement made in terms of the outstanding funds due.
Action Point: Mr McCormick
- Storage Above Dam
Mr McCormick still intends to follow up with Mr Laurie Williams of Mitcham Farming Company in regards to building above dam storage on his property.
Action Point: Mr McCormick
- Over 80% Water Use
At the previous meeting the Chairman recommended that management discuss this topic and report back to the Board with a recommendation. This agenda item was carried forward to the next meeting.
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

The financial reports were based on the period of April 2013. Good generation revenue remains the main driver of the current operating position above budget by \$903k. The year-end forecast position with two months budget remaining suggests a taxable profit of around \$780k. The power station outage and penstock inspection was budgeted for March and April but this has since moved to June leaving the deferral contributing to the under-expenditure for the month and year to date. Expenditure to end of April is below budget by \$103k for April and \$297k year to date.

Generation prices were set via the current contract (last month on contract before we begin the five month period on spot price). The overall average price for the month was \$107/MWh vs the budgeted price of \$100/MWh.

The lease of the larger diesel pump ended in late April.

Mr McCormick advised there is currently \$250k on term deposit with ANZ which expires on 11th June and some of this cash may be utilised to pay off the remaining \$100k of term debt not subject to swaps before 30th June. It was agreed that cash funds should be held for spending on capital projects such as the DSW modifications in the 2013/2014 financial year however would still like Mr McCormick to explore the break fee involved with the \$4.4m debt subject to swaps.

Mr Wells asked if a graph could be presented monthly in the board reports showing the 'cash position' trend.

Action Point: Mr McCormick / Mrs Bennett

Operations

Irrigation

Irrigation concluded by mid-April which is about three weeks earlier than the previous season. An irrigation season summary of water supply was presented in a graph. Mr McCormick advised that there were no major restrictions during the season and the main water storage provided secure water availability through a dry season.

Generation

Generation in April was around average and driven by the high environmental flow of 8 cumecs for the month. Catchment flows for the first few weeks were low requiring the dam storage to provide the bulk of the river flows. After the rain on 20th April, generation and releases were maintained as part of the strategy for a low lake level for planned maintenance in June.

Total generation for April was 2,151MWh and the station ran for 390 hours (54%). The average release from the downstream weir was 7.8 cumecs.

Lake Levels and Storage

The lake level dropped steadily through April as inflows remained low. Rain on the 20th April and 10th May both increased the lake level. Mr McCormick calculated with full time operation to release water it is still possible to achieve a level of 385m for planned maintenance.

Mr McCormick advised that he received OEFRAG endorsement of the operating regime to maintain the low lake level for the maintenance in June and ECan are aware of the intentions. Mr McCormick added that the consent does not provide for these circumstances but he has suggested to ECan that OEFRAG endorsement is an appropriate way to manage these requirements. Mr Howey asked Mr McCormick if he received the OEFRAG endorsement in writing. Mr McCormick replied yes, through emails. Arowhenua was also included in the emails but didn't reply and this was not unusual. Mr Gormack asked whether ECan should reply in writing. Mr McCormick replied that the letter was more 'advising' them of receiving OEFRAG approval and he did not request a reply, however he could seek acknowledgement from Mr Roger Gould and check there are no issues. The chairman commented that Mr Roger Gould is part of the OEFRAG group however is not there representing ECan, he attends for knowledge.

The power station outage is planned for the week starting 4th June and it's anticipated to re-water the penstock at the end of the week. The water in the buffer pond can release 1.5 cumecs from the bypass and is enough for minimum flow releases for around 5 days. Mr McCormick advised that he mentioned this in his letter to ECan. The chairman suggested that the process be documented for future 5 yearly inspections.

Flushing Flow Trial

Mr McCormick presented the flushing flow trial report to the OOP Zone Committee. With good flow conditions on 6th May, the opportunity was taken to create a flushing flow in the afternoon. There was no specific assessment of the impact of the flush but own assessment of Skipton Bridge area is that it is looking relatively good.

