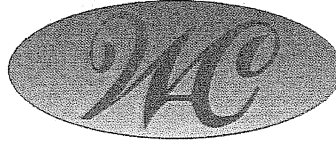


CONFIDENTIAL



Water Authority of the Cayman Islands

Minutes of 214th Meeting held on 20th of April 2011

Members Present:

Chairman: Mr J L Hurlston

Members: Mr J Banks
Mrs P McGaw-Lumsden
Mr W Scott
Ms R Sharma
Mrs I Simms
Mr M Smith
Mr O Watler

Mr D Faucitt (*from DAWLA Ministry
representing Mr T Hydes*)

Secretary: Dr G Frederick-van Genderen

Apologies: Mr T Hydes
Mr C McLaughlin
Ms A Owens

Call to Order

The Chairman welcomed members and called the meeting to order at 1:34pm 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 Ms A Owens.

Minutes of the 212th held on 16th of February 2011

The Chairman asked for confirmation of the Minutes of the 212th Meeting held on 16 February 2011.

Mr J Banks moved the motion to accept the Minutes, Mr O Watler seconded the motion and the motion passed unanimously.

Minutes of the 213th held on 16th of March 2011

The Chairman asked for confirmation of the Minutes of the 213th Meeting held on 16th March 2011.

Mr J Banks noted that on page 3, the second sentence should read "....of the Extraordinary Meeting held on 11 August 2010."

Mr J Banks moved the motion to accept the Minutes, Mr W Scott 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 WTC.

The Chairman reported that nothing has changed since reported at the last Board meeting. The Chairman reported that he understood from the Secretary that a new Chairman and a new member will be/have been appointed to the Wastewater Technical Committee (WTC), although this had not yet been officially confirmed. The Chairman expressed his concern that there was no progress with the Chairmanship of the Government appointed WTC particularly as Government had clearly indicated that this project was very important to their National Development Plans. It is clear that the Authority and the Board cannot be accused of causing any delays to this project as this situation regarding the lack of a Chairman WTC is beyond the Authority's control. The Chairman requested that the suggestion be made to the Ministry that with the appointment of a new Chairman the WTC be given terms of reference that would allow for the Committee itself to appoint an Acting Chairman in the event the appointed Chairman prematurely resigns or is unavailable. The Secretary said that she would ensure that this suggestion be brought forward to the Ministry.

b) Randyke Gardens - Update.

The Chairman reported that the matter of the failing onsite wastewater treatment systems of Randyke Gardens has been reported at previous Board meetings. The Chairman reported that bids from private sector wastewater service providers to repair the systems were received; the Authority reviewed the bids and made a recommendation to Government. The Authority understands that Government has accepted this recommendation. The contract for the repairs will be executed shortly pending review of the documentation by the Premier's Office. The Chairman reported that the recommended bid is from Andro, for \$23,332.36, the Authority recommended to add a contingency to a total of \$40,000. This is recommended as part of the emergency works includes a review of all 8 systems; this review may bring up other issues that are not covered in the bid. The maintenance contract for the 8 systems, once all repairs are completed is \$ 1,965/month; this is \$24.56/month for each of the 80 apartment units.

c) **Update on Negotiations of Cayman Water Company Licence (CWC).**

The Chairman reported that at the last Board meeting members were informed about the stalemate in the negotiations between Government and the Authority and Cayman Water Company (CWC) for the renewal of Cayman Water Company's licence. The Chairman reported that since the last Board meeting the following developments have taken place:

- The Authority and Government team now obtain legal advice from Ms Vicki Ellis, Deputy Solicitor General and Mr Kenneth Farrow QC, Counsel of Mourant Ozannes. Both persons will also be involved in the negotiations. Ms Anna-Marie Rambarran is no longer on the Government Team.
- As it was impossible to reach agreement with CWC on the financial issues of the licence, the Government Team has asked CWC to provide a complete rate proposal under the parameters of the RCAM (Rate Cap Adjustment Model). This model was discussed during the negotiations, but CWC stated that they were not prepared to accept the specific parameters of the model as proposed by the Government Team as it would

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

discussion points on which no agreement could be reached are how the rate base is established, the value of assets, allowance for working capital, allowance for inventory, energy efficiency of reverse osmosis plants and Non Revenue Water.

The Chairman reported that the Government Team proposed to resume negotiations at the next meeting to be held on 09 May 2011, it is expected that the discussion will focus on the rate proposal from CWC.

