

Chief Executive Board Report

March 2013

Contents

Summary	1
Board Report Summary	1
Board Papers	1
Financials	1
Operations	3
Irrigation	3
Generation	3
Lake Levels and Storage	3
Flushing Flow Trial	5
Asset Maintenance and Management	6
Management Reporting	7
Staff	7
Share Tender	7
Dam and Power Station Management and Energy Contracts	7
Strategic Water Projects	8
Restructuring of OWL	9
Audit Review	9
Field Visit to Australia – IrrigationNZ, July 2013	9
Board Self Evaluation	9
ASM	9
Attachments:	10
Generation Summary	10
Itinerary for Proposed Australian Field Trip	11

Chief Executive Board Report

March 2013

Summary

Board Report Summary

- Continuing high irrigation demand interrupted by brief rain
- Very good lake storage level although low inflows have seen level drop steadily
- Major power station outage planned for June

Board Papers

OWL Health & Safety Management System – Overview for Directors. (to be covered by a presentation at the Board Meeting)

Financials

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

Overall Position

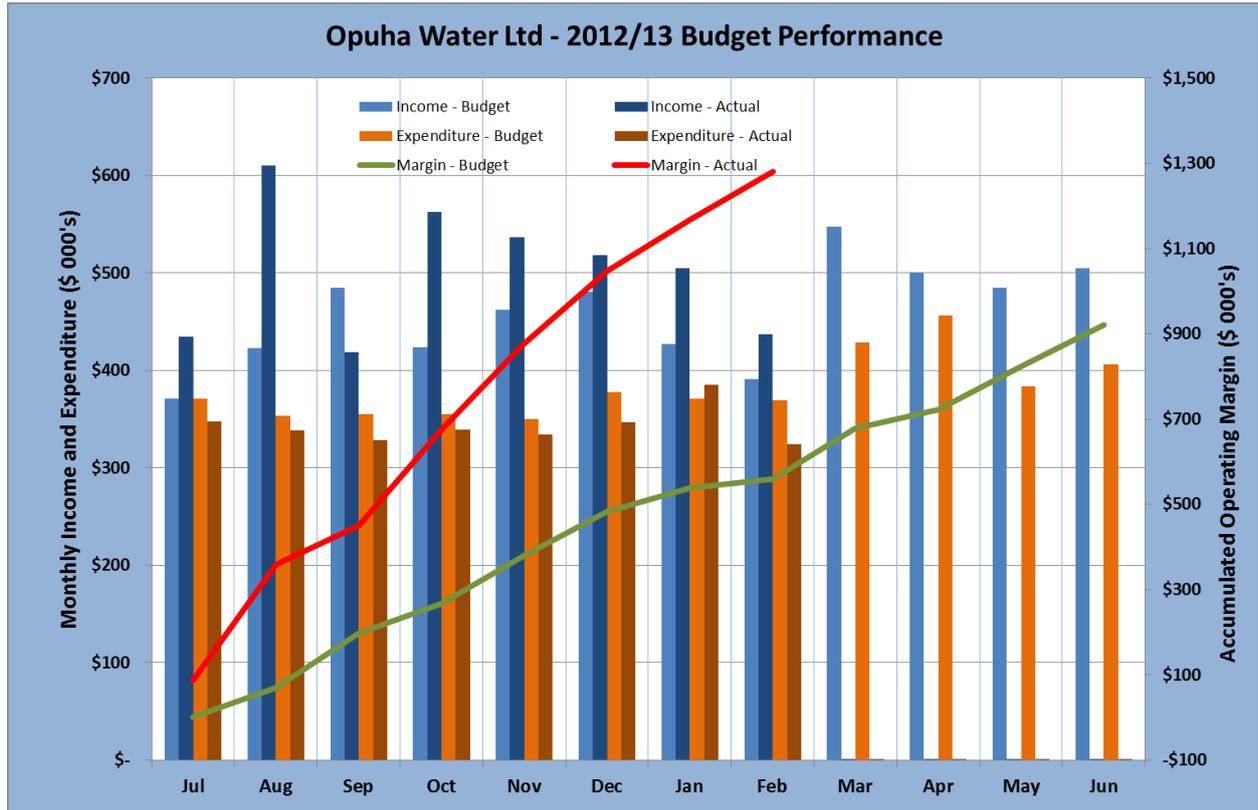
The current operating position is \$746k better than budget with good generation revenue still the main driver of that – all months except September have been ahead of budget (+\$607k). Expenditure to date is \$171k below budget driven still by underspend in consultants (-\$128k).

Month - February

	Actual	Budget	Variance
Income	\$437k	\$391k	\$46k
Expenditure	\$323k	\$370k	\$46k
Operating Profit (Loss)	\$113k	\$21k	\$92k
Depreciation	\$78k	\$77k	\$1k
Overall Profit (Loss)	\$35k	(\$56k)	\$91k

Year to Date – February

	Actual	Budget	Variance	Annual Budget	Forecast Outturn
Income	\$4,041k	\$3,464k	\$577k	\$5,501k	\$6,100k
Expenditure	\$2,734k	\$2,904k	(\$171k)	\$4,589k	\$4,589k
Operating Profit (Loss)	\$1,307k	\$559k	\$748k	\$912k	\$1,511k
Depreciation***	\$545k	\$544k	\$1	\$941k	\$941k
Overall Profit (Loss)	\$683k	(\$62k)	\$746k	(\$29k)	\$570k



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 \$67/MWh.