Asset Maintenance and Management

Scheme Maintenance

Vegetation control was the main maintenance required in April. Winter maintenance plans have been prepared and forwarded to LPIC and TVI. KIL's plan is underway and yet to be completed. Sutherlands pipeline across the Tengawai River has been successfully reinstated.

A discussion was held on carriage water within schemes and how it can be reduced in the future. Mr McCormick advised that he is underway looking at options and ways of managing carriage water including in-scheme storage. Mrs Hyslop commented around 6-7 years ago LPIC looked into the cost of piping the scheme around \$12m and it wasn't an economic benefit of selling the additional water, but keen to explore this again as technology has changed. Mr Wells commented that the investigations don't need to include piping the whole scheme, it could be just some races to make use of storage.

Action Point: Mr McCormick

Power Station and Dam Maintenance

The crane certification tests on the intake tower were completed successfully in early May.

A preliminary dive at the tower was undertaken on 22nd May in preparation for the main outage in early June. The dive indicated some maintenance requirements on the main tower structure. It was found that the 'landing area' gabions (rocks in baskets) had collapsed and structural bolts on the tower were corroded. The bolts have not been replaced in the 15 years since installation and were difficult to shift on first attempt. TrustPower are continuing to work on the replacement. These maintenance items are now included as part of the 5 yearly inspections.

A programme for the planned maintenance has been put together by TrustPower and Tonkin & Taylor and is being finalised this morning. They have an appropriate safety plan in place, using professionals for the work and a local team of confined spaces experts.

The repair on the downstream weir overflow embankment is still to be completed and there have been some delays with the material (bentonite) suppliers.

A biennial deformation survey at the dam site was carried out by Opus International Consultants on 20th May.

The annual dam safety report completed by Tonkin & Taylor has been received and a copy was forwarded to ECan. Mr Howey asked if any issues arose from this. Mr McCormick advised that there was no major issues however some maintenance areas that required some work. The minor maintenance tasks have been discussed with the insurers. Mrs Hyslop requested that Directors sight this report in the next management report.

Action Point: Mr McCormick

The chairman asked whether the new website will allow for such reports, policies etc to be uploaded for Directors to view. Mr McCormick replied it would include such feature.

Mr Wells asked whether the Tonkin & Taylor work should be peer-reviewed. Mr McCormick replied that the 5 yearly review (CSR) is independent. The reviewer identified a number of things in the latest CSR and discussed these with Tonkin & Taylor to reach conclusion. Mr Howey asked how we get assurance that the Dam Safety Management plan is correct and is there a protocol around earthquakes? Mr McCormick replied that he is reliant on Tonkin & Taylor and they have expressed a desire to remain involved with the Dam and are keen to maintain their relationship. A seismograph unit has been located within the Power Station site but no-one is aware of what its capability and function is. Mr McCormick is to follow up with GNS whose labels are of the seismograph. Tonkin & Taylor have used publically available seismic data from a station at Fairlie for their assessment and management of past earthquakes.

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.

Downstream Weir Modifications

Mr McCormick advised that Tonkin & Taylor have prepared a consultation package as part of the consenting process and are continuing to work on the detailed design and consenting phase. Mr Howey commented that he would like to see Arowhenua involved and demonstrate to them that the DSW modifications are investing in best practice, a longer life of the weir and operating the lake at a higher level.

A revised proposal from the NZ based hydro turbine manufacturer has been received and a number of detailed issues are currently being worked through.

Standby Generator for Power Station

The new stand-by generator at the power station has been commissioned and was run to cover a Transpower network shutdown in mid-May.

Ablution Facilities

Mr McCormick advised that the self-contained toilet facility to be located behind the power station has been ordered and will be installed prior to the end of June.

Management Reporting

Health & Safety

No safety incidents were reported.

Operations Staff

Mr Kerry Bell finished on 17th May. Next season a revised approach will be taken for a seasonal raceman and it is intended to engage someone earlier on a salary contract.

