

CONFIDENTIAL



Water Authority of the Cayman Islands

Minutes of 209th Meeting held on 17th of November 2010

Members Present:

Acting Chairman:	Mr T Hydes
Members:	Mr J Banks Mrs P McGaw-Lumsden Ms A Owens Mrs I Simms Mr M Smith
Secretary:	Dr G Frederick-van Genderen
Apologies:	Mr C McLaughlin Mr W Scott Ms R Sharma Mr O Watler

Call to Order

As there was no objection, Mr T Hydes performed in the role as Acting Chairman. The Acting Chairman welcomed members and called the meeting to order at 1:45pm. The Acting Chairman gave apologies on behalf of Mr C McLaughlin, Mr W Scott, Ms R Sharma, and Mr O Watler.

Minutes of the 208th Meeting held on the 15th of September 2010

The Acting Chairman advised that minutes for the meetings held on 11 August 2010, 18 August 2010 and on 06 October 2010 would be available at the next meeting.

The Acting Chairman asked for confirmation of the Minutes of the 208th Meeting held on 15 September 2010.

Mrs P McGaw-Lumsden moved the motion to accept the Minutes, Ms A Owens seconded the motion and the motion passed unanimously.

Declaration of Conflicts of Interest

None were declared.

Matters Arising

a) **Divestment of Water Authority Sewerage Assets.**

The Acting Chairman reported that on 21 October 2010, the Legal Drafting Department (LDD) forwarded the final draft of the Wastewater (Collection and Treatment) Bill (WCT), Water Authority Law Amendment Bill (WAL) and the Water Production and Supply Bill (WPS) to the Ministry for submission to Cabinet. The Water Authority was advised on 10 November 2010 that Cabinet had accepted the Bills and they would now pass to the next stage. The Ministry advised that the Authority could place the Bills in the electronic data room for review by potential bidders with the caveat that the documents remain confidential, that they are in draft form and have yet to be presented in the Legislative Assembly for final approval.

The Acting Chairman reported that after receiving approval from Central Tenders Committee (CTC) on the amended Request For Proposal (RFP) it was sent to the Ministry on 06 October 2010 for Ministry approval. Approval to proceed with the release of the RFP was received from the Ministry on 14 October 2010 via email from Mr T Hydes. The RFP was made available on the Authority's and CTC's website on 18 October 2010 as planned.

The Acting Chairman reported that the Authority held the Pre-Tender Conference on 09-10 November 2010. Eight companies participated in the conference with a total of approximately 30 persons. The Hon Minister sent her apologies as she was needed in Cabinet on the day of the opening. Mr Kearney Gomez, Permanent Secretary for the Ministry of DAWLA spoke on behalf of the Hon Minister and Mr T Hydes spoke on behalf of the Board. Board member Mrs P McGaw-Lumsden also attended the opening exercise on behalf of the Board. KPMG had presence for the entire conference to answer questions on the vendor due diligence information.

After the opening formalities, the participants were taken on a tour of the wastewater collection system and the wastewater treatment works for the remainder of the morning. The meeting reconvened at 2:30pm at which time the Authority addressed a number of questions that had been submitted by potential bidders.

The Acting Chairman reported that one of the main concerns expressed by potential bidders was the short timeframe to submit proposals. Most potential bidders indicated that they would write to request the time be extended. To date only two written requests have been received which are from Wastewater Purification and Cascad. Wastewater Purification would like a 60-90 day extension.

Another major concern was the regulatory framework. The Acting Chairman reported that the attendees were advised that upon receiving approval to release the relevant Bills would be made available in the electronic data room.

The Acting Chairman reported that Ms Vicki Ellis from the Solicitor General's office was invited to assist with question relating to the regulatory framework and the RFP. As the relevant Bills were not yet available to participants, Ms Ellis dealt with matters relating to the Agreement Sale of assets and the lease of the property. She also responded to queries regarding the use of Cayman Islands' Arbitration Law to address disputes between the regulator and the successful company. Ms Ellis addressed participants' concerns regarding the wording of sections of the RFP relating to the revocation if the license and how the company would be compensated.

Throughout the course of the conference there were requests for clarification and explanations on various sections of the RFP. These are being addressed in a Tender Addendum which the Secretary expects to be able to release within the next couple of days. The Secretary advised that Ms Ellis had been requested to provide comments and suggestions on a few sections of the RFP as agreed in the conference.

During the course of the meeting, participants requested access to the report prepared by APEC during the valuation exercise with KPMG earlier this year. After an internal review of the document, the Authority agreed with KPMG to its release. However all potential bidders are required to sign a letter to hold harmless KPMG in order for it to be released. To date only 5 companies have returned their signed letter. The Acting Chairman noted that the reports cannot be placed on the ftp site until all had signed off. Therefore by end of business 17 November 2010; companies who have not yet signed will be advised that their access to the ftp site will have to be temporarily blocked so that the document can be made available to those that had already signed the required Hold Harmless letter.

