

Chief Executive Board Report

February 2013

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Chief Executive Board Report

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Summary

Board Report Summary

- High irrigation demand since New Year
- Very good lake storage level
- Challenging irrigation scheme operation (high demand)
- Mixed success with flushing flow trial

Board Papers

Colletts Water Supply Agreement – legal opinion

OWL Health & Safety Management System – Overview for Directors.

Financials

This report is based on the financial reports for January 2013.

Overall Position

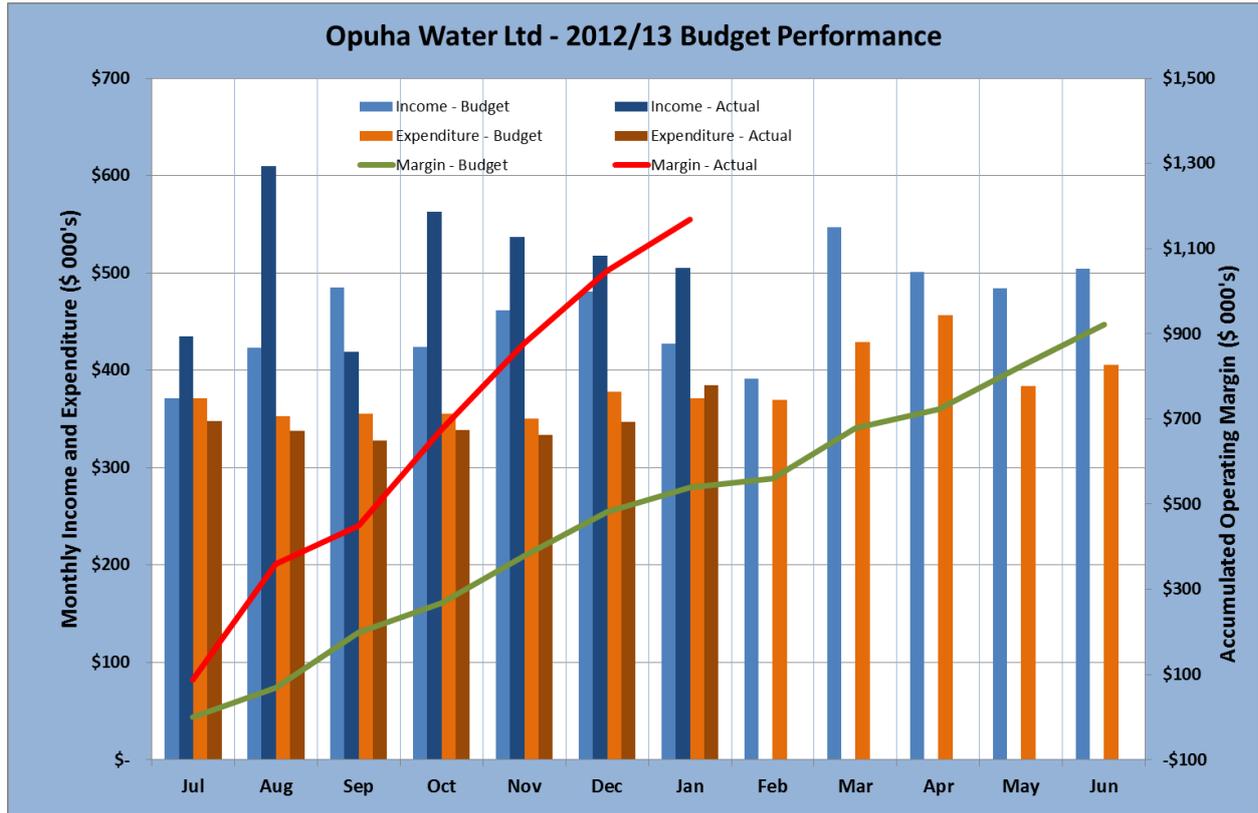
The current operating position is \$649k better than budget due predominantly to good generation revenue – all months except September have been ahead of budget (+\$565k). Expenditure to date is \$126k below budget driven still by underspend in consultants (-\$125k). As advised I expect increased expenditure in this underspent area in the second half of the financial year.

