

**MINUTES OF MEETING OF THE BOARD OF  
OPUHA WATER LIMITED  
HELD 8.00AM, WEDNESDAY 30<sup>th</sup> JANUARY 2013  
AT THE BOARDROOM OF OPUHA HOUSE, PLEASANT POINT**

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

**APOLOGIES:** Nil.

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

**PREVIOUS** Correction to the Previous Minutes

**MINUTES:** Mrs Hyslop noted on page 5 of the Minutes that it should read 'Mrs' Hyslop, not 'Mr'.

Mr McCormick corrected the wording on page 2 under Irrigation to read 'After looking back at GHD/Aqualinc reports some of the modelling results show that the system had not been fully tested through a challenging climate scenario as was seen in the 1980s.

Being absent from the previous Board meeting, Mr Gormack questioned the Minutes recorded on page 5 under the Restructuring of OWL and commented that he did not feel KIL represented a positive response. Mr McCormick replied that their response was not negative and there were a few individuals who questioned the need and potential cost for the change. Several felt that the schemes were okay and it was just OWL that needed sorting out.

It was agreed that all schemes involved in the amalgamation should be kept informed of costs involved, be invited to attend meetings and ensure there is clear communication. It was noted to update the minutes to read 'A positive but 'conditional' response was received from each of these groups'.

It was **Resolved** that the Minutes of Meeting of the Board on 28<sup>th</sup> November 2012 be confirmed as a correct record of that meeting. This was moved by Mr Howey and seconded by Mrs Hyslop. The motion was carried.

**CONFLICTS OF INTEREST:** Mr Howey commented that as Mr Edward Sullivan is no longer a Director of OWL he can be removed from the Conflicts Of Interest Register.

Mr Gormack noted that his interest in Rangitata South Irrigation Ltd needs to be updated to Secretary - he is not a Director. Mr Gormack added his Directorship of Hunter Downs Irrigation Ltd be added to the Conflicts Of Interest Register.

**MATTERS** **Relationships**

**ARISING (from** Mr McCormick advised that he had met with the Mackenzie District Council yesterday in conjunction with Mr O'Sullivan and Mr Henshaw.

**previous** **Letter to KPMG Auditors**

**minutes):** Mr McCormick advised that a letter to KPMG was deferred due to the new year period and would be forwarded within the next couple of weeks.

**Removal of Director from Companies Office**

Mrs Bennett confirmed that Mr Sullivan had been removed as an OWL Director with the Companies Office effective from 28<sup>th</sup> November 2012.

**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 periods of November and December 2012. The current operating position is \$598k better than budget and generation

volume was the main driver of income about budget. Expenditure to date is \$135k below budget which is still attributable to delays in expenditure and underspent areas are expected to increase in the second half of the financial year.

A discussion was held on the cash held in the call account and whether the funds should be reserved for the upcoming downstream weir modifications, put on term deposit or used to repay the \$1m debt facility. It was agreed that the revolving credit facility be utilised for the downstream weir upgrade and the \$1m cash be allocated to the long-term debt.

#### Depreciation

Mr McCormick highlighted that after consulting with QA on the reporting of depreciation for the Dam & Power Station Non-Mechanical, we would continue to report tax depreciation as opposed to accounting depreciation for IFRS purposes which was adjusted last financial year to straight line (SL) depreciation.

A discussion was held and it was agreed that the management reports are for guiding Directors therefore we carry on reporting without IFRS adjustments. Diminishing value (DV) depreciation helps us build in more of a buffer for cash reserves as adopting SL would see the depreciation on assets reduce.

It was also agreed that we would not seek IRD approval to change our tax depreciation to SL for these assets.

Mr Howey asked whether the ANZ Bank is happy viewing the financials with IFRS adjustments in the balance sheet. The IFRS adjustments in the balance sheet relate to the 2012 year audit and have been brought into Xero to reconcile with the year-end accounts. These adjustments were reversed on 1<sup>st</sup> July at the start of the new year and therefore no IFRS adjustments are being reported on in the current 2013 financial year.

