

**MINUTES OF MEETING OF THE BOARD OF
OPUHA WATER LIMITED
HELD 2.30PM, WEDNESDAY 27th FEBRUARY 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: N Hyslop (for lateness)

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

PREVIOUS Correction to the Previous Minutes

MINUTES: Mr Wells corrected the error on page 5 of the minutes from 'Managing Within Limited' to 'Managing Within Limits'.

It was **Resolved** that the Minutes of Meeting of the Board on 30th January 2013 be confirmed as a correct record of that meeting. This was moved by Mr O'Sullivan and seconded by Mr Wells. The motion was carried.

CONFLICTS OF Mr Lambie added his involvement as Chancellor at Lincoln University to the register.

INTEREST: Mr Gormack updated the register with Secretary of Hunter Downs Irrigation Trust.

Mr O'Sullivan added his interest as Trustee of Hunter Downs Irrigation Trust to the register.

Mr Reid added his position of Director of WA Systems Limited to the register.

MATTERS **Letter to KPMG Auditors**

ARISING (from Mr McCormick advised that he is meeting with KPMG in the coming weeks.

previous

Action Point: Mr McCormick

minutes):

Repossession of Diesel Unit from Mr Pemberton

Mr McCormick advised that he is keen to repossess the diesel unit from Mr Pemberton and would prefer the unit returned to OWL's yard.

Mr O'Sullivan offered to speak with Mr Tim O'Sullivan as he originally initiated the purchase and sale of the unit with Mr Pemberton. The unit was used on the Sutherlands scheme during construction.

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 January 2013. The current operating position is \$649k better than budget predominantly due to good generation revenue - all months except September have been ahead of budget. Expenditure to date is \$126k below budget and underspent areas such as consultants (\$125k) are expected to increase in the coming months.

Mr McCormick highlighted that budgeted income included \$7k per month from November for incremental water charges for the Collett block however this commercial arrangement has not been implemented. Expenditure for January was 4% over budget (\$14k) and main areas for over spend for the month was dam maintenance, legal fees and interest charges. Legal fees have increased due to extra activity relating to the restructure and Colletts water.

Cash Funds

Following the discussion at the previous board meeting regarding cash funds held in the call account, Mr McCormick advised that \$250k has been transferred to a term deposit which expires mid June 2013 to allow for a review of funds before year-end.

Mr McCormick added that the remainder of funds in the call account, currently sitting around \$800k - \$900k, has been set aside to be allocated against repaying long-term debt.

Mr O’Sullivan asked whether there is an option to pay off long term debt on swap. Mr McCormick replied that he had this discussion with ANZ and yes we can however there is a cost equivalent to a ‘break fee’ that would apply so it is generally not effective in saving costs overall.

It was agreed that all available cash funds be allocated to repay the \$1m component of the long-term debt (this component is not subject to swap rates) when the monthly renewal is up on 4th March.

Action Point: Mr McCormick / Mrs Bennett

Operations

Mr McCormick advised that all schemes are fully operational and have been running at very high capacity. A few constraints have been exposed in each of the schemes and Mr Pagan has been working through both short-term solutions and identifying issues to address the problems in the winter maintenance period.

Irrigation

Demand has been very steady and high due to the recent weather. Flood flows have been operated on a regular basis within Levels and several irrigators have now reached their 80% entitlement and a strategy for this has been agreed with LPIC.

A discussion was held on irrigation water users who are close to 80% and those who may reach 100% at the end of the season and what penalties should be applied. Mr Gormack commented that the water supply agreement states the penalty that shall be applied.

It was noted that LPIC charges its own irrigators for using over entitlements. OWL looks at LPIC as a whole, not on an individual basis as they operate under a single consent.

Mr Gormack highlighted that the water order summary showing Levels order and carriage water has been graphed wrong from late January through to February.

Generation

Generation was high in January due to lake level pressure. Total generation in January was 3,629MWh, the power station ran for 5319 hours (71%) and the average release from the downstream weir was 13.1 cumecs.

Lake Levels and Storage

Mr McCormick advised that releases have been wound back to meet minimum flow requirements with the exception of the flushing flow trial. From tomorrow environmental flows are increased and will be another 60% from what previously has been released. The lake level has slowly dropped through January and February and expects the lake to still be above 390m at the end of February. A graph of lake levels for January and February was presented in the report.

Mr McCormick highlighted that the dissolved oxygen level appears to have bottomed out around 56% and it looks unlikely that the aeration system will need run.