Month - January

	Actual	Budget	Variance
Income	\$510k	\$428k	\$82k
Expenditure	\$385k	\$371k	\$14k
Operating Profit (Loss)	\$125k	\$57k	\$69k
Depreciation	\$78k	\$77k	\$1k
Overall Profit (Loss)	\$47k	(\$21k)	\$68k

Year to Date - January

	Actual	Budget	Variance	Annual Budget	Forecast Outturn
Income	\$3,603k	\$3,073k	\$530k	\$5,501k	\$6,031k
Expenditure	\$2,408k	\$2,535k	(\$126k)	\$4,589k	\$4,589k
Operating Profit (Loss)	\$1,195k	\$538k	\$657k	\$912k	\$1,442k
Depreciation***	\$545k	\$544k	\$1	\$941k	\$941k
Overall Profit (Loss)	\$649k	(\$7k)	\$656k	(\$29k)	\$501k



Income

Income for the period was ahead of budget driven by higher generation volumes. Our prices were set via our current contract and our overall average price was \$54/MWh.

Our budgeted income included ~\$7k per month from November from incremental water charges for the Collett block. This commercial arrangement has not been implemented.

Electricity Sales Revenue

		Actual	Budget	Variance
January	Revenue	\$195k	\$108k	\$87k
	MWh	3,629	2,094	1,535
	Average Price	\$54	\$52	\$2
	Avg Spot Price	\$42.22	(\$40.99 for Opuha)	

Expenditure

Expenditure for January was 4% over budget (\$14k). Main areas of over expenditure for the month were dam maintenance, legal fees and interest charges. The maintenance work included the upgrade of the access track (YTD remains on budget). Legal fees are running well ahead of budget (YTD +\$22k, +171%) due to extra activity relating to the restructure and Colletts water. Interest charges have stepped up as a result of one of the swaps rolling out. I had anticipated and budgeted for this increase but may have not got the timing right as to which month the increase would come in. Consultancy and Strategic Studies were the main areas of under expenditure.

Cash Holdings

We have set up to transfer \$800k in early March to reduce some of our long term debt.

Operations

All schemes are fully operational and have been running at very high capacity. This has exposed a few constraints in each of the schemes and Steve has been working through short term solutions to maintain supply or address the problem as well as identifying issues to be addressed in the winter maintenance period.

Irrigation

After the drop in demand immediately after the New Year rains, demand has been very steady and high due to the fine weather in the region. It seems the very good harvest period has contributed to the high demand with an earlier return of these pastures to new growth.

Flood flows have been operated on a regular basis within Levels with reasonably consistent uptake. Several flood flow irrigators are now over their 80% entitlement and a strategy for this has been agreed with LPIC.

The flushing flow trial created an excessive debris load for the Kakahu intake and the scheme had to be shut down immediately following the flush. In subsequent flushes we would plan to shut the scheme down ahead of the flush.

The irrigation season summary follows overleaf.

Generation

Generation was reasonably high in January driven in the early part by lake level pressure (there was a period of approximately 5 days spilling).

Total generation in January was 3,629MWh and the station ran for 5319 hours (71%) and had 26 starts. Average release from the downstream weir was 13.1 cumecs.

Lake Levels and Storage

The lake was overfull in early January and we spilt to lower it to sill level in anticipation of the second nor'west system which, as it turned out, didn't bring in any rain. We have steadily wound back our releases to the point where we are releasing only to meet minimum flow requirements with the exception of the period around the flushing flow where we created the same flow conditions before and after the flush while the in-river assessments were being carried out by NIWA.

The lake level has very slowly dropped through January and February but I expect we will still be above 390m at the end of March. The graphs of lake level are presented on page 5.

The dissolved oxygen level appears to have bottomed out at around 56% and it looks unlikely we will need to run the aeration system. We have had a compressor on standby since mid-January.