Electricity Sales Revenue

		Actual	Budget	Variance
February	Revenue	\$121k	\$72k	\$50k
	MWh	1,813	1,203	610
	Average Price	\$67	\$59	\$8
	Avg Spot Price	\$59.19	(\$63.48 for Opuha)	

Expenditure

Expenditure for February was 12% under budget (\$46k). Main areas of under expenditure for the month were consultants, interest charges and maintenance expenses. Legal fees are running well ahead of budget (YTD +\$27k, +192%) due to extra activity relating to the restructure and Colletts water. Below budget interest charges seem to be partly an adjustment for the over budget costs in the previous month as well as reflecting the shorter month.

Cash Holdings

We have paid \$900k off our term debt (part of the \$1m that is not subject to swaps) and have \$250k on term deposit (exp June 2013).

Operations

February was the driest and hottest month experienced locally for the past two seasons. All schemes are fully operational and have been running at very high capacity. The good climatic conditions have also encouraged vegetation growth in and around the supply races and additional work has been required in this area.

Irrigation

Irrigation demand has sat consistently above four cumecs throughout February and peaked around 5.6 cumecs in mid-February.

There were two incidents in February of overtopping races seeping into paddocks and disrupting harvest schedules. We have worked with the affected farmers to mitigate or compensate for the disruption caused.

High algal debris loading in the river has caused problems at the Kakahu intake. A moderate step change increase in river flow has been enough to dislodge algal debris requiring constant attendance by staff at the screen on two occasions (as well as the flushing flow).

The irrigation season summary follows overleaf.

Generation

Generation was moderately high for February driven by the steady irrigation demand and also the flushing flow mid-month. Overall February is historically a low output month. The step up from 3.5 to 7.5 cumecs has increased generation in March which is consistently one of our highest generation months.

Total generation in February was 1,813MWh and the station ran for 294 hours (44%) and had 58 starts. Average release from the downstream weir was 6.6 cumecs.