The Chairman reported that in respect of CWC's application for the annual rate adjustment for 2011 under the current licence, the Government Team's lawyers reviewed the matter and determined that CWC is entitled to that rate adjustment. This means that CWC's base water rates will increase by 2.3% for the year 2011, as a result CWC's base water rates for residential customers compared to Water Authority rates will be 19.5% higher.

The Chairman reported that Cabinet had agreed to extend the current licence by 3 months from its previous extension date of 04 April 2011 to 04 July 2011. The Board was asked to endorse this decision and approve the draft licence amendment to which members agreed.

The Chairman reported that the Deputy Director, Financial Controller, Water Resources Engineer and himself would be attending a one week study

programme in the UK on Better Regulation in the water and wastewater industry. Information on the course was forwarded to the Authority by the Permanent Secretary in the DAWL&A Ministry in October last year. This programme is very timely with the Authority's move under the recent legislation passed to become regulator of private water and wastewater companies providing service to the public.

d) Miscellaneous Updates.

a) In-House Pipelaying Crews - The Chairman reported that one crew completed the installation of a 12-inch main along Shamrock Road, between Red Bay Roundabout and the Red Bay Booster Pumping Station. This pipeline has been commissioned, and the Booster Pump station is now operational. This will allow more flexibility in the operation of the water distribution system. The same crew will now commence the upgrade (to 12-inch) of the 6-inch pipeline in South Sound. The first phase will be between the intersection with Old Crewe Road and Cayman Crossing.

The other crew completed the installation of small diameter pipes in Scarf Lane (off Northward Road), and in Off The Beaten Path (off Frank Sound Road), both pipeline extensions were required to provide supply to new sub-divisions. This crew will next commence the installation of a 6-inch pipe in Arlington Road (off Frank Sound Road).

b) Water Supply Division - The Chairman reported that all pipelaying on the South Church Street pipeline upgrade was completed by the Water Authority on 01 April 2011. All customers on the fourth and last section were reconnected to the new main on 12 April 2011, with all temporary pipework removed and temporary road surface installed by the end of that week.

On 15 April 2011 National Roads Authority (NRA) was informed that all work had been completed and that they could schedule the hot mix asphalt road reinstatement on the last section between Texaco terminal and Denham Thompson Way. It is anticipated that this will be done within the next few weeks.

The next major pipeline replacement planned is on Bodden Town Road between Kipling Street and Midland Acres junctions. Work will commence the first week of May with installation of temporary valves and connections.

c) Red Gate Water Works - Inspection of Reservoir #1 - The Chairman reported that repair work on the 1.2 MG fibreglass reservoir at the Red Gate site is nearly completed. During the initial inspection earlier this year it was found that some of the 3-inch diameter roof supports had been dislodged. During the week of 20 April 2011 week all these supports will be repositioned. Upon the arrival of the Sikaflex polyurethane sealant, repair of the worst cracks in the floor panels will commence. It is anticipated that all repair work will be completed before the end of this

month, after which the reservoir will be disinfected and filled and returned into service.

- d) *Cayman Brac Site* - The Chairman reported that currently the Cayman Brac SWRO plant is running at 1,000psi membrane pressure. The Secretary explained that this is partly due to the fact that some of the membranes have become fouled with calcium carbonate (having been in service for 5+ years), and will need to be replaced. NanoH2O, a new membrane manufacturer based out of Los Angeles, Ca., has approached the Authority with a proposal for an Energy Savings Agreement. Under the agreement NanoH2O will supply 36 new SWRO membranes at no up-front cost. Instead, the Authority will pay NanoH2O a monthly payment of US\$1,597 for 3 years.

The Secretary noted that with the new NanoH2O membranes, that the operating pressure will be lowered by nearly 30% to around 720psi, thus saving energy. Using the energy consumption and water production numbers from last year, the Authority is projected to save on average US\$2,832 per month using these new membranes. Assuming that the cost of electricity will increase, with the same water production, the anticipated cost savings will be higher.

The agreement includes plant performance guarantees that the NanoH2O membranes must meet. The 3 performance guarantees are:-

1. Permeate flow rate: must be greater then 134,000 USgpd (507 cu m per day)
2. First pass system permeate quality: must be less then 400ppm TDS
3. First pass membrane feed pressure: must be less the 720psi.

If NanoH2O's membranes do not produce these performance guarantees, NanoH2O will repair or replace membranes, as needed, at no cost to WAC. The new membranes are guaranteed to produce satisfactory quality water.