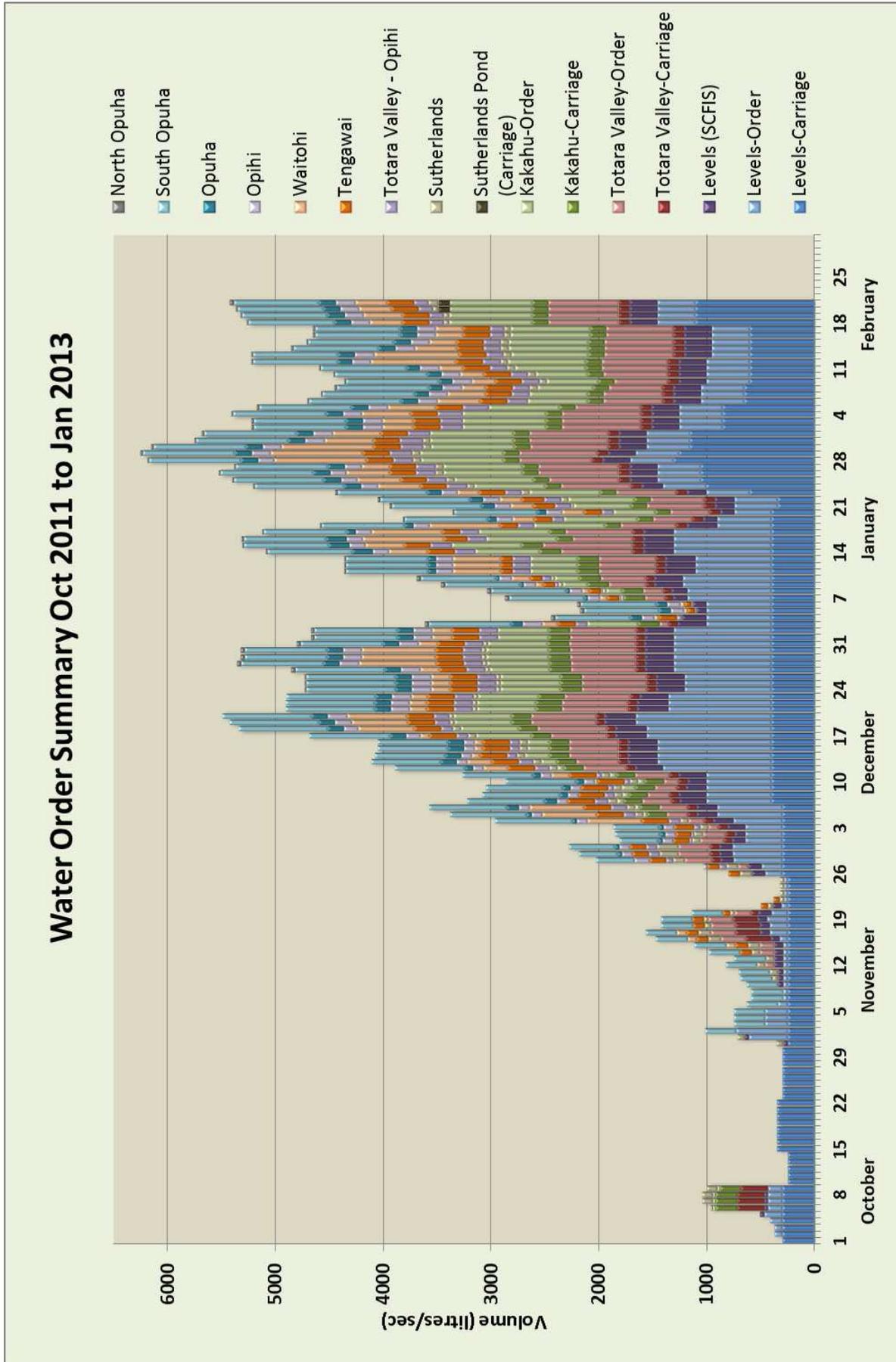
We have had to replace the lake level measurement equipment on the lake tower and there have been some commissioning problems which NIWA (supplier) are sorting out.