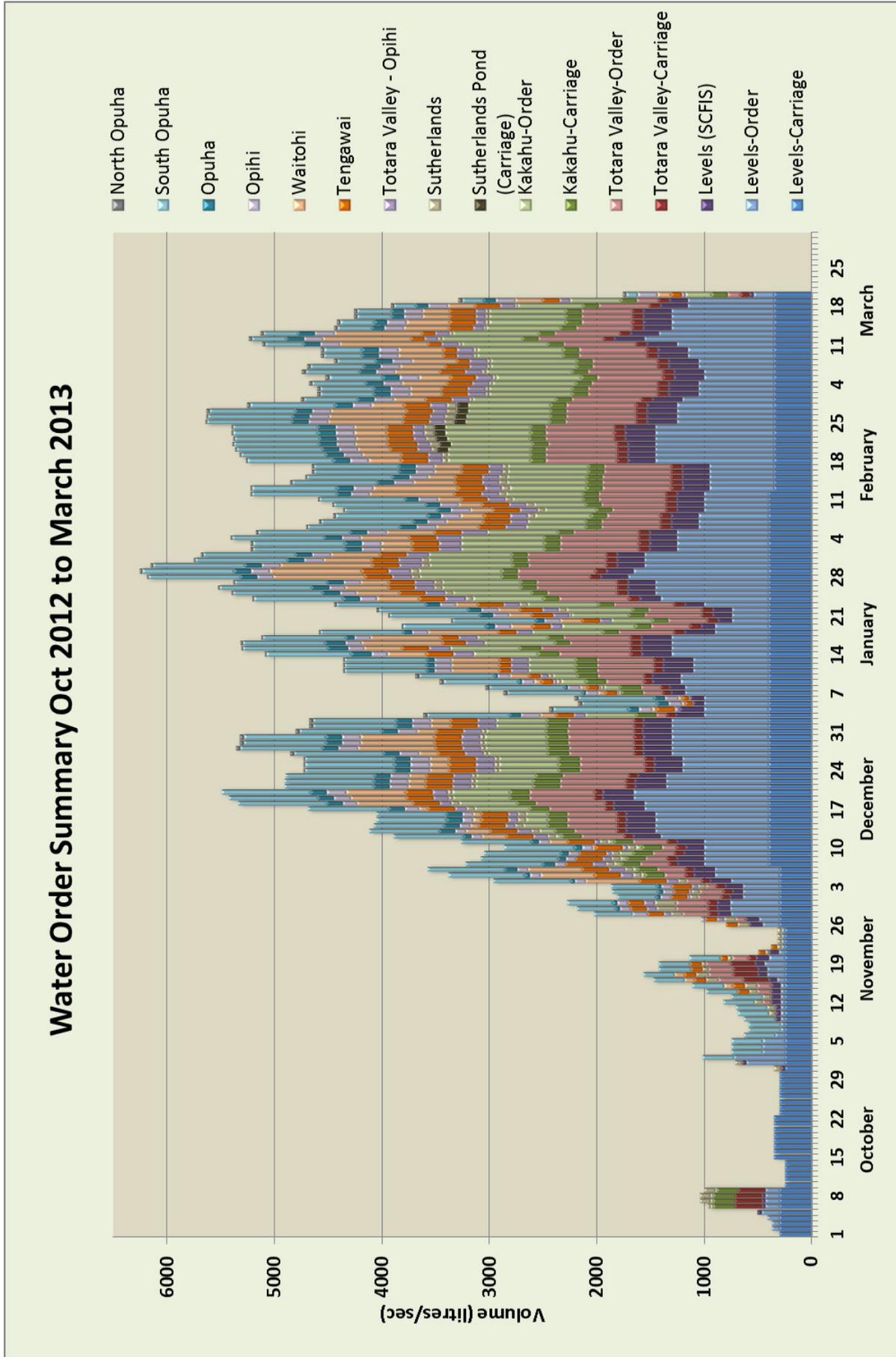
Lake Levels and Storage

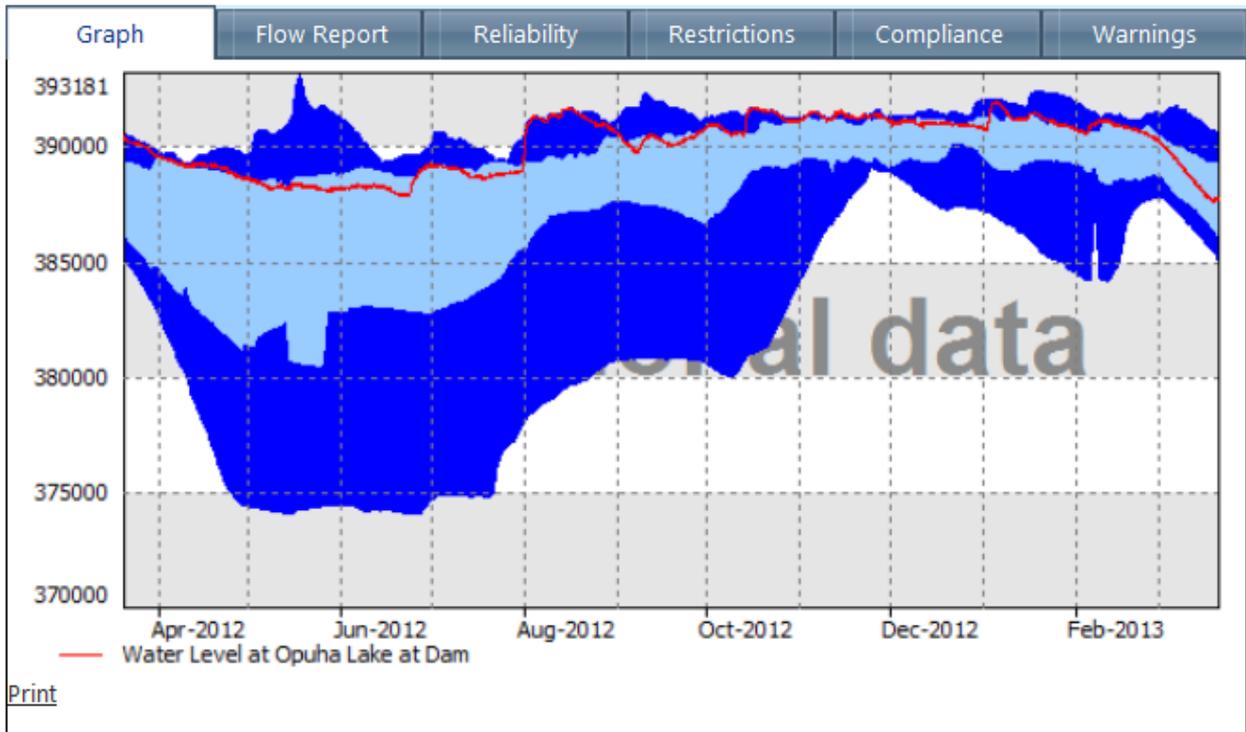
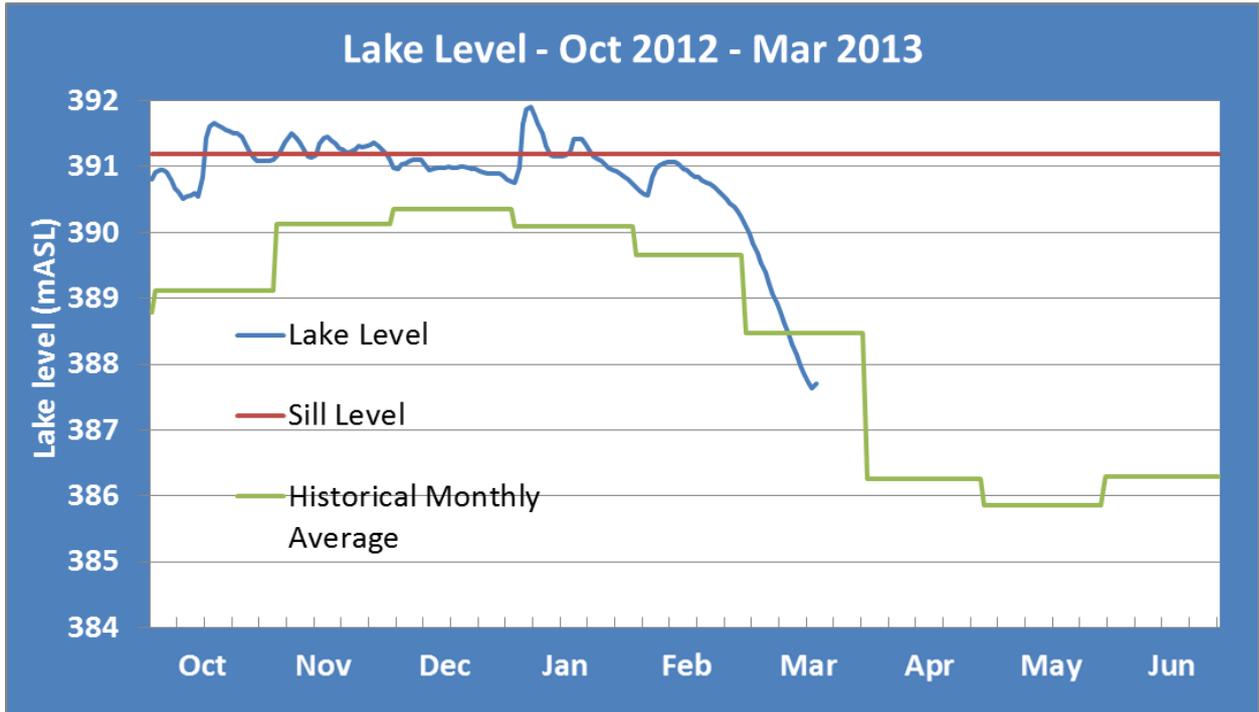
The lake level dropped steadily through February as inflows receded below the level of the steady draw off. With the step up in downstream river flows required for March, the lake level has continued to fall at approximately 150mm per day and, at that rate was likely to hit 385m (50%) in the first week of April. The rain 17th-19th March has eased the decline and provided approximately 6 days relief compared with the previous rate.

