

**MINUTES OF MEETING OF THE BOARD OF
OPUHA WATER LIMITED
HELD 8.30AM, WEDNESDAY 27th AUGUST 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 A Bennett (minutes).
- APOLOGIES:** T Howey.
- AGENDA:** The agenda was distributed prior to the meeting with the August 2014 Management Report.
- PREVIOUS MINUTES:** Mrs Hyslop noted that the election of Mr Ross Wells as a Consultant should have included that the fee be paid at the same level as his previous payment as a Director.
It was **Resolved** that the Minutes of Meeting of the Board on 30th July 2014 be confirmed as a correct record of that meeting. This was moved by Mr Boys and seconded by Mr O’Sullivan. The motion was carried.
- CONFLICTS OF INTEREST:** The Conflicts of Interest register was reviewed and no amendments were made.
Ms Bennett commented that as noted at the last board meeting, the register had been updated to remove interests of those involved with Levels and SCFIS. Kakahu and Totara Valley companies were yet to be struck off and those interests would be removed from the register once they had been wound up.
- MATTERS ARISING (from previous minutes):** The Action Points status table was reviewed and the following discussions were recorded:
Renew Generation Sales Contract incl. potential self-retail options
Mr McCormick advised that there are a couple of options for self-retailing – establishing ourselves as a true generator-retailer or a ‘quasi-retailer’ option through TrustPower. He commented that while a self-retailing option should add some value to our generation operation, it would not make up for the anticipated drop in wholesale prices and therefore our bulk generation contracts. For instance, in the first year we may achieve an additional \$30k from retailing (compared to an anticipated \$400k drop in generation revenue) Hydro lakes have remained full, which drops prices in the short term but can also influence longer term price expectations. Southern lakes are around 140% of average. Mr Reid commented that we may struggle to bet retailers prices, such as RD1 through Meridian.
Mr Boys commented that Alpine have been advised to increase their line charges over the next few years (possibly 40% the first year and 10% on the second and third years) and we need to take increased costs into account.
Treasury Policy
Mr Wells asked whether a provision was included in the budget for financial advice on our Treasury Policy as we need to watch spending if it is going to be a tight year. Mr McCormick replied no and added that he has received a copy of another irrigation scheme’s policy and will be using this to assist in drafting one for ourselves and then have some external review of it, possibly Murray & Co.
Water Quality
Mr O’Sullivan noted his action point regarding water quality and commented that this is on-going and would update the Board following Mrs Crossman to presentation in September.
Saleyards Bridge Flow Recording and Compliance
It was noted that an action point was missing for the 24 hour measurement regime at Saleyards Bridge. Environmental Consultancy has been engaged for further modelling.
Action Point: Mrs Crossman

BN Consents above Dam

Mr Reid asked whether we objected to the recent application. Mr McCormick replied that we wrote to ECan requesting that we be notified of any applications and they agreed that we would be advised in future. The recent application was approved and it is unclear what grounds we have for objecting. It may be a change in the Plan we need, Mr Lambie added.

Strategic Planning Update

Mr Boys added 'Strategic Planning Update' to the action list. Mr McCormick suggested a half day be scheduled prior to Christmas, but following the Director elections in November.

Action Point: Mr McCormick

Mr Lambie suggested that CEO Self-Assessment and Business Case for Environmental Manager position be removed from the action list as the Environmental Manager position will be partially covered through a charging regime for FEPs. Mrs Hyslop commented that Mr Howey had originally raised the issue of the business case and we need to be ready to respond to any questions regarding justification of the new position.

An action point for the Redemption of 'D' Shares was added to the status table.

Action Point: Mr McCormick

**CHANGES TO
SHAREHOLDING:**

No share sale/transfer or leases were presented for approval.

Three sales have recently been completed but formal advice is yet to be received:

- Raincliff Station Ltd to The Kowhais Ltd and to Pye Group
- Lindsay Fryer
- Alex Sole

The Board agreed that the Water Agreement should be executed by the parties and presented with the Share Transfer application.

A 'water agreement' column to be added to the Changes to Shareholding list to indicate prior to share transfer approval whether a signed water agreement has been received.

Mr McCormick and Ms Bennett to prepare a real estate/legal pack to send out so professional bodies are notified we have a share transfer process in place.

Action Point: Mr McCormick / Ms Bennett

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 reports were based on the period of July 2014, the first period of the 2015 financial year and operations as the consolidated entity.