Mr McCormick advised that he was reviewing water quality results with ECan last week and it clearly showed an increase in manganese and cobalt immediately below the Dam which are almost certainly a result of low oxygen conditions at the bottom of the lake.

The lake level measurement equipment on the lake tower has been replaced and NIWA have been sorting out commissioning problems.

Flushing Flow Trial

A flushing flow trial was carried out on 13th February. The flushing flow trial created an excessive debris load for KIL intake and the scheme was shut down immediately following the flush. In future, we would plan to shut the scheme down ahead of the flush.

The objective was to sustain a 40 cumec flow for two hours and then assess the effectiveness in removing algae growth. River gauging checks were carried out at the Downstream Weir and Skipton gauges. The target of 40 cumecs was not achieved due to limitations with the gate opening rate and appears that the maximum discharge through the existing gate is approximately 32 cumecs.

NIWA were engaged to assist with algal assessments and conducted two surveys in late January.

They will be completing the final assessment two weeks following the flushing trial.

NIWA's initial feedback confirms that while a lot of algae was removed, a reasonable amount of didymo remains at river edges. Phormidium appears to have been more successfully cleared with the flush.

A reassessment two weeks following the flush will provide an interesting gauge of the regrowth rates which will be an important aspect of determining the frequency for a seasonal flush regime.

Mr McCormick reported that between the testing in January and flushing flow trial in February the growth of the didymo has been phenomenal which appears to be related to recent weather patterns. The trial has been successful in advancing knowledge and the understanding of what effects a flushing flow may have.

Mr McCormick commented that he was pleased with the support and coverage from the local media of the event and plans to run another repeat trial in March or April. Mr Howey commented that it would be good to look at external funding asap before the next trial takes place if possible.

Action Point: Mr McCormick

Asset Maintenance and Management

Scheme Maintenance

Mr McCormick reported minor incidents around the schemes - water overtopping the race in Levels and restriction to users at the lower end of Kakahu during periods of very high demand. The Sutherlands scheme tripped on an electrical over current which is suspected to have originated from an Alpine network voltage problem.

Power Station and Dam Maintenance

Mr McCormick advised that the small project to construct safe access up the dam face adjacent to the spillway was completed in early February. No unplanned maintenance has been required at the Power Station or Dam and the minor remedial actions required on the Power Station crane after its certification testing have been completed.

Sutherlands Pipeline

Mr McCormick updated the Board on the Sutherlands scheme repairs and advised that Tonkin & Taylor have been to assess the dislodged pipe in the river and their advice was to leave it and possibly put some ballast on top. Mr McCormick added that if the pipe is left we will need to get approval from ECan as the consent says that the pipe should be buried at least 1.3m deep.

Major Maintenance & Capital Works

No major condition assessment activities were carried out.

Downstream Weir Modifications

Mr McCormick advised that he has initiated the detailed design and consenting phase of the project and he has had preliminary discussions with ECan regarding consent requirements.

Standby Generator for Power Station

The new stand-by generator was installed last week and is due to be commissioned.

Management Reporting

Health & Safety Manual

Mr McCormick advised that there is still some work to be done on the manual and intends to present this to Directors when he feels comfortable with the content and that what is in place works. Mr McCormick advised that a Board paper will be provided to outline the background.

Action Point: Mr McCormick

Training & Development

Mr McCormick has arranged the Irrigation Operators And Managers Training Day with INZ and it has been scheduled for Thursday 4th April. A newsletter will be sent to shareholders at the beginning of March. The full day will involve half theory and the remainder on farm and Mr McCormick plans to make contact Mr Hayden Cartwright to see if it is possible to use his farm. It's likely that the training will be held at the Pleasant Point Rugby clubrooms rather than Opuha House due to limited space.

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

The fixed contract prices continue to provide stable prices when compared to spot prices and the average spot price was \$42.22/MWh in January and February to date is \$40/MWh. With good storage we are in a good position to capitalise on good contract prices for March and April (\$100 and \$114/MWh).

Operations & Maintenance Contract

The quarterly review meeting with TrustPower has been scheduled for mid-March. Mr McCormick advised that he will be travelling to Tauranga to meet up with key TrustPower personnel to cover asset management, operations and electricity contracting.

Strategic Water Projects

Levels Plain AN Water

The MoU with Levels on AN water use has been finalised and signed.