Mr Gormack advised that we formally have to report to the bank twice a year, 6 monthly and year end audited accounts. Management reports are sent to the bank each month out of courtesy.

#### Income

Mr McCormick highlighted that the generation income was on contract rates and the average price for both months was \$54/MWh. The average spot prices for Opuha in November was \$21.19 and in December \$38.61 - both well below the contracted rate.

A dividend of only \$24k was received from LineTrust South Canterbury and was significantly less than last year (\$54k) and current year budget of \$49k.

Mr McCormick noted that the gain on disposal of fixed assets related to the sale of the quad bike and \$2,000 has been owing for some months from Mr Peter Scott for maintenance required when the motorbike was returned from use on Dirragh Farm.

### **Operations**

#### Irrigation

Mr McCormick advised there was moderate irrigation demand in November and the demand stepped up in December with all schemes operational. There have been some minor availability and reliability issues – predominantly due to control and communication system problems.

An irrigation water order summary graph was included in the report for period Oct 2011 through to Jan 2013.

#### Generation

Generation at the power station reverted to day running only as inflows dropped back and irrigation demand increased. From the week prior to Christmas generation was limited to meet irrigation and river flows only. Full time running began just after New Year to minimise spill and reduce the lake level with the unexpected high rainfall.

#### Lake Levels and Storage

Mr McCormick advised that the extent of the rain in the catchment in early January was more than expected and high inflows increased the lake level to a maximum of 391.9. With a second similar weather system forecast for the second week in January water was spilt for around 5 days to bring the lake to the sill level. The second system delivered virtually no rain to the catchment and the inflows continued to decline.

The high inflows at the start of January halted a steady decline in the lake dissolved oxygen levels and it appears that we may avoid the need to aerate the lake this season.

Mr McCormick advised that a flushing flow trial was planned for 23<sup>rd</sup> January and arrangements prior to Christmas were made with NIWA, ECan and ECS. With the high inflows in early January NIWA suggested that the trial be deferred until there was a more normal period of moderate to low flows. The trial has been rescheduled for 13<sup>th</sup> February.

OEFRAG and OCEPS are aware of the plans for flushing trials and the main objective is to ascertain NIWA's suggested flushing regime of 40 cumecs for two hours is effective and it can be achieved operationally with the regulation pond volumes available.

Mr McCormick commented that the conditions in January have resulted in a build-up of didymo in the Opuha and there have been warnings of phormidium in the lower Opihi. There have been several media articles regarding this and both he and Mrs Hyslop have provided draft responses to the paper which includes some information around the flushing flow trials.

Mr O'Sullivan advised that the Zone Committee are working on getting a response together. They are also getting together a group to do some testing in the Opihi, where the water is coming in, where the problem may lie and whether it is land use, birds, etc. Mr O'Sullivan asked if the Zone Committee have the support of the Board to also progress with some testing in the Opuha river. The Board expressed their support for the testing in the Opuha.

There has been some trouble with the river flow gauges at lower flows since there has not been opportunity to "re-truth" them following the August floods which destroyed the existing sites. ECS is responsible for monitoring Downstream Weir, Saleyards and North and South Opuha on our behalf and reporting to ECan. Mr McCormick commented that he is confident that we have maintained the required flows at Saleyards Bridge and that low flow gauging was being carried out there today.

Mr McCormick commented that TrustPower are a bit rusty on running the river and adjusting flows at the weir against irrigation orders to minimise surplus water at Saleyards. (Pearse example)

## **Asset Maintenance and Management**

### Scheme Maintenance

Mr McCormick advised that the major repairs from the August floods were finished in late November on the Totara Valley race alignment and rock protection works.

The solution to the damage to the Sutherlands pipeline where it goes under the Tengawai river is yet to be finalised and two proposals have been received and have been sent to Tonkin & Taylor for review. ECan is aware of the issue and has been kept informed of the plans to repair.