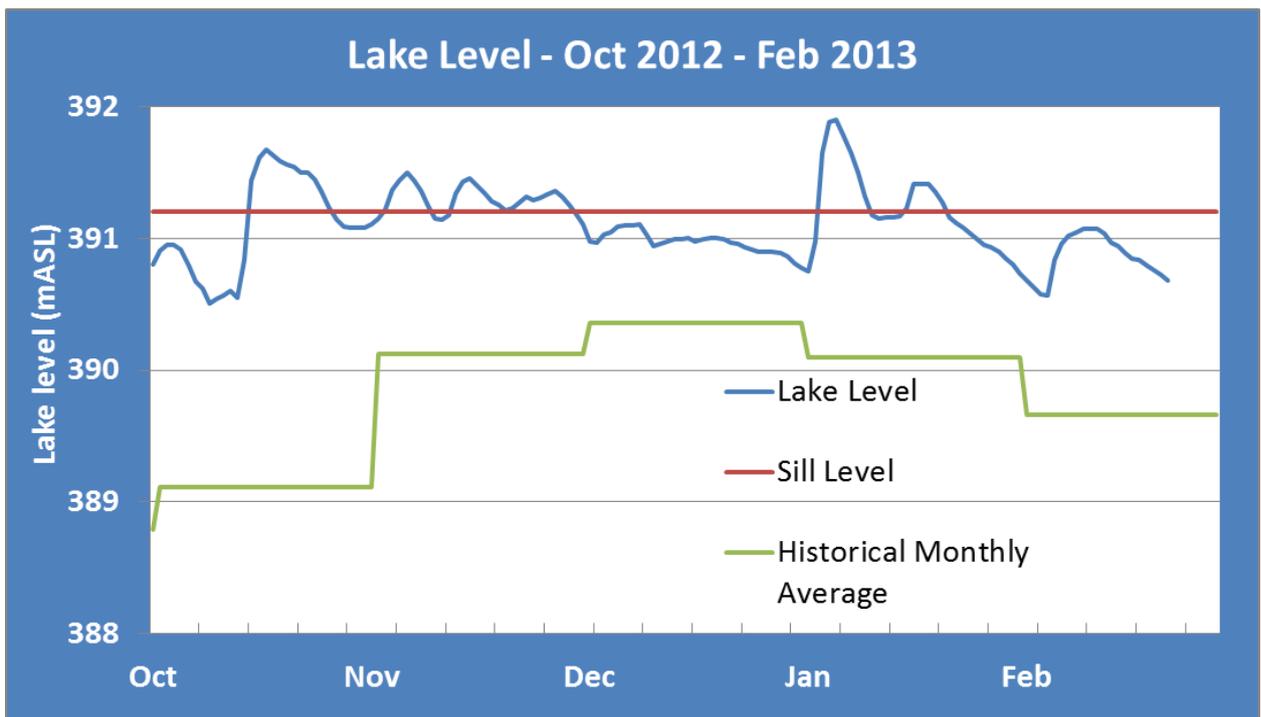
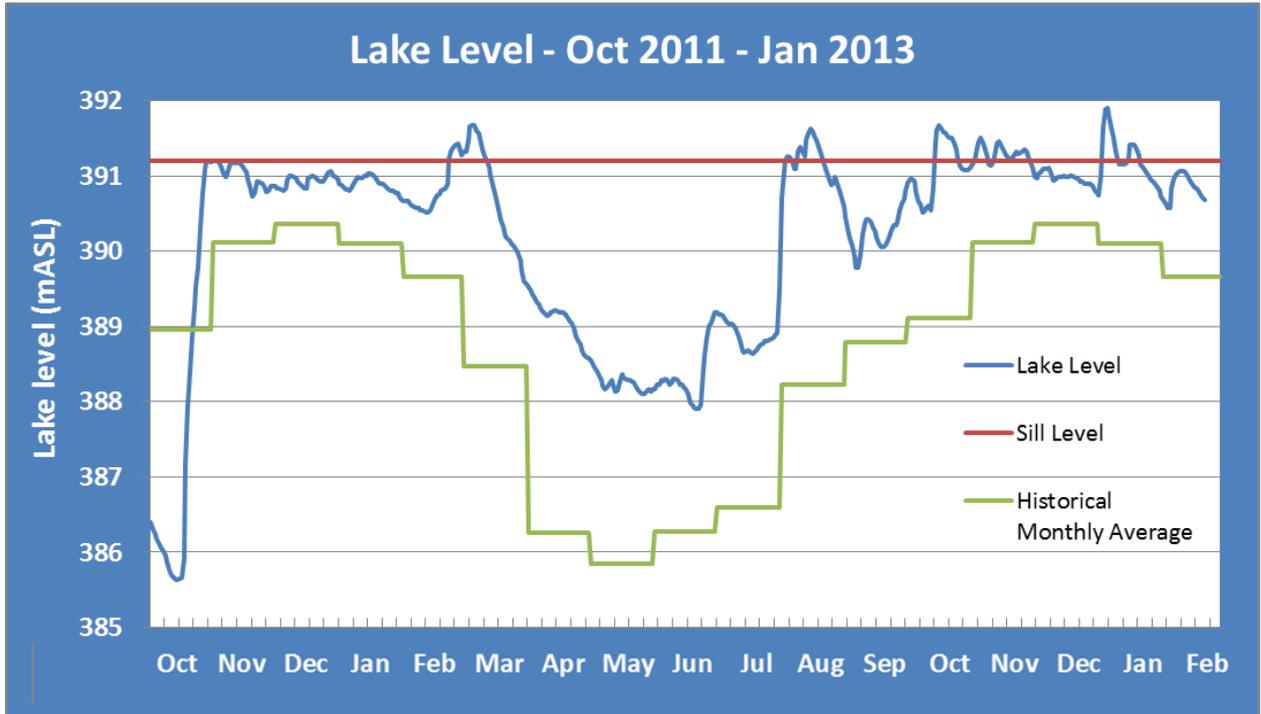
Flushing Flow Trial