Strategic Storage Options for OWL

Mr McCormick advised that he has finalised a brief for the Aqualinc study on strategic storage and also to assess the impact (benefit) of a possible change of consent condition to enable us to move to a rolling 24-hour target flow at Saleyards Bridge. Mr Terry Heiler will be assisting with this study and he will also be engaged to complete additional work around modelling for better river control.

Tekapo Water Project (New Water)

Mr McCormick advised that we are still working towards finalising a terms of reference for this study with Genesis and Meridian. Mr McCormick is meeting with Mr Dennis Jamieson and Mr Terry Heiler on 26th February to work on a response to the generators' latest proposal.

Action Point: Mr McCormick

Relationships

Mr McCormick has met with the Mackenzie District Council to discuss operation at the dam and lake including the relative responsibilities regarding the lake margins and amenities.

A discussion was also held around potential support for recreational activities associated with the lake. Mr McCormick suggested that the Board consider sponsoring South Canterbury Rowing and providing a facility for the storage of their boats.

Collett Property

The Chairman welcomed Mr Andrew Leete to the meeting at 3.00pm.

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

Amalgamation & Restructuring of OWL

Mr McCormick advised that he met with Mr Leete and Mr David Stock recently to progress with a proposed structure to present to the Board.

Mr O'Sullivan commented that Tengawai minimum flows are nearing minimum flow limits and they will be on restrictions at the end of this week, however the lake is full and more restricted irrigation areas such as Tengawai need to be reflected. A discussion was held around how the structure needs to allow for different classes of shares for reliability and to reflect different irrigation areas and charges.

Mr McCormick advised that they plans to meet with KPMG advisors on tax issues once the draft amalgamation and new structure is completed. He spoke with them back in November and potential issues were raised then so these can be identified in the draft. A presentation will be made to the Board and then out to the schemes.

A discussion was held around global consents and whether group consents such as LPIC, KIL and TVI should be transferred to OWL. Further discussion was held around SCFIS individual consents

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for surface and groundwater takes and whether these should also transfer to OWL as the consent holder. It was agreed that this was an area to be further explored.

The potential of having to issue a prospectus was brought up and Mr Leete advised that it is possible that OWL could become a co-operative company which has less cost involved and only requires more limited prospectus that often remains 'evergreen' and only needs updating on large company changes. We would be required to provide new shareholders with a copy of the financials and an investor statement.

Mr Howey suggested that Mr McCormick and Mr Leete look at the pros and cons of a co-operative company vs a standard company and report their findings back to the Board. It was agreed that the amalgamation and restructure needs to be achieved working on the basis that no shareholder will be required to pay addition costs to as part of the company changes.

Mr Leete and Mr McCormick are meeting within the next two weeks to put something more comprehensive together to present to the Board. Mr Lambie added that a timeline of the processes involved going forward would be useful. Mr McCormick commented that he is working towards finalising this this year.

The Board thanked Mr Leete for his attendance and he left the meeting at 4.30pm.

Action Point: Mr McCormick

FINANCIALS: January 2013 Financial Statements

It was Resolved that the Financial Statements for the month ended 31st January 2013 be Received. This was moved by Mr Wells and seconded by Mrs Hyslop. The motion was carried.

Accounts Receivable

Mrs Bennett commented that Mrs Gardner received a phone call from Mr Allan Lambie this morning, partner of Mrs Stella Doubleday, and he advised that the property has been sold and a cheque to clear her very overdue account would be received in the next couple of days.

Mrs Bennett added that some of the listed overdue debtors relate to dishonoured direct debits and the issues arising from bank authorities have since been sorted.

It was noted that a Debtors Policy was still to be drafted and presented to the Board for review.

Action Point: Mrs Bennett

**GENERAL
BUSINESS:**

Board Self-Assessment

Mr McCormick advised that the Board Self-Assessment has been scheduled for March 2013.

Action Point: Mr McCormick

Raumea Farms Ltd

Mr McCormick advised that Mr Dan Kelly has been in contact with concerns that his leased shares are due to expire with Mr Mark Ryan and the lease will not be renewed.

Mr Kelly would like to work through the allocation of incremental water that was carried out initially as he feels that a more equal allocation of the total incremental water amount across each of the Sutherlands users should have been done. Mr McCormick added that it is very hard to put a metric around how much extra water is there. Mr Gormack commented that a commercial solution is there – that being shares are available in SCFIS for purchase.

The next Board meeting was scheduled for Wednesday 27th March 2013 @ 1.00pm.

There being no further business, the meeting closed at 5.35pm.

Chairman

Date