Alternatively, the Authority could purchase the membranes themselves (at a cost of US\$850.00 each, or for a total of US\$30,600), with a ROI of roughly 11 months. However, the Authority would not have the benefit of having the manufacturer repair or replace the membranes for the full three years if the performance criteria are not achieved, as the manufacturers only warrant membrane performances for one year. Members did not have any objection to the Authority proceeding with the NanoH2O agreement.

The Secretary reported that the Graduate Electrical Engineer will visit Cayman Brac in the next few weeks to determine the layout for the conduits necessary for the security cameras at the RO building and to install the new emergency generator switch and other minor electrical refurbishments. He will use that opportunity to contact Cayman Brac Power & Light regarding an update on the potential lease of a 500KW, 480 Volt, 3 Phase emergency stand-by generator and the installation of a pad-mount transformer near the site entrance thus improving reliability of water production and distribution at the existing site.

The Secretary provided members with a copy of the draft flyer the Authority is planning on circulating in Cayman Brac to streamline procedures. Members had no objection to the Authority proceeding as planned. However, Mr J Banks said he would review the flyer and be in contact with the Secretary if he felt there would be any significant issues with the plans.

- e) *Mr John Masters' Court Case* - The Secretary reported that so far expectations are that the Authority would be in Court with Mr Masters on 12 May 2011.
- f) *FOI updates* - No request was received as of 18 April 2011 as shown in the Freedom of Information report provided to members.

Current Business

a) **Management Accounts March 2011.**

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

Based on estimates for the first nine months of the 2010/2011 financial period Operating Revenue continues to be flat from last year, showing 1.0% increase over the same nine month period in 2009/2010, and approximately 4.8% above budget figures. As this calendar period is the middle of the dry season and revenue is not expected to fluctuate too much in the next three months.

Operating Expenses were slightly higher than last year (0.2% and 8.2% above budget). This increase is due primarily to the increase in depreciation expense attributed to the decrease to 25 from 50 years useful life of Water Storage Tanks and as further explained at the March 2011 meeting.

Administrative Expenses were slightly higher than last year by 2.1% and approximately 9.5% 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 assets and scholarships.

Overall earnings for first nine month period in 2010/2011 were estimated at \$2.3 million which is higher than expectation by \$500k. 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 WW sale.

The Secretary advised that in view of the move to the lease of the assets of the water utility functions and finalization of the sale of the wastewater assets, the Authority proposes to engage KPMG to prepare unique water and wastewater accounts for the period ending 30 June 2011. This will ensure the maintenance

of unique financial statements to provide segregated information on the operating segments within the Authority and also to facilitate in providing accurate, up to date, and relevant information for the wastewater asset sale and water utility lease. The cost is expected to be in the range of \$10,000. Members had no objection to the Authority proceeding with engaging KPMG to prepare unique water and wastewater accounts for the period ending 30 June 2011.

b) Vacuum Air Bubble Technology - MOU Request for International Waterwerks System.

The Secretary reported that the Water Authority had been approached by Mr Roger Hendrickson, president and managing director of International Waterwerks Systems Ltd. ("IWS") to propose a collaborative effort for a 3 phase project to demonstrate and to field test aeration equipment for onsite wastewater treatment plants and septic tanks. This aerator uses Vacuum Bubble ® Technology ("VBT") that is sold in the US by Advanced Aeration, Inc. The Water Authority (WA) is being asked to agree to a non-binding Memorandum Of Understanding (MOU) for the project. A copy of the proposed MOU was provided to members.

The Secretary explained that the aeration device delivers vacuum bubbles in the aeration part of aerobic treatment plants or the first compartment of septic tanks. The advantage of vacuum bubbles compared to conventional aeration devices is that they stay in solution for several minutes and optimize oxygen transfer to the biomass that treats organic waste. The expectation is that as a result of using this device there will be a significant reduction in the organic and total suspended solids loading of the effluent in septic tanks. The device is a retrofit for septic tanks and poorly functioning aerobic treatment plants and has the potential to improve effluent quality. The project will verify this potential and review the level of complexity to introduce this technology as a retrofit on existing systems. The project will consist of 3 phases as explained in the MOU.

