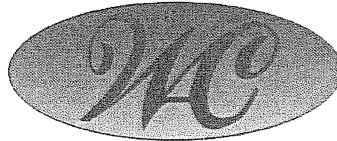


CONFIDENTIAL



Water Authority of the Cayman Islands

Minutes of 212<sup>th</sup> Meeting held on 16<sup>th</sup> of February 2011

**Members Present:**

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

**Call to Order**

The Chairman welcomed members and called the meeting to order at 1:36pm after ascertaining that there was a quorum. The Chairman opened the meeting with prayer and acknowledged apologies on behalf of Mr T Hydes, Mr C McLaughlin and Mr O Watler. The Secretary and Members congratulated the Chairman on the recent birth of his third granddaughter.

**Minutes of the 211<sup>th</sup> Meeting held on the 19<sup>th</sup> of January 2011**

The Chairman advised that minutes for the meeting held on 11 August 2010 are with the previous Chairman for his review and signature and that they would be available at the March 2011 meeting.

The Chairman asked for confirmation of the Minutes of the 211<sup>th</sup> Meeting held on 19 January 2011.

Ms A Owens moved the motion to accept the Minutes, Mr J Banks seconded the motion and the motion passed unanimously.

### Declaration of Conflicts of Interest

None were declared.

### Matters Arising

a) **Divestment of Water Authority Sewerage - Update on WWTC.**

The Chairman reported that Mr Bruce Blake, the Chairman of the Government-appointed Wastewater Technical Committee (WWTC) resigned from the position effective 20 January 2011. Two other members (Mr Peter van der Bol and Mr George Berry) had resigned earlier. The Authority was advised on 15 February 2011 that a new Chairman and additional members were appointed by Cabinet. These members are as follows:

Mr Canover Watson	Chairman
Mr Matthew Leslie	Member
Mr Peterkin Berry	Member
Mr Darrell Rankin	Member
Ms Jeana Ebanks	Member
Mr Paul Parchment	Member
Financial Secretary ( <i>or designate</i> )	Ex-Officio
Permanent Secretary of DAWLA ( <i>or designate</i> )	Ex-Officio
Mr Tom van Zanten	Ex-Officio/Technical Asst./Secretary
Ms Vicki Ellis	Ex-Officio (in an Advisory/Resource Capacity)

The Chairman stated that he looked forward to this project moving forward now as it was an expressed priority of the Government. He noted that the Authority was ready and prepared to assist the WWTC to successfully completed its task. The Secretary noted that the Chairman of the WWTC had been advised by the Ministry that Mr T van Zanten would be off island for the next two weeks.

The Chairman reported that the Wastewater Collection and Treatment Bill, Water Authority Law Amendment, Water Production and Supply Bill, were assented to by the Governor and gazetted into Law on 14 February 2011.

b) **Miscellaneous Updates.**

a) ***In-House Pipelaying Crews*** - The Chairman updated members on the work of the in-house pipelaying crews. One crew continued the installation of a 12-inch main along Shamrock Road, between Red Bay Roundabout and South Sound Road. The work is now 70% complete (approximately 1860 ft of a total of 2600 ft has been installed). This work should be completed before the end of February 2011.

The other crew is nearing completion of the installation of larger pipes in the Washington Road area, and approximately 2100 ft of pipework has been installed to date. The remaining two major road crossings, in Eastern Avenue and Esterley Tibbetts Highway, are scheduled for the next two weekends, so this work should also be completed by the end of February 2011.

- b) *Water Supply Division* - The Chairman reported that the pipeline upgrade on the third section of South Church St. (from Melmac Avenue to Texaco terminal) was commissioned in early February 2011 and that connecting customers to the new pipeline had commenced. Work has commenced with the installation of temporary connections for the next section of the upgrade. It is still anticipated that all work (i.e., up to Denham Thompson Way) will be completed in March 2011.
- c) *Red Gate Water Works - Inspection of Reservoir #1* - The Chairman reported that a summary report had been prepared by the Engineering Services Department on the condition of and repair options for the 1.2 US million gallon fibreglass reservoir at the Red Gate site. The recommended option is to spot fix any visible defects internally and seal the external concrete/reservoir joint. This work will be done using in-house resources and the preparation work (cleaning and surface preparation) can be started almost immediately, while waiting for the delivery of the requisite materials. The repair needs to be completed and the tank back in service before the start of the hurricane season.