A meeting of OEFrag was convened in light of the projected storage levels (pre-rain) to consider options and the possibility of a Water Shortage Direction at 385m. The outcome of the meeting, in light of the rain and the slightly improved position, was to continue to monitor the lake level decline. A 385m level (75% allocation) WSD in April would not have a significant effect on release requirements since there is no change in required river flow (it remains at a very high 8 cumecs) and a 75% constraint on irrigation would have little impact on total demand.

There have been problems getting the replacement lake level recorder commissioned and NIWA have been working on the problem for a month now. They have indicated this week that they have devised a fix for the problem.

Refer comments under Dam Maintenance on the plans to carry out a penstock inspection which requires the lake at 385m or lower.





Flushing Flow Trial

I am awaiting the final report from NIWA on the flushing flow trial was carried out on 13th February. I have had interim feedback following their post-flush river survey that indicated the flush had been reasonably effective in the central channels but that significant amounts of didymo still remained on the outer areas of the river. The flush had generally been more effective in shifting Phormidium from the external areas.

NIWA have been back to carry out their final assessment on the 27th February with an observation that the Phormidium seems to have bounced back more so than the didymo.

This initial feedback reinforces to me that there is still some way to go to understand what an effective management regime for the river may entail and that flushing flows on their own will not be the complete answer.

NIWA have advised that the draft report should be available at the end of March and I intend to make this available to the OOP Zone Committee and will be presenting it to the SCWEG meeting on the 15th April in Timaru.

Peter Shutt prepared a very supportive article that was published in a supplement to the ChCh Press on 4th March that reported the flushing trial and promoted the case that at least Opuha "... are doing something while others are talking."

Asset Maintenance and Management

Safety

No incidents.

We are continuing to erect safety signage around the schemes and have completed the installation of safety cages on the fixed access ladders at the DSW.

Scheme Maintenance

Scheme maintenance has focused mainly on vegetation control to maintain high flows in the distribution races.

The intake screens at all three schemes have required repair and/or ongoing maintenance and we need to look at some enhancement to the KIL screen to handle surges of algal debris that are triggered even by moderate step changes in river flow.

We have determined the final scope of repair for the Sutherlands pipeline which involves only moderate work on the right bank to rebury the exposed line.

Power Station and Dam Maintenance

The overflow embankment at the Downstream Weir has been problematic again. Slumping on the upstream face was detected on 1st March and we lowered the operating level and a repair was carried out on the 5th March. On the 9th March Mark Williams advised us of a leak that was evident from the centre of the downstream face of the embankment. We have again lowered the maximum operating level of the pond and we are working with T&T on the repair options.