Training & Development

Mr McCormick advised that Mrs Gardner attended a one day excel training course.

Energy Contract

April was the last month on contract and from May the five month period on spot price begins. The average spot price for April was \$109/MWh (OWL overall average price \$107/MWh).

Generation for May is expected to be significantly higher which will help compensate for loss of generation from the planned outage in early June.

Operations & Maintenance Contract

Mr McCormick advised that the main maintenance is the pending outage in early June.

Strategic Water Projects

Strategic Storage Options for OWL

Aqualinc are continuing with the study covering strategic storage and the impact a change of consent condition may have when moving to a rolling 24 hour target flow at Saleyards Bridge. They have acknowledged that they are very late with completing this assignment.

Mr McCormick advised that he has finalised the study briefs with GHD to undertake two studies - one on the upgrade of the key irrigation scheme control systems and another on a specific storage option within Levels.

Tekapo Water Project (New Water)

Mr McCormick reported that there has been little activity on this specific initiative.

Restructuring of OWL

Mr McCormick advised that he met with Mr Leete, Mr Stock and Mrs Olive Wallis (KPMG) in mid-May to review the proposed structure process and to work through the steps to confirm that there were no flaws, legal or tax issues.

The only issue that was raised at this meeting was a specific aspect of the structure within Levels and Mrs Wallis has been in touch with Mr Glenn Black for more information to look at it more closely. The issue was whether it would trigger the need for LPIC to issue a prospectus.

The intention is to prepare a detailed presentation to the board at the June meeting where the process and programme will be outlined. Mr Leete and Mr Stock will be present at 9.30am.

A SGM for SCFIS has been scheduled for 18th June at 7.00pm to elect a further two Directors to put in place a valid Board to operate through the restructuring process. Mr Tom Henderson and Mr Quintin Mitchell are no longer eligible to be Directors by virtue of ceasing to hold shares and therefore membership status in the Society.

Action Point: Mr McCormick

Insurance Brokering Services

Mr McCormick has been working with the new insurance brokers and has hosted a visit to Dam with Willis and QBE (insurers). The intention is to increase the proportion of insurance placed in the NZ market. Mr McCormick commented that Sutherlands is sitting on its own as a separate policy due to the high excess associated with the 'Dam' policies.

The other policies covering Opuha House, plant and equipment and motor vehicles have been withdrawn from being locally managed at Reid Manson and transferred to Willis.

Mr McCormick is meeting with Willis on Friday to finalise the policies and the timeframe has been too short this year but hopes that a summary will be presented to the Board before being signed off in future.

Action Point: Mr McCormick

Internal Financial Systems Review

Mr McCormick advised that Quantum Advantage (QA) undertook an internal review of the financial systems and provided a brief report which was included in the Management Report.

Mr McCormick advised that employee leave entitlements will be accrued monthly going forward. The holidays owing to employees have previously been reported for year-end accounts only.

The report provided a recommendation regarding the reporting of depreciation on the Dam and Power Station revaluations. The issue arose because of depreciation methods as well as the treatment under IFRS.

Mr McCormick suggested that a separate fixed asset schedule be kept for reporting depreciation at year end on the revalued asset. It was agreed that the depreciation schedule in the monthly management reports is sufficient for monthly reporting.

Action Point: Mr McCormick / Mrs Bennett

Review of Current Finance

Mr McCormick advised since the last board meeting, himself, Mr Gormack and Mrs Bennett have met with ANZ Bank as well as had separate discussions with BNZ and ASB. BNZ and ASB were both provided with copies of the most recent management report.

The context of the discussions were based around seeking expressions of interest for the restructuring of the company and review of overall debt arrangement, specifically the likelihood of KIL debt currently provided by ASB. All three parties responded positively and note of interest letters may be available at the June meeting.