A full internal inspection conducted in December 2010 indicated that approximately 90% of the perimeter panels showed signs of cracking of varying severity and more than 50% of the floor panels showed signs of exposed fibers or blistering. It is unclear, however, whether these defects affect the structural integrity of the panels.

The Authority determined that there were four possible options for consideration:

1. Do nothing and continue to allow the reservoir to leak at approximately \$700 water loss per week.
2. Spot fix any visible defects internally and seal external concrete/reservoir joint at an estimated cost of materials at \$6,000 and in-house labour cost at \$7,500 for a total cost of \$13,500.
3. Install a spray-on liner (e.g., CIM as recommended by Southland Painting) over the entire base of the reservoir and 5 feet up the walls by an experienced installer at the quoted cost of \$265,000.
4. Remove the reservoir from service.

The Chairman reported that the Authority will proceed with the second option as it is the quickest and least expensive temporary fix. Water Authority staff will commence the preliminary preparation work (external cleaning and surface preparation) immediately, while waiting for the delivery of the requisite materials. The repair can therefore be completed

before the start of the 2011 hurricane season. A large proportion of the costs stated above are for "in-house" resources, thus Authority will not incur any additional costs.

The 2011-2012 budget includes funds to replace this reservoir with a new glass-fused-to-steel bolted reservoir (approx. 2 million US gallon storage capacity) immediately following the 2011 hurricane season.

- d) *Red Gate Water Works Site* - The Chairman reported that notifications will be sent to relevant properties, and a notice will be placed in the local newspapers on 21 February 2011 as a pre-requisite of the planning application process for the Red Gate Site Revised Master Plan. It is anticipated that the application will be submitted to the Planning Department later this week.

The Operations Department workshop recently moved as planned to the building previously used to accommodate the diesel-driven pumps for the Red Gate RO plant. The temporary vehicle maintenance facility will be set up at the Red Gate site, in the building previously utilized for the Operations Department workshop.

- e) *Cayman Brac Site* - The Chairman reported that in late November 2010 some minor equipment modifications were made to the existing RO Plant in order to optimize performance. The Water Authority's Graduate Electrical Engineer is in the process of fine-tuning the reporting/control aspects of the operation.

The Water Authority's Graduate Electrical Engineer is working with Cayman Brac Power & Light to review the options for leasing an emergency stand-by generator (instead of having to purchase a new one) and having a pad-mount transformer installed near the entrance thus improving reliability of water production and distribution at the existing site. The existing generator providing emergency power to the water distribution pumps is now 20 years old and needs to be replaced as it is not large enough to also run the RO plant.

- f) *Randyke Gardens - Failing Wastewater System* - The Chairman reported that on 11 February 2011 the Water Authority wrote the Ministry requesting that Randyke Gardens be prosecuted under the Water Authority Law for discharging untreated wastewater on the ground. Randyke Gardens has an extensive history of wastewater issues and violations. The complex was constructed in 1990 and soon after completion problems started with the wastewater system. In May 2006, after the Authority had exhausted all its attempts to have Randyke Gardens address the issues with their failing wastewater system, the matter was referred to the then Ministry for prosecution under the Water Authority Law. The underlying issue was that the original wastewater system was of poor design and various attempts to repair/salvage the system were only partially successful, this situation was exasperated by a failing Strata that did not have any money as the owners did not pay their fees. The situation

led to several instances of substantial sewage overflows onto the ground and backing up of sewage into apartments.

The Secretary circulated a copy of the memorandum and historic information package that was sent to the Ministry of DAWLA, the Chief Officer in the Ministry of Community Housing as well as the Chairman and Board member Ms A Owens. Mrs P McGaw-Lumsden was provided with a hard copy of the documents and the Secretary advised that any member wishing to have a copy could have it emailed to them.