The repair could cost from \$9k to \$50k depending on the option we take. It was noted that a repairs and maintenance provision is built into the Sutherlands charges to cover the costs of maintenance and repairs. Mr Gormack asked whether this displacement of the pipeline will occur again in the event of floods. Mr McCormick replied that they are looking at the extent of anchoring required but pointed out that the August floods were quite extreme (est 1:30 year event)

**Action Point: Mr McCormick**

### Power Station and Dam Maintenance

Mr McCormick advised that repair and upgrade work at the closure embankment of the downstream weir was completed. The small project to construct safe access up the dam face adjacent to the spillway is due to be completed at the end of January.

The main crane at the Power Station required six minor remedial actions for follow-up after it was tested for its initial certification.

## **Major Maintenance**

### Standby Generator for Power Station

A proposal from TrustPower was received for the supply and installation of a new standby generator at the Power Station. The cost involved is \$35,860 for a 60kw 3 cylinder diesel unit. Mr McCormick advised that he expects some additional costs for the integration of the new generator into the existing control and communication systems. The requirement for the generator was highlighted in the CSR review and \$60k had been allowed for the in the capital expenditure budget.

## **Management Reporting**

### Health & Safety Manual

Mr McCormick advised that a health and safety manual has been completed. Mr Gormack recommended that the Board views and signs it off. It was agreed that the manual be presented to the Board at the next Board meeting.

**Action Point: Mr McCormick**

### Training & Development

Mr Pagan and Mr Bell attended an Agribusiness HSNO Approved Handlers Course for use of agrichemicals in November.

Mr McCormick attended an INZ/IOD Financial Essentials Course in December and felt the agenda and list of topics for the course was essentially an attempt to condense a two day course into one resulting in the feeling of insufficient depth given to key areas.

Mr McCormick advised that INZ held an inaugural farm irrigation operators training day at the end of November and he attended to get a feel for the level and style of the course. Mr McCormick added that he believes the course is very applicable to most of our irrigators and it would be ideal to run a course locally. The Board agreed that Mr McCormick follow up to see if two courses can be held locally - the first around March/April and then look at holding another one in May (off season).

**Action Point: Mr McCormick**

### Share Tender

Mr McCormick advised that there is both SCFIS and KIL shares available for purchase but there has been little interest shown in them to date.

### Energy Contract

Mr McCormick advised that our move onto the fixed contract rate in October has worked well as spot prices have remained very subdued since then.

The contract price continues to step up over the next few months, with a significant increase to \$74.55/MWh in February and it seems logical to preserve water in the lake for these coming months. Hydro lakes are very full and medium term the price outlook continues to lower and the long term the forecasts are suggesting prices lower than those forecast last year.

### Operations & Maintenance Contract

Mr McCormick highlighted that a quarterly review meeting with TrustPower is planned for February 2013.

## **Strategic Water Projects**

### Levels Plain AN Water

The proposed MoU was sent to Directors in December for approval and Mr McCormick commented that he has not received any feedback apart from one question surrounding ECan's position on the AN water use.

Mr Wells commented that at the last Board meeting Mr Sullivan mentioned that the MoU would be irrelevant once the amalgamation took place, however believes it would not be terminated, it would just need revisited.

Mr Wells, Mr Howey and Mrs Hyslop left the room while a discussion took place.

It was **Resolved** that the MoU between OWL and LPIC be accepted. This was moved by Mr O'Sullivan and seconded by Mr Gormack. The motion was carried.

Mr Wells, Mr Howey and Mrs Hyslop returned to the Board meeting and were advised of the outcome of the discussions.

### Strategic Storage Options for OWL

Mr McCormick advised that he met with Aqualinc to discuss their initial proposal and there are a number of overlapping issues and options regarding the overall efficiency of our wider operation and assessing storage options on their own may be of limited value.

Mr Terry Heiler has been asked to assist with scoping and managing this work as he has a good understanding of our system and was on board with this work initially when efficiency studies took place while Mr Peter Scott was CEO.

Managing Within Limits (LWRP)

Mr McCormick met with ECan planning staff to discuss the opportunity for OWL to ‘qualify’ for the provision (Rule 42) under the proposed Land and Water Regional Plan to have land use change within our designated areas classified as a permitted activity.

