

**MINUTES OF MEETING OF THE BOARD OF
OPUHA WATER LIMITED
HELD 8.30AM, WEDNESDAY 6th MAY 2015
AT THE BOARDROOM OF OPUHA HOUSE, PLEASANT POINT**

- PRESENT:** Tom Lambie (Chair), Nicky Hyslop (Vice Chair), Dermott O’Sullivan, Milne Horne, Jeremy Boys, Alvin Reid and Nigel Gormack.
Also in attendance were Tony McCormick (CEO) and Aimee Bennett (Minutes).
- APOLOGIES:** Nil.
- AGENDA:** The agenda was distributed prior to the meeting with the May 2015 Management Report.
- PREVIOUS MINUTES:** Mr Reid noted his recommendation of having Mr Andrew Johnstone involved in the sub-scheme depreciation policy was not included on page 3 of the previous minutes.
It was **Resolved** that the Minutes of Meeting of the Board on 8th April 2015 be confirmed as a correct record of that meeting. This was moved by Mr O’Sullivan and seconded by Mr Gormack. The motion was carried.
- CONFLICTS OF INTEREST:** There were no changes made to the Conflicts of Interest Register.
- MATTERS ARISING (from previous minutes):** The Action Points status table was presented at the meeting for review and the following discussions were recorded:
Policies for Water
Mr Horne asked when the development of policies for water (above dam irrigators, on farm storage ponds, surplus water) will be progressed. Mrs Hyslop commented that these policies are important as water storage may be positive, enhancing the scheme overall. Mr McCormick replied that the next step for drafting water policies is to organise a meeting date with the water sub-committee. Mrs Hyslop suggested that, before everyone dispersed, a meeting be scheduled with the sub-committee.
Mr Horne added that he would be interested to know if we had gone ahead with the DSW upgrade this year, benefiting from more storage in the lake and on farm storage, what this season would have looked like.
Time Frames for Action Points
Mr Boys asked Mr McCormick to review the action list and present a schedule of time frames for completion. Mr Gormack added that resourcing (outsourcing or in-house) is available and Mr McCormick should take the opportunity to use others knowledge.
Action Point: Mr McCormick
- CHANGES TO SHAREHOLDING:** The Changes to Shareholding list was provided at the meeting for approval by the Board.
The following sale and transfer agreements were recorded:
- Waitohi Dairy Ltd to Ellis-Lea Farms 2000 Ltd 28 “W” shares
 - Peter Hanna to Chatadi Ltd 12 “W”, 16 “T” shares
- Mr Reid asked whether we have received the actual share transfer paperwork for the forward-dated transfer (02/06/2015) from Waitohi to Ellis-Lea. Ms Bennett replied yes.
Two existing shareholders chose to convert their “D” class shares to “L” infrastructure shares (at a conversion rate of 4 “D” shares to 1 “L” share).
- Brian Stratford - 20 “D” shares converted to 5 “L” shares
 - Fulton Hogan - 8 “D” shares converted to 2 “L” shares
- On 30th June 2015, one year after the Merger implementation date, the Board has an option to redeem or surrender “D” shares for the greater of fair value and a nominal value of \$1.00 (per Merger Proposal document). There was agreement from the Board that all remaining “D”

shares on 30th June 2015 shall be cancelled by way of redemption at the current redemption price of \$50.00 per share.

Action: Ms Bennett

It was **Resolved** that the Share Transfer listed above be approved. This was moved by Mr Gormack and seconded by Mrs Hyslop. The motion was carried.

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 March 2015.

The current position is approximately \$22k below of budget with income \$365k below budget but expenditure \$314k below forecast. The overall position at the end of March is a loss of \$2k, which is \$71k ahead of original budget. As previously indicated, generation revenue has dropped significantly with revenue YTD \$434k below budget.

Cash Holdings

The total cash on hand is \$1,140k - \$308k in the cheque account and \$832k in the call account.

Cash in the call account should be transferred to retire floating debt, once confirmation from ANZ is received for the ability to re-draw (action point from previous meeting).

Debt Restructure Proposal

Mr Hayden Dillon from Crowe Horwath provided some proposals for restructuring the debt based on the Treasury Policy framework. The proposal was provided to the sub-committee yesterday for review. The proposals include moving a tranche (5-10% of fixed debt) out to 10 years which will require Board approval.