There have been on-going problems with the new lake level sensor that NIWA are working on. The elver bypass pump at the DSW has failed and is being assessed for repair/replacement. It is my understanding that the main upstream migration period will have concluded recently but we are treating this outage with some urgency.

We have initiated the planning of an outage to carry out a penstock inspection. This inspection is an activity that is overdue and has been postponed previously because the lake level has been too high to allow the diving activities that are an essential part of the inspection/isolation procedure. At this stage we are targeting the first two weeks in June and we are scoping up a major power station inspection/maintenance programme to coincide with this. We will need to carry out a dive inspection at the intake tower prior to the outage and will likely have to lift the isolation plug from the water for some maintenance. Over all this is a major maintenance activity and certainly the largest single maintenance programme we have planned in recent years.

We have scheduled the Annual Dam Safety inspection for Tuesday 26th March.

I have commissioned a major overhaul and repair of the dam piezometer installation to be carried out 25th to 27th March. This is a maintenance item that has remained outstanding for several years.

Major Maintenance

Plant Condition Assessment – no major condition assessment activities were carried out. The outage in June will complete much of the outstanding inspection and assessment work.

Capital Works

Downstream Weir modifications – T&T are coordinating the detailed design and consenting phase and are assisting me with a consultation package as part of the consenting process..

Standby Generator for Power Station – The new stand-by generator has been installed; however final commissioning has not yet been completed.

New Storage Facility - We are intending to establish a permanent workshop and storage facility at Opuha House to replace the two containers in the off season this year.

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. Kerry Bell's contract concludes at the end of April. We are considering retaining Kerry for a limited period beyond this for some specific project work.

Training and Development

Irrigation Managers Training – 4th April at Pleasant Point. We have collaborated with INZ to have this course at Pleasant Point and we have circulated notices to all our shareholders. To date the response/uptake has been very slow (four enrolments as at 20th March) and I would like to request the assistance of all Directors in promoting this course.

Share Tender

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

Dam and Power Station Management and Energy Contracts

Energy Contracts

March has seen Spot Prices rise to unprecedented levels as hydro storage levels have dropped dramatically from very high levels in January. This is the first month this season that our fixed contract prices will be below average Spot Prices. The constraints in our operation from the restricted Regulating Pond levels has meant a bit of running outside of our preferred daytime price period however TrustPower continue to operate the power station as best they can to maximise our contract revenue.

March is traditionally a high generation period and this is reflected in our budget generation and revenue figures. At this stage I would estimate that we will only just make budget on both of these this month. By the end of March we will have actually achieved our full year generation revenue budget and exceeded our full year generation amount. It has been a fortunate year for water availability.

I have met with TrustPower to discuss the performance of the contract to date and also to look ahead at renewal options and enhancements. We are planning to initiate some preliminary retailing options, starting with the Sutherlands Pump facilities.

Electricity Generation Revenue 2012/13												
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-bus 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	1,813				
Revenue	\$123,678	\$296,130	\$111,587	\$244,834	\$219,442	\$182,088	\$194,638	\$121,141				
Average Price	\$ 88	\$ 63	\$ 43	\$ 55	\$ 54	\$ 54	\$ 54	\$ 67				
Diff	\$64,869	\$185,720	-\$60,875	\$133,478	\$77,130	\$70,345	\$86,724	\$49,582	-\$227,715	-\$181,227	-\$164,991	-\$185,074
YTD	\$64,869	\$250,589	\$189,714	\$323,191	\$400,321	\$470,666	\$557,390	\$606,972	\$379,257	\$198,030	\$33,039	-\$152,035

Operations and Maintenance Contract

I spent a day at TrustPower's offices in Tauranga to meet with various groups covering operations, maintenance and power purchase aspects of our relationship. It was a very productive day that I will endeavor to do annually.

Our main focus in the maintenance area is the pending outage in early June.

Strategic Water Projects

Strategic Storage options for OWL

Aqualinc are underway with the study covering strategic storage and also the impact a change of consent condition to enable us to move to a rolling 24 hour target flow at Saleyards Bridge may have.

Colletts Property

Following our discussion at the February Board meeting, I have met with Peter Scott to discuss options and a way forward. Peter has expressed his desire to move ahead with some urgency to identify a workable solution with a strong preference that he will not have to retain Russell McVeagh to conclude this process. As a result of these discussions with Peter we have identified four options:

1. Modification of the consent conditions to enable an 'agreement' to be sufficient for 'affiliation'
2. Transfer or modify the existing water take consents on the Collett block to LPIC (or possibly to OWL)
3. OWL to acquire/access shares and lease to Two Penny Farms
4. Issue new shares

I have indicated my preferential order has 2 at the top. My main reasons for this are that there is some precedent (existing LPIC consent) and also that it is consistent with a future position whereby OWL may well hold consents at various locations to take water that can be demonstrated to have been released from the dam (or more simply that we can take with a commitment to maintaining minimum SYB flows). I am not seeking to specifically include LPIC or exclude them with the notion of OWL taking on the consent – I am simply trying to make our next move one that aligns best with the intended future structure etc of our company rather than digging us further into an inconsistent and challengeable position.