The Secretary reported that there was discussion on the Rate Cap Adjustment Mechanism (RCAM) and the Authority explained the various factors used in the calculations and will provide a working spreadsheet to the companies to demonstrate these. Additional information on depreciation periods will also be provided in a Tender Addendum.

Another factor that the potential bidders wanted clarification on is the level of capital investment the CIG will expect in the next 5 years. The Secretary reported that it was emphasised at the meeting that the CIG expected significant capital investment by the successful company to be one of the stimuli for the economic recovery of the country. The Acting Chairman reported that the 8 companies represented appeared to be genuinely interested in submitting proposals however they verbally expressed concern over the timeframe. The Secretary advised participants at the meeting that the timeframe was very tight as CIG wished the process to take place quickly. She said that if companies wrote for additional time she would put the request to

the Water Authority Board. As noted earlier, only two companies had done this as of 17 November 2010. The Secretary respectfully requested the Board's guidance on the request for extension of the bid period. After a brief discussion the Secretary was given permission to seek the Ministry's approval to extend the bid period to 31 December 2010.

b) Miscellaneous Updates.

a) *In-House Pipelaying Crews* – The Acting Chairman reported that one pipelaying crew is currently laying new 12-inch pipeline along Elgin Avenue, approximately 800 ft of 1150 ft is completed, expected completion including testing, disinfection and flushing by end of November 2010. Progress is hampered by heavy traffic and the inability to close the road.

On completion of Elgin Avenue work will continue on Shamrock Road to complete the new 12-inch pipeline between Red Bay Roundabout and South Sound Road; to date 900 ft of 2600 ft has been completed, expected completion by mid-January 2011. The interruption of the work was necessary in order to meet the NRA road improvement programme for Elgin Avenue.

The Acting Chairman reported that the second crew is currently laying new 8-inch pipeline to a new development off Anton Bodden Drive, Bodden Town. The expected completion date including testing, disinfection and flushing by 29 November 2010.

On completion, this crew will continue with several small extensions to existing pipelines and the upgrade of existing 2-inch pipeline to 4-inch in Washington Road and adjoining road. Extensions and upgrades scheduled to be completed by end of January 2011.

b) *Water Supply Division* – The Acting Chairman reported that the pipeline upgrade on the second section of South Church St (from Ugland House to Melmac Avenue) will be completed during the week of 17 November 2010; some production days were lost last month due to the wet weather. This will complete the second of four approximately equal sections extending to Denham Thompson Way. It is expected that the last section will be completed in March 2011.

The remainder of the work will be done during the day to avoid disturbing residents. Temporary road reinstatement on the backfilled trench using spray and chip will be installed regularly to prevent wash-out due to heavy rains. Once each section is completed and commissioned, the National Roads Authority (NRA) will carry out the final road reinstatement using hot mix asphalt.

c) *Wastewater Division* – The Acting Chairman reported that a number of wastewater lift pumps had been removed and rebuilt. Some new SCADA HMI data trend screens were developed to assist with process control and better control dissolved oxygen. This revealed some sensor issues which are being corrected.

- d) *North Side Water Production Facility* - The Acting Chairman reported that a security alarm system is to be provided to all doors at the Pumping Station as was planned for 2010/11. In terms of number of customers in the North Side/Queens Highway catchment area there are 688 active customers, 92 inactive and 2 new customers pending.
- e) *Red Gate Administration Building (Laboratory Renovation)* - The Acting Chairman reported that the Laboratory renovation work was completed on 12 November 2010 and is ready for the Laboratory staff to commence setting up their operation; some minor defects remain to be corrected by the contractor. The delay in completion is in part attributable to errors in the laboratory furniture and work surface supply. As a result of these delays there is a short window for the Laboratory to re-establish itself and become fully functional in its newly renovated setting. This is a critical time as an external audit is required before the end of 2011 in order to maintain accreditation.
- f) *North Sound Production Plant at Red Gate Water Works Site* - The Acting Chairman reported that there was an incident at the North Sound RO Plant on 14 November 2010 where a switch alarm for the post treatment blower air pressure had been manually disabled and control wiring altered by Ocean Conversion (Cayman) Ltd's (OCL) operations staff. The blower motor starter tripped off but the plant did not shut down because of the altered controls. The situation was discovered by the Authority's weekend operations and lab staff when they detected significant levels of hydrogen sulphide in two reservoirs.

The Acting Chairman reported that in communication with OCL there will be no charge to the Authority for water in reservoirs that was unusable. Following the incident on 14 November 2010, the Authority determined that the contents of Red Gate Reservoirs #1 and #5 were of acceptable quality and these reservoirs remain in operation. The water in Reservoirs #2 and #4 consisting of a total volume of 2,124,000 US gallons (estimated value of \$15,000) will have to be disposed of. This is currently being done from Reservoir #2 using on-site disposal and decommissioned abstraction wells.