A trial flushing flow was carried out on 13th February. The objective was to sustain a 40 cumec flow for two hours and to assess the effectiveness in removing algal growth. River gauging checks were also carried out at the Downstream Weir and Skiptons gauges.

NIWA were engaged to assist with the in-river assessments of algal cover and conducted surveys in late January, pre-flush, post-flush and will complete the final assessment two weeks after the flush.

cont'd page 5





Flushing Flow Trial – (cont'd from page 3)

In the event we did not achieve the target 40 cumec flows due to a limit on the gate opening rate and also inaccuracies in the river flow gauge above 20 cumecs. The maximum we can discharge through the existing gate appears to be approximately 32 cumecs.

I am still awaiting quantitative results from NIWA by their initial feedback confirms that while there was a lot of algae removed, a reasonable amount of didymo especially remains at the river edges. Phormidium appears to have been more successfully cleared with the flush. The

reassessment in two week's time will provide an interesting gauge of the regrowth rates which is an important aspect in determining the frequency that we may adopt for a seasonal flush regime.

I was pleased with the support and coverage we got from the local media of the event.

Overall, although we did not achieve the flushing flow sought, the trial has been very successful in advancing our knowledge and understanding of creating a flushing flow and the effect it might have.

Asset Maintenance and Management

Safety

No incidents.

We are continuing to erect safety signage around the schemes.

Scheme Maintenance

There have been several minor incidents around the schemes – water overtopping the race (Levels) and also restriction to users at the lower end of the scheme (Kakahu) during periods of very high water demand. The Sutherlands scheme tripped on over current (electrical) which we suspect originated from an Alpine network problem.

Maintenance activities have been predominantly short term activities to maintain availability.

Power Station and Dam Maintenance

The small project to construct a safe access up the dam face adjacent to the spillway was completed in early February.

There has been no unplanned maintenance required at the power station or dam.

The minor remedial actions required on the Power Station crane have been completed.

Major Maintenance

Plant Condition Assessment – no major condition assessment activities were carried out.

Capital Works

Downstream Weir modifications – we have initiated the detailed design and consenting phase of this project and have had preliminary discussions with ECan regarding the consenting requirements.

Standby Generator for Power Station – The new stand-by generator is being installed 18th-22nd February with commissioning the following week.

Management Reporting

Staff

Health & Safety

No safety incidents.

I will present an outline of our Health & Safety Management System to the Directors at our Board meeting.

Operations Staff

No change.

Training and Development

Irrigation Managers Training – I have discussed with INZ the opportunity for irrigation manager/operator training at Opuha before the end of the season. We have identified the first week in April as a likely period for this one-day course.

I attended a half day workshop on the review of industry training and qualifications framework for the irrigation industry and I will have a small on-going involvement in the scheme operators aspects of this process.

Share Tender

We have had both SCFIS and Kakahu shares available for purchase and lease over the last two months but there has been little interest shown in them to date.

Dam and Power Station Management and Energy Contracts

Energy Contracts

Our fixed contract prices continue to provide some good stable prices compared with spot prices although these have firmed reasonably well in the last month. The average spot price at Albury was \$42.22/MWh in January and month to date is \$40/MWh for February.

With very good storage we are in a good position to capitalize on the good contract prices for March and April (\$100 and \$114/MWh)

There has been a reasonable amount of media coverage regarding the reduced demand and over supply of electricity with a resulting lowering of the medium term price forecasts.