Andrew Leete is continuing to provide assistance and advice on these matters.

Tekapo Water Project (New Water)

We continue to work to try and finalise a terms of reference for this study with Genesis and Meridian. We are intending to meet on 22nd March and I will update the Board on this interaction at the Board Meeting. From the recent email interactions I sense a significant, positive shift by Meridian in their position on this but I will reserve judgment until I can see the whites of their eyes as they speak.

Restructuring of OWL

David Stock, Andrew Leete and I have met with KPMG to review the proposed restructure process options with regards tax issues. The meeting was very useful (a different KPMG person on the case) and we were able to narrow down the preferred options. Following on from this meeting KPMG will now review the proposal in more detail with additional information to be provided and provide a more formal advice on the tax issues.

Audit Review

I have met with KPMG to provide feedback on their performance on their first financial audit of OWL last year. I was able to provide a number of specific examples where I felt they had under performed and/or not delivered on what they had put forward in their proposal to us earlier in the year. They did not disagree with my observations and feedback and had little in the way of justification for their omissions and disappointing performance. We did acknowledge that the inaugural audit will always be more challenging as relationships are established and 'ways and means' are aligned, so on this basis, I am not expecting the same issues that arose this time. We have identified some specific things to be addressed in relation to last year's exercise and also for this year's audit post 30th June.

Field Visit to Australia – IrrigationNZ, July 2013

IrrigationNZ are facilitating an irrigation field trip to Australia in July. I have attached the proposed itinerary. I have responded to Andrew Curtis expressing an interest in attending the trip which may also be of interest to OWL Directors.

I suggest we discuss this topic at the Board meeting.

Board Self Evaluation

The questionnaires have been distributed to all Board members (including Edward Sullivan) and are due for completion and return by 31st March. I would encourage all our Directors to please participate in this process.

ASM

I have had a brief catch up with Claire Mulcock. Her initial view was that we should await the completion of the LWRP before we attempt to roll out our ASM programme however after further discussion we agreed that we should look at a pilot programme for this year based on 3-4 properties that will give us a good coverage of land uses and enterprise sizes. I would appreciate any suggestions from Directors on potential irrigators that we should approach.

