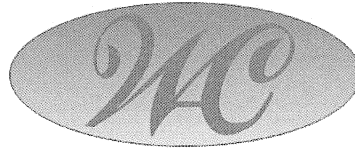


CONFIDENTIAL



Water Authority of the Cayman Islands

Minutes of 217th Meeting held on 15th of June 2011

Members Present:

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

Call to Order

The Chairman welcomed members and called the meeting to order at 1:35pm after ascertaining that there was a quorum. The Chairman then opened the meeting with prayer and acknowledged the absence of Mr C McLaughlin.

Minutes of the 216th held on 25th of May 2011

The Chairman asked for confirmation of the Minutes of the 216th Meeting held on 25 May 2011.

Ms A Owens moved the motion to accept the Minutes, Mrs I Simms seconded the motion and the motion passed unanimously.

Declaration of Conflicts of Interest

None were declared.

Matters Arising

a) **Divestment of Water Authority Wastewater Assets – Update on WTC.**

The Chairman reported that on 07 June 2011, the Wastewater Technical Committee (WTC) met to review the proposals. There were a few issues that the WTC sought clarification from the Ministry on regarding “value to Government” as well as the matrix to be used for the evaluation of the bids. The Chairman advised that the Secretary was not sure if the responses provided by the Ministry resolved the WTC issues. Mr T Hydes confirmed that the Ministry provided the guidance needed by the WTC. The Chairman reported that the Ministry advised the WTC that the matrix approved in the Request For Proposal (RFP) needed to be used otherwise the public tendering process would be compromised.

The Chairman explained that as the Technical Assistant/Secretary Mr van Zanten would be out of office until 27 June 2011 and as the bids expire on 09 July 2011, it would be necessary to ask the companies to hold valid their proposals for an additional 30 days to allow time for the Water Authority Board approval and CTC to make the award.

The Chairman reported that on 03 June 2011 the Authority received a written request from the Office of the Auditor General (OAG), Mr Alastair Swarbrick, for information pertaining to the sale of the wastewater assets. The Authority prepared a package and hand delivered the information to him on 14 June 2011. Copies of the original request and the Authority’s response were been provided to members. The majority of the information provided was readily available (i.e. RFP) to the public and all other information (i.e. Valuation and VDD document) had previously been presented to the Auditors as part of the 30 June 2010 audit.

b) **Randyke Gardens – Update.**

The Chairman reported that further to previous updates, the situation of the failing wastewater treatment systems at Randyke Gardens was not resolved. It is the Authority’s understanding that the Chief Officer of the Ministry of Financial Services, Tourism & Development had approved the release of funds to carry out the emergency repairs and that he requested the Ministry of District Administration, Works, Lands & Agriculture (DAWLA) to coordinate the release of the funds. The Secretary provided the Permanent Secretary (PS) of the Ministry with a draft letter for the Strata to explain that Government would take care of emergency repairs and that the Strata, as a condition for these works to go ahead, needs to sign the maintenance contract for the

wastewater treatment plants, so that, once repaired, the Strata is responsible. Mr T Hydes confirmed that the draft letter was given to the PS.

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

The Chairman advised that as reported at the last Board meeting, the next step in the negotiations is a meeting of legal counsel representing Government and Cayman Water Company to discuss CWC's challenge of the legislation and the role of the Water Authority as regulator in the negotiations. It has been difficult to agree on a meeting date due to key persons not being available. The latest proposal from Government is that the meeting takes place the week of 27 June 2011.

In the mean time other pending matters, such as the Honourable Minister's request for a complete rate proposal from CWC (letter of 04 May 2011), has not been responded to. CWC insists that at the last negotiations meeting on 08 February 2011 the Government Team agreed that the Honourable Minister would provide them with the acceptable percentage rate of return. The Government Team disagrees that it had made such a commitment on behalf of the Honourable Minister, and confirmed this position to CWC. In the mean time no rate proposal has been provided by CWC.