The discussion with ECan was very preliminary and there was an acknowledgement that ECan staff are grappling with the new implications of the LWRP.

Mrs Hyslop commented that we need to be mindful of the impact on shares – that anyone could previously buy shares and use water on any land but that this change in land use will now trigger consenting provisions under the LWRP.

Colletts Property

**A legally privileged discussion was held and the minutes were presented in a separate document.**

Tekapo Water Project (New Water)

Mr McCormick advised he has attended three key meetings on this project and as an outcome of the meeting on 13<sup>th</sup> November he was appointed to represent SC interests in working with Genesis and Meridian to determine a cost for water from Tekapo to South Canterbury.

The meeting on 7<sup>th</sup> December stalled when the generator representatives said that they have no mandate to discuss potential commercial arrangements terms or deals. Following this meeting there were some email exchanges to reaffirm with intended terms of the study. The group has since reconvened and some progress has been made on defining terms of reference.

It is portrayed that OWL is still the best entity to lead the way for getting new water from Tekapo. Mr Peter Scott is engaging with local politicians on the issue of new water, in particular Tekapo, and Mr McCormick is continuing to work with the generators on the study that has already been proposed.

Mr Gormack commented that if the Directors are on board with where we are heading with Tekapo we need to ensure our shareholders are kept well informed of what, why and how much it is costing so they continue to support us.

Mrs Hyslop commented that it is important that OWL has an equal share in the study and suggested that OWL puts out a newsletter to shareholders explaining that OWL is supportive towards Tekapo Water, explaining the balance why we are spending their money on new water – for putting more water through the generation being one and also providing details of a level of contribution when we can.

Mr Lambie suggested including in the newsletter that OWL is looking at all options of water from north and south, and not just focusing on Tekapo.

**Action Point: Mr McCormick**

Restructuring of OWL

Mr McCormick advised that he has presented the restructuring proposal to all schemes and sub-scheme Boards. The main issues within each entity was maintaining shareholder value and asset protection and voting rights.

On the 18<sup>th</sup> December a meeting was held with Mr Andrew Leete and Mr David Stock to reassess the process and outcomes envisaged. The meeting was constructive and Mr Stock believed that it would be possible to address most of the shareholder concerns while achieving an outcome of a simpler structure.

A restructure plan has since been completed by Mr Stock and is yet to be reviewed by Mr McCormick and Mr Leete before meeting with KPMG to discuss any tax issues. Mr McCormick is not clear on the requirement of a prospectus or not.

**Action Point: Mr McCormick**

**BOARD PAPERS:**

**Downstream Weir Enhancements**

Mr McCormick advised that further investigation work has been carried out in early January and he has received an update from Tonkin & Taylor. The objective of the additional investigation was to remove some of the uncertainty regarding the ground conditions associated with the separate structure option.

Mr McCormick provided a Board Paper prior to the meeting to present the key outcomes of the assessment of options to enhance the Downstream Weir and recommend the development of an option for a new, separate structure at the right-hand-side of the weir. The paper was for information and approval of the Board to progress to detailed design.

A discussion was held on the four design options taking into account the comparison of functionality, hydro generation capability and resource consents. The economic evaluation was also considered. The option of a new separate structure on the right hand side of the enclosure embankment is preferred over the previous proposal to modify the existing spillway.

Tonkin & Taylor have concluded the revised estimate of the RHS option is \$1.7m, which is higher than the original proposal of \$1.3m to modify the existing structure. The main factors considered to weigh in favour of this option are:

- the reduced construction risk,
- the improved flush flow capability, and
- opportunity for a hydro development.

A summary paper of estimated costs for each of the four design options was discussed.

Mr Howey commented that it is important that both the shareholders and community are aware we are doing this to improve environmental flows. The right-hand-side option gives more control. The current spill limit of 115 cumecs will be increased to 250 cumecs spill capacity with either of the four options.

Mr McCormick recommended the way forward on advice from Tonkin & Taylor and sought approval for a budget of \$280k from the Board to complete the detailed design and consenting phase.