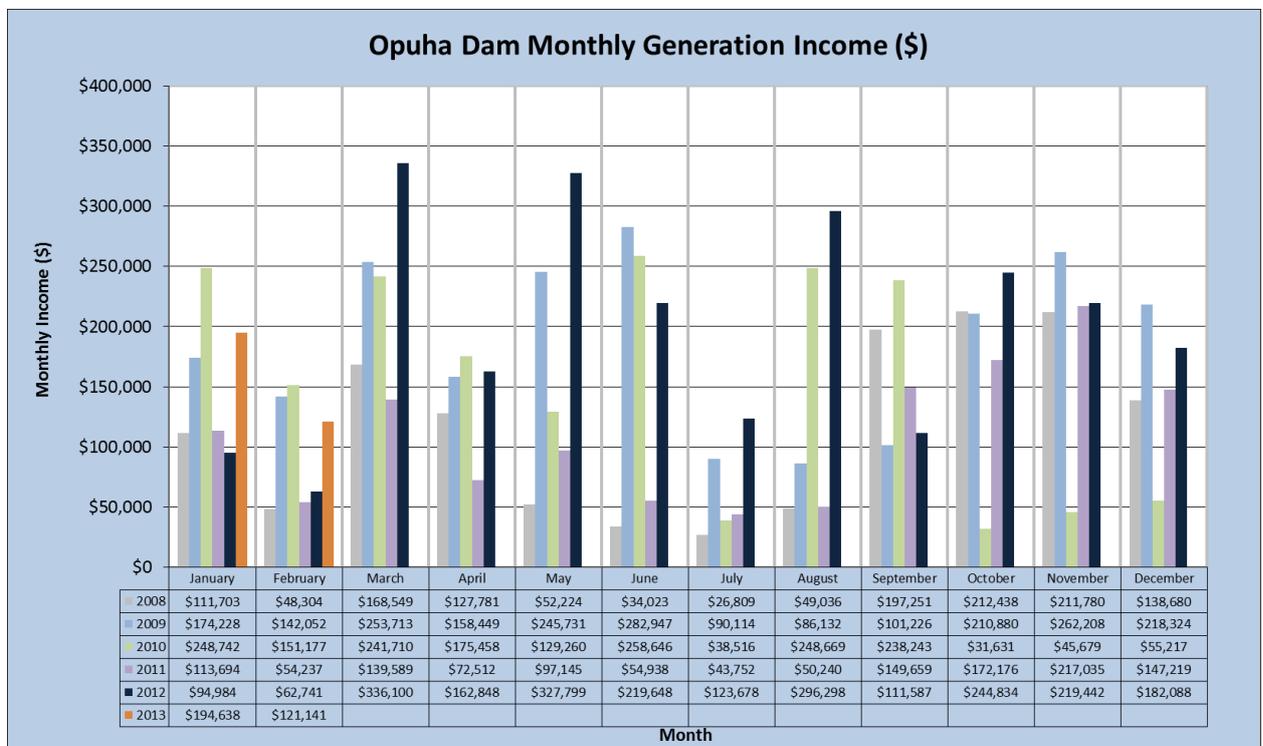
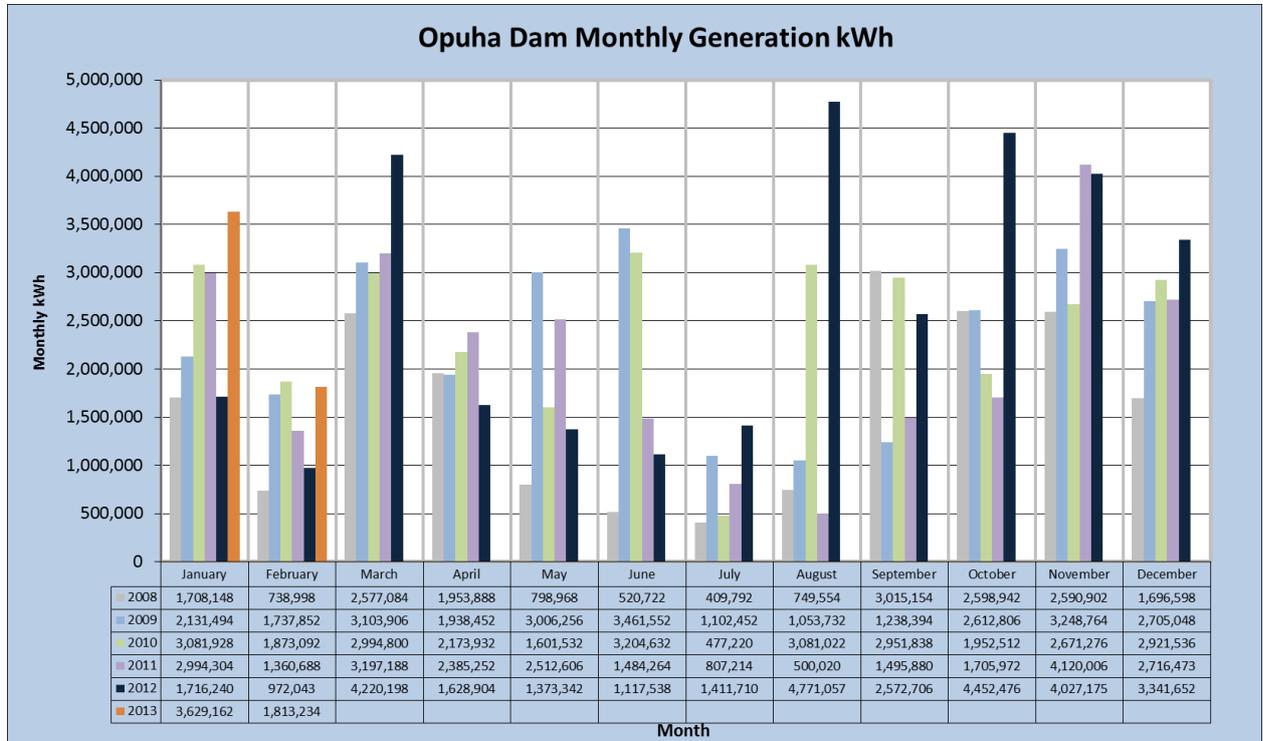


Tony McCormick
21st March 2013

Attached
Generation Summary
Itinerary for Proposed Australian Trip

Attachments:

Generation Summary



Itinerary for Proposed Australian Field Trip

Tony McCormick

From: Tony McCormick
Sent: Thursday, 21 March 2013 11:30 a.m.
To: Tony McCormick (tony@opuha.co.nz)
Subject: FW: IrrigationNZ Aussie Road trip July 2013

From: Andrew Curtis [<mailto:ACurtis@irrigationnz.co.nz>]
Sent: Saturday, 9 March 2013 3:56 p.m.
Cc: Chris Coughlan; Paul Reese; Brett Marais; Janine Holland; andrew@nswic.org.au; Mark Moore; (geoffspark@clear.net.nz); (nicky.hyslop@mrb.co.nz); Dan Bloomer (dan@pagebloomer.co.nz); Hugh Ritchie (hughrit@xtra.co.nz); Ian MacKenzie (akaunui@clear.net.nz); Ian McIndoe (i.mcindoe@aqualinc.co.nz); John Donkers (dfms@farmside.co.nz); lhume@fedfarm.org.nz; Mary Flannery; Mary Flannery (Tayside_Farm@xtra.co.nz); slee@xtra.co.nz; Stephen.McNally@opus.co.nz; Waitaki Irrigators - Elizabeth Soal
Subject: IrrigationNZ Aussie Road trip July 2013

Hi all – This is an e-mail to gauge interest – so let me know if you are.