The \$70k reported profit for the month is predominantly due to reduced expenditure and at this early point of the year, Mr McCormick commented that it does not represent any genuine savings.

The balance sheet has not been established due to waiting for opening balances from KIL, TVI and LPIC, so no depreciation has been applied for July.

Cash Holdings

As at 22nd July, \$566k was held in the cheque account and \$0k in the call account.

Restructure Costs

Mr McCormick noted that following presentation of June 2014 results and after discussions with QA, the restructuring costs incurred from 1st January 2014, when SCFIS Ltd was identified as the 'surviving' entity, will be allocated to SCFIS Ltd rather than OWL.

Operations

Generation

Generation for August to date is about 30% of budgeted generation volume. Mr McCormick commented that we have been on minimum release all month and we are chasing the peaks not the volume. TrustPower have been coordinating well to hit these peaks.

Lake Levels and Storage

Limited snow has led to a more conservative target of 390m for August month end.

Lake and River Water Quality

A workshop was hosted at Opuha House on 19th August and attended by representatives from NIWA, ECan, F&G and Arowhenua. The objective was to discuss results from NIWA studies and ECan monitoring over the last few seasons and to identify how we might use the information to influence operation. Studies have been focused on the Opuha River to the confluence as this is where we can have an effective influence on the flow regime, however the most 'public' issues are generally further downstream in the Opihi.

Mr McCormick has had initial discussions with Mr Murray Doake regarding the possibility of IAF funding for further investigative work.

Action Point: Mr McCormick

Mr O'Sullivan suggested exploring MAF funding and Mrs Hyslop added a joint venture with Irrigation NZ. Mr Lambie commented there is national value in such studies and with the Opihi River Management Plan up for review in 3 years, we need to understand our area.

Mr McCormick will forward a copy of the NIWA report to Directors and he would like to put a posting board on the website for public access to reports.

Action Point: Mr McCormick

Asset Maintenance & Management

Scheme Maintenance

Mr McCormick highlighted key aspects of the winter maintenance work carried out over the period. All fish screens have been removed and cleaned or refurbished.

Various sections of MR1 pipeline in Kakahu have been exposed in readiness for repair by Bosch Irrigation Limited (under warranty). Mr McCormick commented that Mr Pagan is having trouble getting Mr van der Bosch to site to carry out the pipeline repairs - some of which are second time around.

It was noted that no warranty transfer paperwork was received yet and that Kakahu should not be struck off until we have it. Mr Gormack and Mr Milne Horne to see if they can locate any paperwork on the warranty extension, as Mr McCormick has limited information.

Action Point: Mr McCormick

Downstream Weir Modifications

A document from Tonkin & Taylor providing a comprehensive account of the recent activities and current status was provided in the management report. Tonkin & Taylor are undertaking a review to identify how the functionality might be provided at reduced costs. The Board noted their concerns at the money already spent on this project and Mr Boys asked Mr McCormick to obtain a cost from Tonkin & Taylor to complete the review.

Action Point: Mr McCormick

Management Reporting

Health and Safety

No incidents or First Aid treatments were recorded during the period.

Dam & Power Station Management

Emergency Action Plan (EAP)

ECan requested a copy of the EAP before 29th August and Opuha staff have been working on this. Civil Defence have asked that the whole plan be reviewed prior to distributing. In the interim, to meet ECan's timeframe, we are issuing an update to the existing plan - specifically to change the personnel in various agencies.

Mr McCormick approached DamWatch, a subsidiary of Meridian, to complete an external review of the EAP. They declined the invitation for the work. Mr Tony Pickford, who completed the CSR review, has now been engaged as an experienced consultant.

Mr McCormick added that he will be following up with DamWatch as he would like to understand their issue and concerns.

Action Point: Mr McCormick

Mrs Hyslop asked whether we budgeted for this work. Mr McCormick replied no and he would seek an indication from Mr Pickford for review of the current EAP.

Action Point: Mr McCormick

The remainder of the CEO Report was taken as read.

BOARD PAPERS:

Aoraki Water Trust

Mr McCormick provided a discussion paper on 22nd August by email on a proposal for 'handover' from Aoraki Water Trust (AWT) to Opuha Water Ltd.

The paper was intended to identify key issues for discussion to pursue the objective of bringing new water for irrigation expansion into South Canterbury, and in particular, develop the Tekapo Transfer option.

Mr McCormick has met with Mr David Henshaw and AWT would like to have the URS report reviewed to know whether Tekapo construction is viable or not. They are happy to spend funds to complete the review.