In January 2011 the Water Authority was notified by Department of Environmental Health that one of the 8 wastewater treatment systems was not working and that sewage was being discharged on the ground. The Authority served a Notice of Violation on the Strata requiring them address the situation. Days later a second system was found to be in the same condition and a second Notice of Violation was served on the Strata. The chairperson of the Strata indicated that the Strata was not functioning, as owners do not pay fees. Later on she provided a copy of her letter of resignation.

The Secretary noted that unfortunately the current situation is a repeat of the circumstances in 2006, where due to non-functioning Strata the failing system went beyond repair. In this instance problems with the system can be rectified, however the Strata does not have the finances to do so, and owners fail to participate in the Strata and do not pay their fees. The Secretary advised that the Authority saw no other solution but to ask the Ministry to seek prosecution by the Attorney General. It should be noted that other Government agencies such as Department of Environmental Health and the Planning Department are also addressing violations. Members discussed the situation and agreed that the legislation governing the operation of Strata need to be improved. Members agreed that the Authority had done as much as was possible and that the matter had been raised to Ministerial level to be addressed.

- g) *Update on Negotiations of Cayman Water Company Licence (CWC)* - The Chairman reported that at the negotiating meeting held during the week of 7 February 2011 the negotiations reached an impasse. The main issue of contention is financial matters, however legal and contractual matters have also been difficult negotiation points. In respect of the financial model, CWC has operated under a model that provided them with automatic annual rate adjustments based on US and CI inflation. This has led to a generous profit margin, however customers did not benefit financially from efficiency improvements.

The Chairman reported that the Government had endorsed the Rate Cap Adjustment Model (RCAM) as the financial model for CWC; this model is based on the same principles as the licence under which CUC operates. The RCAM provides an equitable mechanism to protect both the Company and the customer by giving the Company a fair rate of return on their

investment and by the customer having to pay for water in a manner that fairly reflects the actual cost of providing the water supply. The Government team has worked on the various elements of the RCAM and proposed a target rate of return of [REDACTED] for CWC. Recently this target was independently confirmed by KPMG as being reasonable for a regulated, for-profit water utility operating in the Cayman Islands.

The Chairman explained that if accepted, CWC's 2009 net income would [REDACTED]. Over the last few months the negotiations about the various elements of the RCAM have been difficult, with CWC taking an unrealistic and unreasonable approach. At the last meeting, CWC stated [REDACTED] and that they had a particular profit margin in mind and would not accept anything less, irrespective of the rate adjustment method used in the licence (RCAM model, versus the original inflation based model).

The Chairman also noted that a related issue is that the CWC team does not view the negotiations to be specific for Cayman Water Company, the water utility franchise for the Seven Mile Beach Area and West Bay, but views the negotiations in the context of the financial position of Consolidated Water Company, the parent company, which has a number of other activities throughout the Caribbean region. Consolidated Water Company as a whole needs the high profitability of Cayman Water Company's operations to finance other ventures outside the Cayman Islands. The Chairman reported that the Government team does not agree that customers in the West Bay and Seven Mile Beach Area should have to pay high water rates in order to finance the various other investments of the parent company.

The Chairman reported that as a result of the position taken by the CWC negotiation team, the Government team did not see much point in further discussion on the specific elements of the RCAM. CWC refused to provide detail on their expected profit margin and stated that this would be rejected by the Government team anyway. They also referred to a presentation to Government made in April 2010, at which the Government team was not present. The Government team therefore invited CWC to present its case and specifically their expectations for their profit margin and resulting water rates (using the Government-endorsed RCAM model) in writing to the Honourable Minister, so that Government could review its options on how to proceed with the negotiations.

The Chairman explained that in addition to the impasse on financial issues, it should be noted that CWC also expressed serious concern about the impact of the new Water Production and Supply Law and amendments to the Water Authority Law on the negotiations process and the issue of a new licence. CWC took the position that under this legislation the new

\* Redacted under Section 21  
(1) (b) of The Freedom of  
Information Law, 2007

licence could be challenged. They would like to have the legislation amended to exempt them from the new Law or to resolve this matter through the Courts. The Chairman reported that the Authority, the Ministry and Legal Department worked together to construct a formal response to CWC refuting their position.