		PPA - contracted prices											
\$/MWh		Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13
Bus	Day				\$ 63.56	\$ 61.86	\$ 61.73	\$ 63.49	\$ 74.55	\$ 100.60	\$ 114.80		
Day	Night				\$ 46.15	\$ 44.49	\$ 44.82	\$ 43.05	\$ 48.19	\$ 63.04	\$ 88.13		
Non-	Day	Spot price at ABY0111 less 2.5%			\$ 47.05	\$ 45.46	\$ 45.86	\$ 43.27	\$ 49.71	\$ 66.10	\$ 91.48	Spot price at ABY0111 less 2.5%	
bus	Night				\$ 45.32	\$ 43.67	\$ 44.01	\$ 41.32	\$ 46.62	\$ 61.12	\$ 85.86		
Average					\$ 53.94	\$ 52.53	\$ 51.43	\$ 51.54	\$ 59.49	\$ 78.61	\$ 99.64		
Budget													
	MWh	588	1,104	1,725	2,064	2,709	2,173	2,094	1,203	2,897	1,819	1,500	1,682
	Revenue	\$58,809	\$110,410	\$172,463	\$111,357	\$142,313	\$111,744	\$107,913	\$71,559	\$227,715	\$181,227	\$164,991	\$185,074
	Average Price	\$ 100	\$ 100	\$ 100	\$ 54	\$ 53	\$ 51	\$ 52	\$ 59	\$ 79	\$ 100	\$ 110	\$ 110
Actual													
	MWh	1,412	4,723	2,570	4,452	4,027	3,342	3,629					
	Revenue	\$123,678	\$296,130	\$111,587	\$244,834	\$219,442	\$182,088	\$194,638					
	Average Price	\$ 88	\$ 63	\$ 43	\$ 55	\$ 54	\$ 54	\$ 54					
	Diff	\$64,869	\$185,720	-\$60,875	\$133,478	\$77,130	\$70,345	\$86,724	-\$71,559	-\$227,715	-\$181,227	-\$164,991	-\$185,074
	YTD	\$64,869	\$250,589	\$189,714	\$323,191	\$400,321	\$470,666	\$557,390	\$485,831	\$258,116	\$76,889	-\$88,102	-\$273,176

Operations and Maintenance Contract

A quarterly review meeting with TrustPower is now scheduled for mid-March. I am planning to travel to Tauranga to meet up with a number of TrustPower personnel to cover asset management, operations and electricity contracting.

Strategic Water Projects

Levels Plain AN Water

We have finalised and signed the MoU on AN water use.

Strategic Storage options for OWL

I have finalise a brief for the study by Aqualinc on strategic storage and also to assess the impact a change of consent condition to enable us to move to a rolling 24 hour target flow at Saleyards Bridge.

Terry Heiler is assisting me with this study and also some additional work in this area relating to modeling for better river control.

Colletts Property

I have received a legal opinion from GTR Law on the status of the agreement we have for supply of water to the Collett block. This letter is included and covered as a separate Board Paper.

Andrew Leete and I met with Peter Scott and Russell McVeagh (lawyers) on 31st January.

I have subsequently met with Peter at Opuha to discuss some aspects of water supply.

I have asked Andrew Leete to attend our next Board Meeting to contribute to a discussion on this topic.

Tekapo Water Project (New Water)

We are still working to finalise a terms of reference for this study with Genesis and Meridian. There continues to be, in my opinion, a resistance from the generators to undertake a focused study on a pricing regime for water from Tekapo and the scope that they are proposing continues to broaden while avoiding some key aspects around a potential commercial arrangement.

I am meeting with Dennis Jamieson and Terry Heiler on 26th February to work on a response to the generators latest proposal.

I have met with Peter Scott to update on Regional Committee activities relating to new water for South Canterbury and the discussions have been very useful and have confirmed the need to continue with the proposed study on Tekapo.

Restructuring of OWL

I have received a revised proposal from David Stock and Andrew Leete and we are presently editing that document in order to send it to KPMG for a review on tax implications.

Relationships

I have met with Mackenzie District Council to discuss our operation at the dam and lake and the relative responsibilities regarding the lake margins and amenities. We also discussed potential support for recreational activities associated with the lake.



Tony McCormick
22nd February 2013

Attached:

Generation Summary

Attachments:

Generation Summary