AWT are considering whether to remain as an ongoing entity or whether they handover to OWL such that key principles and objectives of AWT are taken on by OWL in the application of the AWT funds and then is wound up. The Trustees are meeting on 12th September.

Insurance Portfolio Presentation

Mr Steve Sugrue from Willis NZ Limited joined the meeting at 10.07am.

Mr Gormack and Mr Boys noted their relationship with Willis through the Port of Timaru.

Mr Sugrue provided a board presentation paper and identified the renewal highlights and premium summary. This is the second renewal with Willis.

As brokers, Willis are there to make OWL an attractive proposition for insurers to offer cover. We are currently 75% offshore and 25% through QBE New Zealand. Within the next couple of years, Mr Sugrue believes we will be ready for a greater uptake in the New Zealand market.

Mr Sugrue commented that once renewals are done for other large NZ hydros at the end of the year, Willis would be in a better position to know placements for next year.

The following were noted for further investigation:

- Business Interruption - sum insured \$10m, is this enough for a catastrophic event? This covers estimated income for a 24 month period (\$5m per year).
- Public Liability - sum insured \$10m - is this an adequate level? This covers damage to third party property.
- Directors' & Officers - Mr Sugrue noted that \$5m is the lower of what a company would have these days.

Key exclusions from the Liability programme included Professional Advice and Failure to Supply. The Professional Advice exclusion would be relevant if we were, for example, contracting Mr McCormick out to someone to for operational/civil engineering advice. FEPs provided- in exchange for fees, aren't we giving professional advice? The 'Best Endeavours' clause in the water agreements covers 'Failure to Supply'.

The Liability programme includes OWL and former companies LPIC, TVI and KIL (except former D&O). Mr McCormick noted that D&O Run-Off cover is underway through Reid Manson and cover would be up until December 2015. Kakahu current D&O cover expires in October and will go onto run-off. A quote has been received for Levels. We cannot obtain D&O run-off cover for Totara Valley as they didn't previously have a D&O policy.

Mr McCormick noted his concern with 'gradual failure' being excluded under the dam policies. His concern is that this type of event is an inherent risk with any large earth embankment dam (ie. piping failure and seepage). If it's a gradual failure and we just can't fix it, then we are covered Mr Sugrue commented. It is wear and tear, atmospheric

conditions that this clause refers to, the consequences of wear and tear are covered. Mr McCormick will pick up with Mr Sugrue to clarify this.

Mr Sugrue left the meeting at 11.13am.

**FINANCIAL
STATEMENTS:**

July 2014 Financial Statements

The Financial Statements for the month ended 31st July 2014 were taken as Read.

It was noted that overdue debtor Derragh Farming Company had brought their account up to date on 20th August. Mr Lambie suggested sending a Direct Debit form in the post.

**GENERAL
BUSINESS:**

Surplus Water

Mr Wells asked what applications are in progress for surplus water. Mr McCormick replied that there are two applications currently - Kemford Farm and AN water from Levels.

Kemford have applied for a consent, and further discussions still need to be held with Mr Woodley and Mr Cartwright.

Mrs Hyslop commented that we need to pursue the expressions of interest received on AN water. Mr McCormick replied that AN water may be part of the Kemford application.

Mr McCormick plans to meet with Mr David Ellis, who purchased Collett property to discuss his plans to develop the property as he understands that Mr Ellis intends to apply for a change of consent.

Rangitata Node

Mr McCormick provided a brief update on a meeting he had attended on what is referred to as the 'Rangitata Node' under the CWMS. It is apparent that there is definitely water available at this location (notionally 4-5 cumecs) as a result of decisions at Coleridge and RDR's intention to build storage at Klondyke. The challenge with utilising this available water within South Canterbury is primarily distribution costs – especially if it is to be able to be integrated with operation of the Opuha Dam.

Annual General Meeting

The annual general meeting of shareholders was set for Tuesday 4th November 2014. The time was proposed for later afternoon with a view to concluding the meeting in time to enjoy coverage of the Melbourne Cup. Exact timing and venue to be confirmed. Mr Reid noted that he will be an apology for this date.

Board Meeting - November 2014

Due to Mr Gormack and Mr Boys being unavailable for the board meeting on 26th November, it was proposed that the meeting be changed to Monday 24th November at 1.00pm. Ms Bennett will send out a new calendar invite.

Action Point: Ms Bennett

There being no further business, the meeting closed at 11.30am.

Chairman

Date