IrrigationNZ are putting together an Aussie Irrigation Road Trip 8th to 15th July 2013. It will be full-on and with much diversity - taking you from Mountains(?) to sea along the Murray River!

The purpose will be to look at irrigation scheme modernisation comparing and contrasting the NSW, Victoria and South Australian approach with a focus on -

- Scheme optimisation
- Project procurement and financing
- Governance

It will also take in the New South Wales Irrigators Council one day conference in Canberra for those that are interested (this event is optional)

Draft itinerary

Day one (8th) NZ - Canberra depart 7am arrive midday – pm meeting with minister/officials - Department of Sustainability, Environment, Water, Population and Communities <http://www.environment.gov.au/> overnight Canberra

Day two (9th) - New South Wales Irrigators Council conference in Canberra
http://www.nswic.org.au/info_conferences.shtm overnight Canberra

Note day one and two are optional - if not attending NSWIC event fly in @ midday on 9th and join party for day three – there is an option of going to the conference dinner only on night of 9th

Day three (10th) – Snowy Mountains Scheme, Cooma visitors centre (and drive through storage and hydro) www.snowyhydro.com.au/ overnight Griffith (5 hour drive)

Day four (11th) - Murrumbidgee & Coleambally www.mirrigation.com.au/ <http://new.colyirr.com.au/> (scheme modernisation) overnight Shepparton (4 hour drive)

Day five (12th) – Northern Victoria Irrigation Restoration Project (now part of Murray-Goulbourn water) Shepparton – Echuca – Swan Hill www.g-mwater.com.au/downloads/Progress_of_Works_2012.pdf overnight Swan Hill (3 hour drive)

Day six (13th) – Drive Swan Hill to Wentworth/Mildura (piped schemes) and onto Renmark, overnight Renmark (4 hour drive)

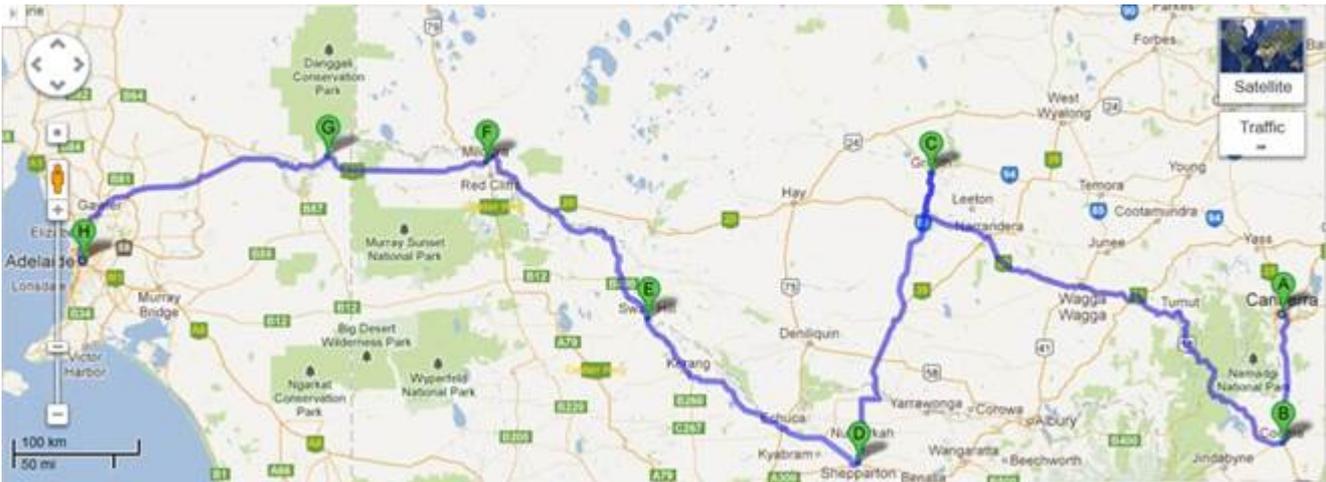
Day seven (14th) – Central Irrigation Trust (amalgamation of schemes and piped schemes) in Berri <http://cit.org.au/> & Barossa Valley (wine tasting) to Adelaide (3 hour drive)

Day eight (15th) Adelaide – NZ @ 11:25am

A conservative Indicative cost is \$3,500pp (this includes accommodation, flights, travel and food). However we'll be looking to further subsidise through sponsorship from NZ banks and consultants (a number are interested in this!)

We'll travel in mini-vans (6-10 per minivan depending on what we can get) as quicker than a coach.

Rough route below (note this will be refined)



cheers

Andrew Curtis



Chief Executive, IrrigationNZ; Mobile 027 496 6314; phone 03 341 2225; e-mail acurtis@irrigationnz.co.nz; web www.irrigationnz.co.nz

No virus found in this message.

Checked by AVG - www.avg.com

Version: 2013.0.2904 / Virus Database: 2641/6189 - Release Date: 03/19/13
