

**MINUTES OF THE STRATEGIC PLANNING SESSION  
OF OPUHA WATER PARTNERSHIP  
HELD 1.00PM, FRIDAY 4<sup>th</sup> JUNE 2010  
AT THE GROVESNOR HOTEL, TIMARU**

---

- PRESENT:** Messrs T Lambie, P Scott, D O'Sullivan, N Gormack, T Howey, A Reid and R Wells, P Clarke, T Heiler and V Pooch. Mesdames N Hyslop and A Bennett.
- APOLOGIES:** Messrs E Sullivan.
- MEETING AGENDA:** The strategic planning session was held to agree to a long term strategic vision and highlight associated Governance and Management issues.
- MINUTES:** Mr Scott welcomed Directors to the meeting and introduced Mr Terry Heiler, Mr Vincent Pooch and Mr Peter Clarke to the Board.
- Mr Scott advised much of what has happened in the last three years have been driven by the need to manage the assets that were purchased by farmers in April 2007. Mr Scott explained that much of the management has been 'brush fire' in nature due to the learning curve associated with the entity and the lack of cash funds in the first two years of operations.
- Mr Scott informed the Board that Mr Heiler can offer Opuha Water technical knowledge in terms of growth and going forward will be able to assist Opuha Water considerably. Mr Heiler reinforced that the purpose of the meeting was to discuss strategies and what Opuha Water wants to do before any appropriate structures be implemented.
- Mr Scott noted that Mr Clarke was an original director and instigator of the Opuha Dam project and had been asked to attend the meeting to present a report on dam water demand for irrigation.
- Mr Lambie acknowledged how much has been done since purchasing the Dam in 2007 including the recent achievements of receiving TDC extra water revenue and noted that the Alpine issues were close to being resolved.
- Mr Pooch introduced himself to the Board providing an overview of his business and financial background and explained his objectives in helping Opuha Water with the strategic review.
- Mr Pooch presented the Board with his summary on the history of Opuha Water from when the Opuha Dam Partnership formed, the construction of the Dam to when the Dam opened in November 1998 and when the Dam was purchased by the farmers in April 2007. It was noted that in November 2008 an Ecan Supreme Resource Management Award was won and January 2009 was the first cash positive month. Mr Scott mentioned that the Contact Energy Management agreement is due to expire in October 2010 and will be up for renewal which could offer an opportunity for any changes that may be necessary.
- Mr Howey recalled back to before the Dam was built and when the Levels scheme was struggling for survival and was vastly affecting the Opihi River.
- Mr Pooch provided an overview of the achievements from the 2010 budget and noted that the irrigation and electricity income resulted in cash flow breakeven for the year. Mr Pooch highlighted that infrastructure companies such as NZ Rail often don't achieve cash profits and Opuha Water has achieved a positive cash result greater than budget.

Mr Wells noted that the budgets since purchasing the Dam in 2007 have been based on breakeven and only cover interest payments with no principal being repaid on the loan.

The downstream river enhancement and recreational non-cash values of the lake were recognised.

It was noted that the breakeven related to cash, not tax, and that budgeted revenue needs to be increased to cover the yearly asset depreciation of approximately \$800k. Mr Gormack commented that it is the internal mechanisms depreciating not necessarily the asset itself.

Mr Heiler suggested that the Mr Scott makes enquiries to find out what risks the company needs to be aware of, where the risks lie and who can best manage them, as Opuha Water is a high risk infrastructure Dam company. Mr Pooch advised that (for example) the Port of Otago hold specific annual Board sessions on risk. Mr Pooch mentioned that Mr Scott needs to be resourced appropriately for this. Mr Scott advised that parts of risk management strategy were currently in place.

It was agreed that a goal for today's session would be to set a vision of the future. Mr Heiler suggested that words should be gathered and put together with shareholder value in mind.

Mr Heiler asked if any capital management plans were in place for such items as the downstream weir and turbine. Mr Scott advised that this information was not passed on from Alpine Energy and that Contact Energy have been working on acquiring this information along with OWP.

Mr Gormack advised that he does not perceive Opuha Water as an irrigation scheme but an infrastructure company who provides water to shareholders as well as selling electricity and maintaining river flows. Mr Pooch agreed with Mr Gormack's comment.

Mr Lambie agreed with Mr Gormack commenting that Opuha Water displays as an infrastructure company who looks after the assets and reticulation. Mr Howey commented that it is run like an infrastructure company who instead of paying dividends, provides rebates or reduced water charges to shareholders.

Mr Wells mentioned that he sees the company split into two parts – one being the CEO running the water distribution and the other being Contact Energy who runs the Dam. Mr Reid disagreed with this comment noting that the CEO still oversees all Contact Energy Dam management.

Mr Pooch advised the Board's first responsibility is to the company, not individual shareholders which can be challenging for Directors who play the two roles.

Consensus was shaped around the following:

- OWL is an infrastructure company
- OWL has specialised assets
- OWL needs to earn an appropriate return on investment after meeting customer needs (water price)

Mr Gormack remarked that there has already been a value transfer and wealth creation from when the Dam was built as land values have been increased. Mr Lambie noted that the value of share trading has significantly increased in the last 18 months.