The Chairman noted that as a consequence of the lack of progress in the negotiations since 08 February 2011 is that the 5th licence extension from 04 April - 04 July 2011 will be insufficient to complete negotiations. Thus, it is expected that CWC will request a further extension of the licence.

d) Miscellaneous Updates.

a) In-House Pipelaying Crews - The Chairman reported that one crew continues with the upgrade (to 12-inch) of the 6-inch pipeline in South Sound, starting at Old Crewe Road towards Cayman Crossing. To date 1,650 feet of pipes out of 2,050 feet has been installed. The other crew continues the installation of 6-inch and 3-inch pipes in Arlington Road and its side roads (off Frank Sound Road). As of the week of 13 June 2011, 2,300 feet of pipes has been installed. This project should be completed by 20 June 2011 inclusive pressure testing, disinfection and flushing. This crew will then move to extend the pipeline along the Mastic Road off Frank Sound Road.

b) Water Supply Division - The Chairman reported that Operations continues the work on the replacement of the 12-inch pipeline along Bodden Town Road, between Kipling Street and Midland Acres. As of the week of 13 June 2011, the crew installed 1,800 feet of pipeline with approximately 4,000 feet remaining. Operations carried out the Authority's annual hurricane drill on 10 June 2011.

c) *Red Gate Water Works - Inspection of Reservoir #1* - The Chairman reported that the repair work on the 1.2 MG fibreglass reservoir at the Red Gate site was not successful and with a leak rate of 113 cubic metres per day when completely full the operational decision was to keep the water level reduced. In the event of a storm the reservoir will be filled in about 24 hours. The Authority plans to replace this reservoir in the 2011/2012 fiscal period, after this year's hurricane season.

d) *Red Gate Water Works* - The Chairman reported that the electronic gate at Wren Lane entrance and security cameras became operational as of 03 June 2011.

Ocean Conversion Ltd (OCL) installed the new degassifier at the Red Gate plant to replace the existing under-sized equipment. However, it is not yet in service as there have been issues with the water quality.

e) *Lower Valley Water Production Facility* - The Chairman reported that the slight leak detected after the inspection and refurbishment of reservoir #1 (1 MG bolted steel tank) at the Lower Valley site has been rectified and this reservoir is now back into service.

f) *Cayman Brac Site* - The Chairman reported that the phase monitor for the new Automatic Transfer Switch (ATS) for the emergency generator has been installed. ElectraTech will be in the Brac shortly to install the required 3 surge suppressors.

The contract with NanoH2O was finalised and membranes are expected to be shipped by mid-June with the expectation that installation will commence in early July 2011.

g) *Caribbean Utilities Company - licensing of groundwater cooling* - The Chairman reported that the Authority has been working closely with CUC to licence their groundwater abstraction and discharge. Both the abstraction of groundwater and the disposal of cooling water by CUC are required to be licensed under the Water Authority Law. CUC had licences in place for the abstraction and disposal of cooling water but these have now expired. CUC applied for permission to install a new 42-inch diameter marine discharge pipeline into the North Sound, to accommodate the existing cooling water discharge through the existing 24-inch marine discharge pipeline at George Town Barcadere. The new pipeline also requires a Coastal Works Permit from Cabinet.

The Authority is working closely with the Department of the Environment to ensure that specific monitoring conditions are included in the discharge permit. It should be noted that CUC's prefers to discharge cooling water into the Sound, rather than in onsite disposal wells. They have used onsite disposal wells in the past, but these pose a problem for their own groundwater abstraction as ground water temperatures increase when cooling water is disposed in onsite wells. Another concern is the impact on the Authority's abstraction wells of the Red Gate Water Works, increased

feed water temperature affects the performance of reverse osmosis equipment. As CUC prefers to dispose cooling water in the Sound these issues are not of concern any longer.

It is expected that the permits will be completed by the end of the week and subsequently granted to CUC.