A recommendation from the Treasury Sub-committee will be circulated to Board following their assessment of the debt restructure proposal.

Action Point: Mr McCormick

Operations

Irrigation

There was about a 40% uptake on the final irrigation opportunity offered on 17th April. As at 29th April all irrigation orders had ceased, with the exception of Fulton Hogan - the quarry is still being supplied through Levels Plain scheme. Mr McCormick advised that there are ongoing discussions with Fulton Hogan regarding their water supply - around 15 l/s is ordered with 200 l/s of carriage water for delivery. Mrs Hyslop commented that they have two wells which are unreliable. A buffer pond may be the solution.

Mr Gormack referred to previous discussions on TDC's water supply. Mr McCormick commented that TDC don't order water, although they have been advising us this year of how much they intend to take. They take up to 200 l/s, their point of take is right at Saleyards Bridge (it is unclear what the effect on the SYB gauging site is) and the water goes straight to Claremont Reservoir. Their take must be metered as Mrs Judy Blakemore has previously supplied Mr McCormick with historical information for other purposes.

Mr Gormack added that it is an old agreement with TDC however suggested to revisit it to understand the relationship and connectivity prior to next season.

Action Point: Mr McCormick

Lake Levels and Storage

Mr McCormick advised that the lake level today is 18%. The operating regime is to maximise lake storage releasing only the minimum water required to meet the required river flow.

Mr Lambie asked for percentages to be added to the lake level graphs.

Action Point: Mr McCormick

At the OEFRAG meeting on 28th April, it was agreed to meet 4.5 cumecs as the minimum flow at Saleyards Bridge for as long as possible with minimum releases from the dam - with a target period of two weeks to assist with fish migration/spawning. The next OEFRAG meeting was scheduled for 12th May.

Lake and River Water Quality

NIWA have completed the last survey as part of the monitoring program. Mr Reid asked what will be done with the data they are collecting. Mr McCormick commented that this is the first year of collecting data and the programme suggests building data over at least three years. As well as the periphyton data, data is also being collected for flow, temperature and water quality data to look for trending.

Mr Boys agreed with Mr Reid that possibly a consultant should be engaged to make sure we are collecting the right data and that what is being collected will be able to be used in 5 years. Mr McCormick replied that this is part of NIWA's programme, they have taken care of this.

Mr O'Sullivan noted that we need to follow up on the work the Lincoln student has been doing work on phormidium in the Opihi river. *(PS – I expect NIWA to include a review of Tara McAllister's work in their monitoring report. TM)*

Chemical Dump Allegations

ECan have provided verbal feedback suggesting nothing was detected in recent surveys of specific areas. The formal inspection report will be received before any public announcement is made.

Mr Allan Campbell and Mr Barry Stone have been taking sediment and water samples and making informal suggestions. It was agreed that this topic is left to ECan.

Asset Maintenance and Management

Downstream Weir Modifications

Mr McCormick advised that he has engaged an independent consultant, Tim Anderson, to project manage and he will take the role of coordinating Tonkin & Taylor's activities.

Downers offer to review the cost estimate was not overly successful as their initial cost of \$3.6m was subsequently revised to \$2.7m suggesting that they had not been through a very rigorous process. The next step is to establish a reasonable cost estimate and come back to the Board with a proposal (business case). Mr McCormick has asked Tonkin & Taylor to undertake some concept level work on an alternative, potentially lower cost design that was conceived in their review late in 2014. Mr Boys commented that we should not be giving up positive 'outcomes' for saving money.

Mrs Crossman and Mr Tim Morris (T&T) met with ECan consent planners to discuss the amendments to the draft resource consent conditions and ECan responded favourably to the suggestions and we are now in the process of finalising the consent conditions.

Opuha House Upgrade

Mr Reid asked for a review of the final cost of the upgrade against the budget/quote.

Action Point: Mr McCormick

Management Reporting

Health & Safety Systems Audit

Mr McCormick advised that a pre-audit is scheduled for this Friday through the Chamber of Commerce. The purpose of the pre-audit is to obtain an early assessment against the audit standards and identify any additional actions and required timing. Mr Boys commented that it is important to ensure you are assessed as ready for the audit since, in the event that you fail the audit, it is 12 months before you can apply again.