The Chairman noted that Government agreed to a further and final extension of CWC's current licence for the period 04 January 2011- 04 April 2011, with the provision that for the period of this extension the Company is not entitled to the annual rate adjustment. CWC however submitted their request for the annual rate adjustment for 2011; effectively this would be an increase of 2.3% over the 2010 rates. The Authority verified the calculations and confirmed to CWC that these were mathematically correct. However, the Authority also informed CWC that it had not approved the rate adjustment and that the matter had been referred to Cabinet for a decision as the instructions from Cabinet in the licence extension to 04 April 2011 indicated that no rate increase would be allowed. The Chairman reported that on 15 February 2011 CWC responded to the Honourable Minister challenging Government's position regarding the rate adjustment and that the Authority would be working on this with the Ministry.

Board members on the Government team and present at the meeting, Mrs P McGaw-Lumsden and Ms A Owens, confirmed that the negotiations were at a difficult stage.

- h) Mr John Masters' Court Case** - For discussion on this item, members agreed that Ms R Sharma did not need to excuse herself from the meeting. The Chairman reported that the Authority's lawyers were informed of the Board's decision at the 211<sup>th</sup> meeting held on 29 January 2011 as follows:

Water Authority agreed to accept Master's offer for discontinuance with the following provisos:

- a) No funds are reimbursed.
- b) Acknowledgement that there is no agreed basis of facts.
- c) There is a confidentiality agreement with no further comment by either party.

The Chairman reported that the Authority's lawyer had subsequently informed the Authority that he had had a "without prejudice" discussion with Mr Masters. Mr Masters advised the Authority's lawyer that he is willing to sign a confidentiality agreement, but insisted that he be paid the amount that he is claiming. The Authority's lawyer reported that although the discussions were entirely amicable, he suspects it is unlikely that Mr Masters will bring the matter to a conclusion without some sort of payment. The Authority's lawyer's email on the matter was read by the Secretary.

The Chairman reminded members that the position taken by the Authority's is that as a matter of principle no repayment should be made.

The Chairman noted that if this remained the Board's position then the Authority's lawyer was of the view that the matter should proceed to the earliest available trial date to bring this situation to a conclusion. Members briefly discussed the matter and confirmed that their position remained the same. Members instructed the Secretary to instruct the Authority's lawyer to proceed with the matter through the Courts.

- i) *FOI updates* - The Chairman reported that no request was received as of 11 February 2011 as shown in the Freedom of Information report provided to members.

### Current Business

a) **Management Accounts January 2011.**

The Chairman reported that the Finance Department had prepared the summary financial statements for the period ending 31 January 2011.

Based on estimates for the first seven months of the 2010/2011 financial period Operating Revenue was flat from last year, showing 0.7% decrease over the same seven month period in 2009/2010, and approximately 4.7% below budget figures. The Authority continues to closely monitor sales and associated revenue as revenue continues to be below budget figures. Although it is just two months into the dry season revenue is not expected to fluctuate too much in the next five months.

Operating Expenses were lower than last year, showing a decrease of 2.8% and approximately 14.3% below budget. Administrative Expenses were slightly above last year by 4.9% but were approximately 12.7% under budget; the increase over last year is primarily attributable to the increase in legal and professional fees associated with the sale of the Wastewater (WW) assets.

Overall earnings for first 07-month period in 2010/2011 were estimated at \$2.0 million which was higher than expectation by \$1.5 million. The Authority continues to be in a strong financial position and will continue to closely monitor operational and administrative expenses in light of the current economic situation, low budgeted revenue figures and pending sale of WW assets.

### Donation Requests

The Chairman advised that the amount remaining for donations out of the \$39k budgeted was \$12k. Additionally, he noted that the Secretary had been advised by the Valencia Football Club that due to lack of corporate sponsorship as well as the lack of support from the local football fraternity, the Football Camp for youth had been postponed. The Authority had approved



US\$5,000 for the programme at the January 2011 meeting therefore this amount was now available in addition to the \$12k.