Action Point: Mr McCormick / Mr Gormack

Audited Self-Management (ASM)

Mr McCormick advised that he has sought expressions of interest from irrigators keen to be a part of the pilot programme carried out this year. An introduction and briefing has been scheduled for 25th June followed by a workshop on 1st July. Mrs Claire Mulcock, Mr Ian Brown and staff from ECan are assisting with these sessions.

Internal Systems Update

The evaluation of options from three providers for a new integrated database and website are continuing. It is proposed to have these new systems in place for next irrigation season.

Action Point: Mr McCormick

The main server at Opuha House and several PC's at Opuha House have been upgraded/replaced.

Relationships

Mr McCormick hosted representatives from Hawkes Bay (Ruatanuiwha scheme) and Wairarapa over the month. The Wairarapa visit involved a contingent of 18 people and the visit to the site included a chance opportunity for them to speak with Mr David Williams on his experience and views on the development process.

BOARD PAPERS:

Draft 2013/14 Budget as a Basis for Water Charges

An updated summary of the proposed 2013/2014 budget was included in the Management Report. The sub-committee did not meet on the 28th May due to the bereavement of Mrs Adrienne Rooney, wife of Mr Gary Rooney. The budget was discussed at the board meeting and it was agreed that the water charges remain at \$197 p/ha from 1st July 2013.

It was **Resolved** that the 2013/2014 budget presented be adopted. This was moved by Mrs Hyslop and seconded by Mr Gormack. The motion was carried.

It was noted that the sub-committee for approving the budget be continued in future years.

Board Self-Evaluation

The assessment results were provided as a separate report and forwarded to Directors with the Management Report.

The chairman highlighted the results key points which included having an induction process for new people coming on board, formalising using sub-committee groups and small teams.

The appointment of a new Independent Director, following the resignation of Mr Edward Sullivan last year, was previously on hold pending the Independent Board Review. Mrs Hyslop asked whether the results gave some indication of the missing skill-set and whether there was a 'stand-out' capability missing.

A discussion was held and skills of a new Independent included good governance, operations and infrastructure background, a site manager and someone who can handle large projects. From this skill set, the name that stood out was Mr Gormack's suggestion of Mr Jeremy Boys from the Port of Timaru and the board agreed that Mr Gormack approach Mr Boys for his interest as an independent Director.

Action Point: Mr Gormack

It was agreed that the Board revisit the work done on the strategy and identify some key focus areas. It was agreed that the restructure is key to the longer term/future strategy and that we should clarify how the restructure does fit to assist with the promotion of the restructure when it is taken to shareholders.

It was agreed that this be revisited at the end of June with Mr Nigel Davenport to facilitate. Mr Gormack noted his conflict of interest with Mr Davenport as a Director of Quantum Advantage.

Action Point: Mr McCormick

The chairman thanked the board for good feedback and findings shown in the report.

FINANCIALS:

April 2013 Financial Statements

It was **Resolved** that the Financial Statements for the month ended 30th April 2013 be Received. This was moved by Mrs Hyslop and seconded by Mr Howey. The motion was carried.

Mr Howey questioned the NIWA account of \$30k showing on the aged payables report. Mr McCormick replied that this cost was related to the flushing flow trial.

A discussion was held on overdue debtors and it was noted that follow up reminder letters be sent to reduce the aged receivables come end of June.

Action Point: Mrs Bennett

Debtors Management Policy

The policy has been drafted by Mrs Bennett and is yet to be reviewed. Presentation of the policy to the Board was delayed to the next meeting.

Action Point: Mr McCormick

Professional Expenses Policy

The Professional Expenses Policy to be prepared for Board and Director training courses and seminars and development was underway and would be presented once completed.

Action Point: Mr McCormick

**GENERAL
BUSINESS:**

There was no general business brought to the meeting.

The next Board meeting was scheduled for Wednesday 26th June 2013 @ 8.30am.

It was agreed that all future board meetings scheduled for 8.00am start be changed to 8.30am.

The chairman noted his absence from the July board meeting due to being away in the UK.

There being no further business, the meeting closed at 11.15am.

Chairman

Date