Mr Horne asked what the ACC audit entails. Mr McCormick replied that the ACC audit looks at the health and safety management system, and that there are 3 levels/standards. We are aiming for Level 2. The benefit is discounted ACC levies, however that is not our driver. The ACC audit is a recognised, reputable, and industry accepted standard.

Mr Horne commented that 'on-farm' hazards are relevant to OWL staff - hazards such as remote 4WD tracks, and livestock in paddocks that staff may enter. Mr McCormick commented that these should be picked up in the on-going hazard ID that is carried out by the staff to identify risks and the relevant safety measures required including training.

Mr Gormack asked where the liability sits with Opuha staff on farms. Mr Horne replied that he felt the liability sits with both OWL and the farm owner, as there should ideally be a

'contractor' agreement between parties. Mr Horne said that FarmSafe (*actually Worksafe NZ*) have three local inspectors who are doing spot site inspections around the district and suggested they should be engaged to assist with identifying on-farm hazards.

Dam Safety Management

The bi-annual deformation survey was completed on 24th April as part of our consent requirement. The report will be submitted to ECan in May. Two extra activities were included in the survey – a detailed survey of the dam crest and a survey of original construction survey points that were exposed due to the low lake level.

Mrs Hyslop commented given the earthquakes recently, if we had a dam breach what is the emergency action plan in place? Mr McCormick replied that there is an EAP in place and further work has recently been completed on it - Mr McCormick to summarise the EAP.

Action Point: Mr McCormick

The Annual Dam Safety Inspection draft report has been received for work in February.

Mr Lambie asked whether such reports and surveys can be made available to Directors through a secure login on the website. Mr McCormick and Ms Bennett to investigate.

Action Point: Mr McCormick/Ms Bennett

Operations and Maintenance Contract

The power station outage has been delayed until May due to TrustPower having other commitments at Highbank power station.

TrustPower will present their draft ten year asset management plan on 14th May.

Insurance

The renewal date is 1st June 2015. Mr McCormick is meeting with Willis this afternoon to review the proposed policy details and will include actions brought up throughout the year in the renewal programme (eg level of liability cover, business interruption).

FEP Commercialisation

Two workshop sessions are being held in May on the MoU and preparation of a draft business plan between OWL, WIL and ZoomRoom on commercialising the online Farm Environment Plan programme.

Mr Horne commented that OWL should have all our farm plans completed before we look to proceed with commercialisation. Mr Horne asked whether we are on track with the target and questioned whether the original timeline of 3 years to have all shareholders with farm plans needs to be reviewed - the preparation of the farm plan doesn't take that long and most farms will already have one through Fonterra or other enterprises. Mr McCormick replied that Mrs Crossman intends to push ahead over the winter - mainly with the larger farms and the smaller lifestyle blocks under 5ha will be deferred.

Mr Lambie noted that ECan is running a Good Management Practice workshop on 26th May.

Zone Committee

OWL was invited to present at the OOP Zone Committee meeting on 4th May. The presentation was based on current issues including the management of the lake storage during the drought, NIWA river studies, intentions with the scheme nutrient discharge consent and current status of the FEP programme.

The adaptive management with OEFRAG this season has functioned well and it would be beneficial for it to be recognised in the sub-regional plan.

Mr McCormick to circulate the recent Peter Shutt article.

Action Point: Mr McCormick

Arowhenua Hui

Proposed dates for the Arowhenua Hui are Thursday 11th or 18th June, or Friday 12th or 19th June. Directors checked their diaries - Thursday 11th June looked viable. The meeting is likely to take a similar format as originally proposed - commencing at 4.45pm with dinner and concluding around 7.30pm. Mrs Crossman will circulate correspondence and confirm date.