The Acting Chairman reported that a detailed report is expected shortly from CWC.

- g) *Red Gate Water Works Site* - The Acting Chairman reported that the planning approval application is being drafted for a new Vehicle Maintenance Building to replace the loss of the facility at the Wastewater Treatment Plant, the application will also include for a new File Storage Building and a new Pumping Station. This work was removed from the 2010/11 budget but will need to be addressed in the near future due to the sale of the wastewater treatment works site. Preliminary work commenced to set up a temporary facility for the Vehicle Maintenance Facility at Red Gate and to relocate the existing Operations Water Supply Division

workshop to the old Diesel and Pump Building; this will require considerable refurbishment.

A new electronic gate is to be provided at the Wren Lane entrance to the facility as well as the addition of a number of security cameras.

- h) Mr John Masters' Case* - The Acting Chairman reported that the court date has now been moved to 21 January 2011.
- i) Cayman Water Company New License Negotiation* - The Acting Chairman reported that Cayman Water Company (CWC) operates under a license granted by Government under the Water Production and Supply Law (WPSL) with the exclusive right to produce and supply potable water to the exclusive franchise area consisting of West Bay Road and the district of West Bay. CWC's 20 year license has been extended several times by Government beyond its expiry date of 11 July 2010. The latest extension granted by Government will expire on 04 January 2011.

Under the WPSL, the Authority advises Government in respect of production and supply of water. Under the previous Minister the Authority was requested to conduct the negotiations with CWC to renew the license. As members are aware, negotiations have been ongoing for over 2 years. Mr Tom van Zanten, Deputy Director of the Authority is the chair of the negotiating team. Initially the negotiating teams for CWC and WA consisted of limited staff to review technical issues. When financial and contractual issues came into play, the Government team was expanded upon the Honourable Minister's request to include the Ministerial Councillor, the Assistant Deputy PS from the Ministry, legal expertise and representation from the WA Board. In addition Mr Phil Thomas, Managing Director of the Electricity Regulatory Authority is also on Government's team. CWC's team now also consists of a broad representation of members from their board and legal council.

The Acting Chairman reported that the most difficult part of the negotiations is the financial and contractual issues. Initially CWC suggested extending their 1990 license under the same terms and conditions. However, significant parts of that license are outdated and simply extending it would provide insufficient protection for customers. The original license provided CWC with automatic annual rated adjustment, based on inflation. Especially over the last years this has resulted in substantial profit margins in the range of 30% and water rates that are some 20% higher than those of the Authority. In reviewing its options, the Authority determined that the rate adjustment mechanism should be modelled after the model used in the CUC license, this takes inflation and rate of return on capital into account. This model results in a more targeted rate of return, and protects both the company and the consumer.

The Acting Chairman reported that CWC is reluctant to accept the new model and negotiations are difficult in this respect. CWC also objects to a higher level of regulation, which they see as unnecessary.

The Acting Chairman reported that during the week of 08 November 2010 the Authority provided CWC with the second version of the draft license, the next meeting of the negotiations team is scheduled in the second week of December 2010.

- j) *FOI updates* - No new requests were received as of 12 November 2010 as shown in the Freedom of Information report provided to members.

Current Business

a) **East End Seaport Development.**

The Acting Chairman reported that the Water Authority had been requested by the Department of the Environment to participate in the Government team that will determine the Terms of Reference for the Environmental Impact Assessment (EIA) to be carried out by the developer. Other agencies are Planning Department, the National Roads Authority and the Ministry of the Environment. The Government group met collectively with the developer and his team on 09 November 2010. The developer had prepared an initial document for the proposed study; this will be reviewed by the Government team. The developer also met with senior staff of the Water Authority on 12 November 2010. The Government team will also collectively review the study.

The Acting Chairman summarised the plan which calls for a 55 to 60 feet deep port basin in the Half Moon Bay area, the port will reach approximately 0.7 miles inland. Excavation of the estimated 14 million cubic yards of rock will take place over a 7 year period, part of the rock will be donated to Government in lieu of royalties to construct roads and the remainder will be exported to foreign markets. The developer plans to establish partnerships to realise the various elements of the port: cargo facility for the Port Authority, megayacht facility, hydrocarbon storage, cruise ship berthing, and container transshipment facility.

The Acting Chairman reported that one concern of the Authority is the relocation of the existing water main in the coastal road to East End, but noted that this can relatively easily be addressed by installing a new main in the new ring road around the port.