The Secretary reported that the Authority's management had reviewed the draft MOU in conjunction with IWS which was before the Board for review. The Board was respectfully asked for guidance on the acceptance of the MOU. Upon acceptance the project will proceed as intended in the MOU. Members discussed the proposal and requested further information on the estimated cost of the devices. The Secretary was able to get the information during the meeting and reported that the estimated cost for a retrofit of a septic tank was CI\$3,000 to \$4,000 and for aerobic treatment units \$5,000 to \$15,000 depending on the size required. Members agreed to the Authority signing the MOU and that the Authority's commitment would be for Phase 1 after which, based on the outcome, the Board will decide whether the Authority continues with the programme.

c) **Request for Installation of Piped Water Infrastructure in Winter Garden Boddien Town.**

The Chairman reported that Mr Arnold Berry had written on behalf of Pirates Caves Limited to the Board requesting consideration for extension of the water infrastructure into a subdivision that will consist of twelve residences. Copies of Mr Berry's letter, dated 11 March 2011 but received on 21 March 2011 along with various attachments were provided to Board members.

The Chairman explained that the policy (in place since 2001) regarding the extension of water pipelines into private roads (which includes Private Rights of Way, such as the access road to the Winter Garden property) limits the available options, and can be summarised as follows: the Water Authority will extend the public water supply system within the private roads at no cost to the owner(s) of the road, up to a maximum length of approximately 100 linear feet per single residential customer.

The above policy was originally devised to obtain a 15% return on the Authority's investment within two years of the completion of the pipeline extension. However at that time (late 2001) the pipelaying costs was lower and estimated to be around \$16.00 per foot, plus the cost of mobilisation/demobilisation, etc. At present, the same policy only makes about 10% return on the Authority's investment within two years of the completion of the pipeline extension providing connections are made.

The pipeline extension from Mijal Road to the abovementioned property boundary is approximately 700 linear feet. As this pipeline will also provide water service to most of the adjacent properties Mr Berry was advised that this pipeline must be at least 4-inches in diameter.

The Chairman explained that the total pipelaying costs are determined primarily by the trenching and labour costs, the actual pipe size does not matter as much (except when a wider trench is required). If the pipe size is found to be inadequate in the future, when the adjacent properties develop, the Water Authority will have to replace the entire pipeline.

The Chairman reported that the current cost estimate for this work is at least \$40.00 per linear foot as the pipeline installation will be mainly in solid rock. In accordance with the above policy Pirates Caves Limited's contribution for this pipeline extension would therefore be \$24,000 (comprising 600 feet @ \$40.00 per ft).

The Chairman reported that Mr Berry was advised that he could also arrange to have this pipeline installed by a contractor under the supervision of the Water Authority's Quality Assurance Inspector, and in strict accordance with the Authority's "Guidelines for constructing potable water mains" as, upon

completion, the pipeline would be come the responsibility of the Water Authority to maintain.

The Board was respectfully asked on how they wish to proceed. After a discussion on this matter members decided to instruct the Authority to proceed providing the developer paid \$10,000 towards the total pipeline installation cost of \$24,000. The motion to request the developer pay \$10,000 towards the cost of installation of the pipeline was moved by Mrs P McGaw-Lumsden and seconded by Mr J Banks and passed unanimously.

d) Request from Scholarship Student Kimberly Solomon.

The Chairman reported that scholarship student, Kimberly Solomon, will be graduating in May this year. She has done very well academically and has written to the Board requesting permission to seek post-grad qualifications and certifications in Information Technology over a two year period. A copy of her letter was provided to members. Although it would be very helpful for the Authority to have Ms Solomon return to work, the opportunity to do as she proposes will be of great benefit to her professional career development. The Chairman noted that the Authority's management is supportive of her request. Board members discussed Ms Solomon's letter and agreed to support her request provided that the post-grad qualifications and certifications she seeks are undertaken outside the Cayman Islands. The motion to approve Ms Solomon's temporary two year release from her scholarship bond was moved by Mr O Watler and seconded by Mrs I Simms and passed unanimously.

e) Lease of Water Utility Project.

The Chairman reported that the Ministry had requested that the Authority move forward with this project as quickly as possible. The Chairman reported that the Secretary had advised the Ministry that the Authority's management worked on Terms of Reference with KPMG but these were not finalised due to the other competing priorities. The Chairman noted that the Authority recognises the significance of this endeavour but to complete the process by the end of the 2010-2011 financial year would be extremely difficult and is not possible due to the time constraints and the complexity of separating the water utility operations from the other regulatory functions.