Mr Pooch advised that he sees Opuha Water moving forward from the development stage with a cost focus and there needs to be a balance between shareholders and directors to make the best for farmers (customers).

Mr Scott advised that the company needs to build on what has already been done and suggested some future opportunities to the Board:

- Ensure all water is used that we are entitled to – to which Mr Clarke will provide information on this
- Export of water opportunity in the next five years to the Middle East – for 12 months of the year, delivered to Primeport, Timaru.

Mr Clarke presented to the Board a report on Dam water demand for irrigation to help with 'slop' water, on farm storage and determining the amount of water not being used.

Mr Clarke advised that Opuha Water has a clear economic opportunity as the Dam is only supplying 12,000 hectares with the remaining 4,000 being supplied above Dam and via the Te Ngawai river. Mr Clarke advised that Opuha Water needs to decide if storage ponds for excess water should be built before farmers create their own on farm storage. Mr Clarke suggested that storage above Saleyards Bridge and the Opihi would be most effective.

Mr Clarke advised that his report was prepared from data from the 2007/2008 year which had low dam inflows and low dam levels and not all data reconciled, due to incorrect data or flow recorders never being reinstated.

Mr Clarke's report detailed that using the assumptions of water use at 60% for 13.5 weeks at 25mm/week that the potential spare water could equate to 8,109 hectares being available. This would provide the possibility of receiving \$4m if shares were sold at \$5,000 per hectare.

Mr Clarke ended his presentation with actions for the Board to take, including a suggestion for the issue of 'A' and 'B' shares which could be adjusted for reliability.

The board agreed that Mr Clarke's report is an excellent start and an opportunity has been created to look into shares held and examine data from over all seasons to date to ensure that the above is confirmed.

The board agreed that as Opuha Water is an infrastructure company, the extra water will be drawn towards the best financial returns such as exporting over irrigation.

Mr Scott advised that Mr Heiler and GHD Limited have been working on Audited Self Management and a recommendation will soon be put forward to Directors for consideration.

Mr Heiler advised that he would like to meet and work with Mr Clarke on hydrology making use of the water demand for irrigation investigation he completed.

Mr Gormack noted that the Board of OWP have already given Mr Scott approval to work on self management with GHD, Mr Heiler and Mr Clarke.

Mr Gormack commented that he sees Opuha Water as a unique company and believes the amalgamation of SCFIS and Levels needs to take place. Mr Heiler agreed and noted that the current budget of the company does not allow for an infrastructure allowance and Directors should look into this for future forecasts.

Mr Scott advised that Environment Canterbury would like to be aware of what is happening going forward in terms of what Opuha Water is doing, can do and what it wants to do. It was agreed that once the Directors are clear of the future strategy for the company, a group should be formed to work with senior Ecan staff to reach an agreeable understanding.

An overview of the current skill base of the company was provided by Mr Pooch. Mr Pooch noted that Opuha Water currently has a small skill base with one or two key individuals – Mr Scott and Mr Snow Gardner. It was noted that the skill base also includes the individual schemes – TVI, LPIC and KIL – having their individual opinions.

Mr Scott advised that economically, Opuha Water could manage and own all infrastructures, such as Totara Valley Irrigation, Kakahu Irrigation and Levels Plain Irrigation. Mr Scott also noted that Opuha Water could own other vertically integrated infrastructure, such as a power line from Fairlie to Timaru.

Mr Gormack suggested that Mr Scott prepare a paper to present to Directors for consideration and debate, using resources as required, to provide a view of the future and long term vision, as future growth has been previously discussed and there are a number of ideas around on how to maximise the use of the assets.

Strategic boundaries ('no go' areas) of the company were discussed and Mr Heiler advised that Genesis Energy had approached him in relation to hydro interest. Mr Lambie noted that private investors have also contacted him about investing in Opuha Water. Mr Gormack commented that Opuha Water should be open to outside investors however were not required at this stage.

An overview of the company's opportunities was discussed. Mr Scott noted that Audited Self Management is underway, as with the 'slop' water study to maximise the value. Mrs Hyslop asked that Levels AN water be taken in consideration with any 'slop' water study.

Mr Pooch detailed that other opportunities include Zonal management, Tekapo Water, investment in ponding/storage areas and water trading. Mr Gormack suggested that services to third parties outside the Opuha catchment, such as the management of outside irrigation schemes be considered as an opportunity.

Mr O'Sullivan advised that he had met with Meridian Energy who were also interested like Genesis Energy in future opportunities.

It was noted that Directors have little understanding of Zonal Management and this needs to be discussed further for better understanding of what it means for Opuha Water.

It was agreed that Mr Scott prepare a report on the boundaries, opportunities and further work on prioritised opportunities for Directors so they can have a better understanding of rewards for the company which in turn will provide key questions going forward.

It was agreed that Mr Scott is to prepare a strategic report before the Board meets again.

It was noted that Mr Scott and Mr Gormack will meet with Mr Sullivan to have the SCFIS and Levels amalgamation implemented as widely anticipated. Mr Gormack advised that under Opuha Water's constitution, shares can be issued to rebuild scheme areas within.

It was agreed that copies of draft minutes be sent to Mr Heiler and Mr Pooch before being distributed to Directors.

There being no further business, the meeting closed at 4.15pm.

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Date