**a) Special Olympics - World Summer Games.**

Members agreed to sponsor the Cayman Team for Special Olympics to participate in the World Summer Games 2011 through the Cayman27 Campaign in the amount of \$1,000. The motion was moved by Mrs P McGaw-Lumsden, seconded by Mrs I Simms and passed unanimously.

**b) Bodden Town Football Club.**

Members agreed to sponsor the Bodden Town Football Club in the amount of \$500 to assist in their club programme expenses such as players' participation in the Nike Champions Cup in May 2011. The motion was moved by Mr W Scott, seconded by Mrs P McGaw-Lumsden and passed unanimously.

**c) Academy Sports Club.**

Members agreed to sponsor the Academy Sports Club in the amount of \$500 to assist in their players' participation in the Schwan USA Cup in Minnesota this summer. The motion was moved by Mr W Scott, seconded by Mrs P McGaw-Lumsden and passed unanimously.

**d) Sister Islands Agriculture Show.**

Members agreed to donate 5 gift certificates for 1,000 gallons each of trucked water in Cayman Brac for prize drawing at the Sister Islands Agriculture Show. The motion was moved by Mr J Banks, seconded by Mrs I Simms and passed unanimously.

**e) CI Agricultural Society - Agriculture Show 2011.**

Members agreed to donate 4 gift certificates each for the value of \$25.00 piped water in Grand Cayman as well as 4 gift certificates each for the value of \$50.00 piped water in Grand Cayman and noted that the Water Authority would not be able to donate aggregate as requested. The motion was moved by Mrs P McGaw-Lumsden, seconded by Mr W Scott and passed unanimously.

**f) Cayman Islands Equestrian Federation - support for Jessica McTaggart.**

Members decided not to make any donation to assist with this request, however they would like to congratulate Ms McTaggart on her achievement and wish her every success on the road to the Olympics 2012.

**g) Catherine Ebanks -support to go to Global Young Leaders Conference.**

Members agreed to support Ms Ebanks to attend the Global Young Leaders Conference in the amount of \$500. The motion was moved by Ms A Owens, seconded by Mrs P McGaw-Lumsden and passed unanimously.

**h) CI Marathon.**

Members decided not to make any donation to assist with this request, however they wished the organisers of the Marathon continued success.

**i) Business & Professional Women's Club (BPWC) of Cayman Brac.**

Members agreed to donate 5 gift certificates for 1,000 gallons each of trucked water in Cayman Brac for the BPWC of Cayman Brac's fundraiser. The motion was moved by Mr J Banks, seconded by Mrs I Simms and passed unanimously.

**j) CI Chamber of Commerce - Earth Day Roadside Clean up.**

Members agreed to continue the annual sponsorship of the CI Chamber of Commerce Earth Day Roadside Cleanup in the amount of \$1,000. The motion was moved by Mrs P McGaw-Lumsden, seconded by Mr J Banks and passed unanimously.

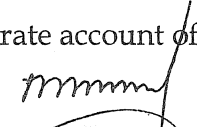
**Any Other Business**

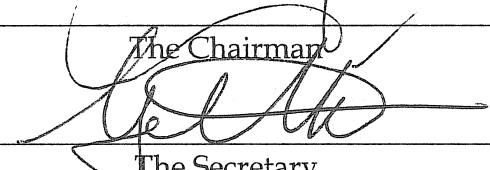
**Chairman on Sabbatical.**

The Chairman advised members that he would be leaving the island on 21 February 2011 to go on a sabbatical for four weeks. He noted that the sabbatical was planned before his appointment as Water Authority Board Chairman and as such it was not a commitment that he could postpone. The Chairman then tendered his apologies as he would not be available for the 16 March 2011 meeting. The Chairman recommended and members agreed that Mr T Hydes be Acting Chairman for the meeting for the March 2011 Board meeting. Members and the Secretary took the opportunity to wish the Chairman all the best as he embarked on his journey.

There being no other business the Chairman adjourned the meeting at 2:40pm.

This is a true and accurate account of the proceedings.

  
\_\_\_\_\_  
The Chairman

  
\_\_\_\_\_  
The Secretary