The Secretary noted that the main concern of the Authority is the effect of the excavation on the East End fresh water lens based on the initial drawings. The excavation at its nearest point to the lens will be approximately 2,500 ft from the south-western edge of the lens. There is some preliminary data that indicate that groundwater in this area is brackish. From a hydrogeological point of view, the area that will be excavated forms an integral part of the system that supports the East End fresh water lens and replacing the brackish ground water with salt water will impact the lens. Also the removal of the rock for the port will create a

shorter distance from the lens to the sea and inevitably result in some draining of the lens. As a result of introducing salt water closer to the lens and removing the rock, the lens will be impacted and is expected to shrink in terms of size (surface area) and thickness.

The Secretary reported that without any detailed study it will not be possible to give a reasonable estimate of the actual effect of the excavation on the lens. Therefore as part of the Environmental Impact Assessment, such a study will have to be carried out by the developer. The Authority will determine the specific terms of reference of the study; it will involve collection of rock samples from wells, water samples and hydrogeological modeling. The Authority has been in touch with Dr Brian Jones, geology professor at the University of Alberta, Canada to ask his assistance in ensuring that the terms of reference for the study are comprehensive. Dr Jones has a long standing relation with the Authority and has agreed to assist.

The Secretary advised that under the Water Authority Law, the Authority is charged with the protection of groundwater and fresh water lenses in particular. Section 34 of the Law prescribes that the excavation of canals is illegal, unless the developer has a permit from the Authority. For example, in the early 1980s the Authority was involved in the review of the effects of excavation of Mosquito Research Control Unit (MRCU) canals in the Central Mangrove Area of Grand Cayman; as a result of studies by the Authority it was determined that these canals had a negative effect on the Lower Valley fresh water lens. As a result of the Authority's concerns the MRCU discontinued the excavation of these canals.

Donation Requests

a) Business and Professional Women's Club of Cayman Brac.

Members agreed to sponsor the Business and Professional Women's Club of Cayman Brac in the amount of \$500 to support their programme of providing financial assistance to young Brac women pursuing post-secondary education. The motion was moved by Mr J Banks, seconded by Mrs I Simms and passed by majority with Ms A Owens abstaining.

b) Kiwanis Club of Grand Cayman - Request for Corporate Sponsorship.

Members agreed to sponsor the Kiwanis Club of Grand Cayman at the "Bronze" level in the amount of \$1,000 in support of their various community programmes. The motion was moved by Mrs I Simms, seconded by Mrs P McGaw-Lumsden and passed by majority with Ms A Owens abstaining.

c) Valencia Football Camp.

Members requested that the Authority inquire from the organisation whether they have lower levels of sponsorship programmes available.

d) Cayman Crisis Centre.

Members agreed to sponsor the Cayman Crisis Centre in the amount of 10 gift certificates from Priced Right each in certificate in the amount of \$50 for a total of \$500. The motion was moved by Mrs P McGaw-Lumsden, seconded by Ms A Owens and passed unanimously.

e) St Lucian Hurricane Relief Assistance.

Members agreed that to donate the requested water purification tablets that were requested from St Lucia via the local St Lucian representatives in coordination with the Cabinet Office. The approval is for the amount of US\$1,769.71 plus the cost to courier to St Lucia from Miami. The motion was moved by Mrs P McGaw-Lumsden, seconded by Ms A Owens and passed unanimously.

f) Trinity Performance Track Club.

Members agreed to sponsor the Trinity Performance Track Club in the amount of \$1,000 in support of their programmes to develop and enhance the performance of youth in track and field events. The motion was moved by Mrs P McGaw-Lumsden, seconded by Mr M Smith and passed by majority with Ms A Owens abstaining.

g) Kiwanis key Leader Programme.

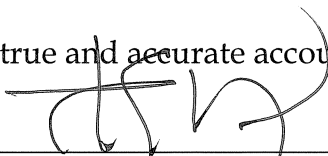
Members agreed to ratify the decision to donate \$175 to sponsor one student's participation in the programme as per the 19 October 2010 email circulated to Board members. The motion was moved by Mrs P McGaw-Lumsden, seconded by Ms A Owens and passed unanimously.

h) Veterans & Seaman's Society of Cayman Brac and Little Cayman.

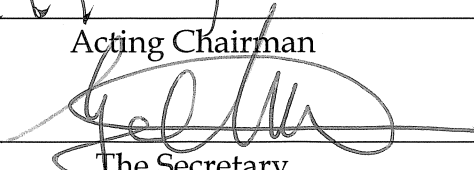
Members agreed to ratify the decision to donate 5 gift certificates for 1000gals of trucked water as raffle prizes for the Society's Annual Picnic as per the 19 October 2010 email circulated to Board members. The motion was moved by Mr M Smith, seconded by Mrs I Simms and passed unanimously.

There being no other business the Acting Chairman adjourned the meeting at 3:05pm.

This is a true and accurate account of the proceedings.



Acting Chairman



The Secretary