It was **Resolved** that Mr McCormick be approved to progress the project to the next development stage and authorised a budget of \$280k for detailed design and consenting. This was moved by Mr O’Sullivan and seconded by Mrs Hyslop. The motion was carried.

**Action Point: Mr McCormick**

**FINANCIALS: November & December 2012 Financial Statements**

It was Resolved that the Financial Statements for the months ended 30<sup>th</sup> November 2012 and 31<sup>st</sup> December 2012 be Received. This was moved by Mr Howey and seconded by Mr Reid. The motion was carried.

Accounts Receivable

It was noted that Mr McCormick make contact with Mr Tim O’Sullivan to discuss whether OWL should repossess the diesel unit from Mr Pemberton who owes \$11,500.

**Action Point: Mr McCormick**

Mr Gormack suggested that the few long-term overdue debtors are sent to a debt collection agency such as Baycorp or East Coast credit. No responses were received from letters sent previously from Mr Sullivan at RSM Law. We need to be consistent with overdue letters and it was agreed that Mrs Bennett draws up a policy and present it to the Board for review.

**Action Point: Mrs Bennett**

Mr Gormack questioned the credit from Alpine Energy sitting in the Aged Payables report. Mrs Bennett replied that this relates to a back credit of avoided cost of transmission rebates. A refund cheque was requested but nothing to date has been received. The credit is slowly reducing by being allocated against the monthly distribution charges.

The Sutherlands diesel and power costs recorded in the financial statements were questioned and it was confirmed that this was a timing difference and all costs associated were on-charged to shareholders two-monthly.

**GENERAL** Board Meetings and Assessment

**BUSINESS:** Mr McCormick advised that he has deferred the IOD Board Self-Assessment and would look at getting this underway for March 2013. The 2013 Board meeting timetable was presented prior to the meeting. The dates were reviewed and finalised as follows:

Wednesday	27 <sup>th</sup> February	2.00pm
Wednesday	27 <sup>th</sup> March	1.00pm
<b>Monday</b>	22 <sup>nd</sup> April	8.00am

Wednesday	29 <sup>th</sup> May	8.00am
Wednesday	26 <sup>th</sup> June	2.00pm
Wednesday	31 <sup>st</sup> July	8.00am
Wednesday	28 <sup>th</sup> August	8.00am
<b>Monday</b>	30 <sup>th</sup> September	8.00am
Wednesday	30 <sup>th</sup> October	8.00am
Wednesday	27 <sup>th</sup> November	(AGM)

Directors' Fees

Following the Annual General Meeting on 28<sup>th</sup> November 2012, the Boards of SCFIS and LPIC agreed that the annual remuneration for the Directors on the Board of Opuha Water Limited be increased by \$10k - from \$80k to \$90k.

An opportunity to thank Mr Sullivan for his support and contribution is still to be organised for Mr Edward Sullivan.

Appointment of Independent Director

A discussion was held on the available independent Director position available on the Board. The IOD Board Self-Assessment may assist in determining strategically what the Board requires and the skill set sought in a new candidate.

Mr Gormack suggested Mr Jock Webster who is based in Oamaru. He is a client of Quantum Advantage and Mr Gormack declared an interest in his recommendation.

Mr Lambie suggested Mr Graham Kennedy who is based in Ashburton and has retired from the accounting practice and the Board of Heartland Bank.

Chairmanship

A discussion was held on the chairmanship of the Board and with Mr Lambie being the Commissioner of ECan it is becoming difficult to handle conflicts that may arise.

The Board agreed it is about driving strategic water issues forward and does not question Mr Lambie's ability as Chair and would like to see him remain on the Board as a Director.

Mrs Hyslop was recommended as the replacement Chair. Mrs Hyslop commented that she is not sure if she would need to relinquish her position as Chair on the LPIC Board and would be available in four months, in time for the end of financial year.

The next Board meeting was scheduled for Wednesday 27<sup>th</sup> February 2013 @ 2.00pm.

There being no further business, the meeting closed at 11.25 am.

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Date