The Chairman explained that the divestment of the WW assets is a major priority and with the appointment of a new Chairman to the Technical Committee and the imminent award of the tender, the Authority's resources will be very much tied up in the process of transitioning the wastewater operations to the new owners. Additionally, the CWC negotiations are tentatively expected to resume in a few weeks which will again tie up the same resources. As these are all intricate and consuming projects, the Authority needs to make sure that resources are focused on these to ensure successful outcomes.

The Chairman reported that the Authority has however, formulated a high level strategy for the Water Utility Lease Project (WULP):

- finalise TOR with KPMG and CIG
- formally engage KPMG to carry out TOR
- review and consult on KPMG report
- from KPMG report advise CIG on options
- prepare appropriate documentation
- facilitate the tender process and award lease contract and licence to successful bidder

The Chairman stated that the Board and management recognise their responsibility to carry out the CIG's policies however he is concerned that the Authority is being poised to be held responsible for delays that are not under our control.

Donation Requests

The Chairman advised that the amount remaining for donations out of the \$39k budgeted is \$10.2k. The Chairman noted appreciation letters from the Clifton Hunter Flight Club and Trinity Performance Track Club.

a) Global Young Leaders Conference - NorDania Stewart.

Members agreed to sponsor Ms NorDania Stewart's participation in the Global Leaders Conference in the amount of US\$500. The motion was moved by Mrs P McGaw-Lumsden, seconded by Mrs I Simms and passed unanimously.

b) Lions Club of Grand Cayman - White Cane Week.

Members agreed to make a donation in the amount of \$500 to the Lions Club of Grand Cayman in support of White Cane Week. The motion was moved by Mrs I Simms, seconded by Ms R Sharma and passed unanimously.

c) CI Health Services Authority Staff Gym.

Members agreed to make a donation in the amount of \$250 to the Health Services Authority Staff Gym. The motion was moved by Mr J Banks, seconded by Mr O Watler and passed unanimously. The Secretary noted that the Water Authority staff would likely feel somewhat disenchanted that there is monetary support for another Statutory Authority's staff benefits. Members agreed that the Secretary should seek to do something special for Water Authority staff.

d) Ratification of donation of 2 gift certificates for 1000gals trucked water for PWD in Cayman Brac as requested by Ministry.

The Secretary advised that she was requested via email on 24 March 2011 by the Ministry to provide two gift certificates each for 1000gals trucked water to be used as prizes for PWD in Cayman Brac. The motion was

moved by Mrs P McGaw-Lumsden, seconded by Mr W Scott and passed unanimously.

Any Other Business

a. Correction 211th Minutes of 19 January 2011 Meeting

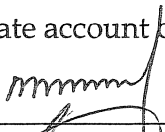
The Secretary reported that upon review of the 211th Minutes of the 19 January 2011 meeting of the Water Authority Board, it was realized that under Agenda item Current Business (a) 30 June 2010 Annual Report, that the following sentence should be added to the end of the first paragraph "Members approved the 30 June 2010 Annual Report." Members noted and agreed.

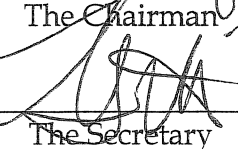
b. CAWASA (originally CBWMP) Annual General Meeting

The Secretary reported that the Caribbean Water and Sewerage Association Inc (CAWASA) which was originally known as Caribbean Basin Water Management Programme Inc (CBWMP) had requested that the Authority host the 2011 Annual General Meeting in Cayman. CAWASA is a regional body that provides opportunity for training and human resource development for water related utilities in the Caribbean. The Authority has been a member since the programme originated in the mid-1980s and has benefited significantly from various training opportunities offered through the organisation. CAWASA is the regional organisation approved by the American Board of Certification to manage the Operator Certification programme in the Caribbean. The Secretary explained that many of the Authority's staff had benefited from the Operator Certification Programme. The Authority last hosted the meeting in 2001 in conjunction with the Caribbean Water and Wastewater (CWWA) Conference. The CAWASA AGM is planned for December 2011 and is not a major expense to the host utility as the organisation pays for the cost of accommodation and venue. The number of delegates is usually 10-15 and the Authority would propose to use its own facilities for the 2-day meeting. The Secretary is respectfully seeking the Board's view/approval on hosting the AGM. Members agreed for the Water Authority to host the AGM of CAWASA.

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

This is a true and accurate account of the proceedings.



The Chairman


The Secretary