Action Point: Mrs Crossman

BOARD PAPER: 2015/2015 Key Budget Assumptions

An initial budget summary table was presented which was prepared based on the key budget assumptions outlined in the board paper. The following discussions were noted:

- **Water charges** are proposed to remain unchanged (in light of the adverse impact of the drought and commitment made in the Merger Proposal). Other water arrangements (Sutherlands and Colletts) are linked to the basic water charge and are also proposed to remain unchanged.
- **Water abstraction charges** are inflation indexed per the agreement with TDC.
- **Infrastructure charges** to each of the sub-schemes are proposed to remain unchanged, planned maintenance work will be managed to work within the available budget.
- **Generation** has been based on a low generation outlook - the prediction is based on the assumption that the lake will fill through winter/spring and we will supply a 'normal' irrigation season next summer. Mr McCormick intends to review the generation in light of anticipated lower generation than the draft budget includes.
- **Administration and Direct Operating Expenses** – outgoings are anticipated to be similar to the current year. TrustPower and Tonkin & Taylor contracts are inflation indexed and the budget has reflected anticipated increases.

A provision has been made for a replacement vehicle for Steve. Mr Horne asked whether we have a vehicle replacement policy. Mr McCormick replied that we budget for an annual turnover of a vehicle, Steve's is 5 years old with 280,000km and is beginning to show signs of high cost maintenance.

Insurance is expected to remain at current levels based on advice from Willis, but an inflation increase is anticipated for sub-scheme policies through Reid Manson.

Wages and salaries have a provision for 4% increase. Mr McCormick was questioned whether this was reasonable and he replied that it was to provide for some adjustments to meet similar market conditions rather than being an across the board increment. Mr Horne suggested instead of increasing remuneration and not reducing work-load to consider extra resourcing (part-time staff member). Mr McCormick suggested that the salary increases were not intended simply to get more output from the staff.

Regulatory and resource consent compliance costs are expected to reduce overall with ECan revising their charging regime for monitoring - moving from fixed charges to a user pays approach. The budget has provided for \$16k for the anticipated new rating of irrigation schemes.

The consultancy budget has traditionally been underspent. The key areas requiring consultancy input and external parties were identified. There was agreement that strategic water studies should allow \$100k, rather than \$30k. Mr Gormack suggested that there should be a specific Health & Safety budget including a provision for Health and Safety consultancy services.

- **Finance Expenses** - The draft assumptions are based on the current financing arrangements and Mr McCormick noted that he anticipates finalising a debt restructure prior to the start of the new financial year with a potential reduction in interest charges of around \$100k. The budget also needs updated to include debt financing for the DSW project intended for construction to begin within the 2015/2016 financial year - the budget will be updated to reflect an estimated cost of \$2.7m.
- **Depreciation** - Mr McCormick summarised the amount of additional depreciation and potential tax benefit that has arisen through the merger for Kakahu and Totara Valley. Mr Gormack commented that he has also completed some work on this and has come up with different figures. Mr Gormack's recollection from the Kakahu shareholder meetings prior to the merger was that any benefit is to go to reducing debt. Mrs Hyslop commented that the benefits arising from the merger process should be shared, but any specific residual value of sub-schemes should go back to the schemes. Mr Gormack replied that his workings are based on this and he agreed to provide a working paper outlining his assessment and proposed adjustments.

Action Point: Mr Gormack

Mr McCormick to interact with Treasury sub-committee on the budget. Once changes and updates are accepted by the sub-committee the budget will be circulated to the Board for final sign-off and approval.

Action Point: Mr McCormick / Ms Bennett

**FINANCIAL
STATEMENTS:**

March 2015 Financial Statements

The Financial Statements for the month ended 31st March 2015 were taken as Read.

Overdue Debtors

Mr Boys asked what contact has been made with overdue debtors (Chapman and Ryan Farms in particular). Ms Bennett replied that phone calls, letters and emails are sent. The Board noted that the Debtor Management Policy should be followed for overdue debtors - this may include debt agency engagement.

Action Point: Ms Bennett

**GENERAL
BUSINESS:**

Company Receivership

It was noted that Aquaduct NZ (the pipeline manufacturing company owned by Gerard van den Bosch) has gone into receivership. This may void any remaining warranty from Mr van den Bosch on Kakahu Irrigation scheme. Mr McCormick noted that Mr van den Bosch has been called in recently to undertake pipeline repairs in Kakahu, and we may need to seek other contractors for any future repair work.

There being no further business, the meeting closed at 11.18am.

Chairman

Date