- h) East End Seaport - Environmental Impact Report* - The Chairman reported that as reported at the last Board meeting, the Environmental Impact Report for the East End Seaport Project has been reviewed by the Water Authority. The review was carried out with other Government agencies, with the Department of the Environment (DoE) being the lead agency; other agencies are the National Roads Authority and the Planning Department. The review has been completed and a response will be sent to the developer shortly by DoE. Consensus among the reviewing agencies is that the study is incomplete as a number of issues in the Terms of Reference (ToR) have been addressed insufficiently. In addition the proposed legislation, which was to be provided as part of the study, has not been made available. As such it is not possible for the collective Government agencies to provide a comprehensive review of the report if crucial information is missing.

The Chairman noted that the Water Authority reviewed the sections on the geology and groundwater modeling in depth. Dr Brian Jones, geology professor of the University of Alberta, who has done extensive research on the geology of the Cayman Islands for over 25 years, was involved in the review as well. In respect of the geology, the consultants carried out field work by installing 4 wells, including 3 cored wells, in the project area. The report is superficial in respect of the specific geology of the project area, data from the rock cores do not appear to have been used for the groundwater model. The Chairman reported that the Authority's management indicated that a significant issue is that the study assumed that the geology of the project area is homogeneous; this is a shortcoming of the study as the work conducted in the Cayman Islands by Dr Jones and other geologists clearly shows the intricacy and heterogeneity of the geology of the Cayman Islands.

The Chairman noted that the Authority found that the groundwater model has similar limitations as the geology; it is a preliminary model that predicts impacts on the lens, however due to the preliminary nature, the predictions do not have a high degree of accuracy. The developer's report acknowledges this and states that if the project goes ahead and mitigation of the impacts on the lens is required, additional groundwater modeling is needed.

The Chairman reminded members that the Water Authority has statutory authority over the excavation of canals; this is regulated through canal permits issued by the Authority. Under section 19 of the Water Authority Law, all groundwater in the Cayman Islands is vested in the Crown and is

controlled by the Authority in and of and on behalf of the Crown. Under section 5 (3) (c) the Authority has the duty to protect the groundwater lenses from depletion and contamination, to monitor their condition and to undertake artificial recharge programmes. Section 34 requires that the construction, replacement or alteration of canals is carried out under a permit issued by the Authority and subject to the conditions the Authority deems fit.

Based on the role of the Water Authority under the Law, the Chairman noted that the Authority may make specific requirements for this canal excavation as part of the canal permitting process. Additional information from the developer will be necessary to review a canal permit application as the current information provided by the developer is insufficient. The Authority has an option to refuse the permit, alternatively it is an option to grant the permit provided that sufficient mitigation is in place and the lens is not affected. If the Authority agrees to grant a permit, it will require the developer to put sufficient mitigation measures in place *prior* to excavation to protect the lens, rather than doing these afterwards if effects are detected. The design and implementation of these mitigation measures will require additional study and engineering. The study reviews various techniques, including slurry walls and wells to inject grout into the subsurface between the excavated area and the lens. As the study is of a preliminary nature, it is not possible to select a preferred and most effective mitigation method.

Members discussed this project and expressed general concerns with the project as a whole.

- i) *FOI updates* - No requests received as of 10 June 2011 as shown in the Freedom of Information report provided to members.
 - j) *Cayman Enterprise City (CEC)* - The Secretary advised that on 08 June 2011 the Authority was contacted by Dr Dax Basdeo, Chief Officer of Finance in the Ministry of Finance regarding the CEC. The Authority was advised that the developer had requested that the Government allow them to produce and distribute water within the special economic zone. The Secretary explained that Dr Basdeo sought the Authority's input on the developer's request. The Authority responded outlining several points where allowing the developer's request would not be in the best interest of the country. A copy of the email exchanges was provided to members.
- e) **30 June 2011 Audit Update.**
The Chairman reported that the Authority is working diligently to complete the audit working papers and expects to easily meet the 31 August 2011 deadline for submission as defined under PFML. The Authority plans to count inventory on 29 and 30 June 2011 at the Lower Valley and Red Gate sites.

The AG's office has submitted the Engagement Letter, which consistent with prior years; the Authority is seeking the Board's approval for the Chairman to sign. Members gave their approval for the Chairman to sign the Engagement Letter.

Current Business

a) **Management Accounts May 2011.**

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

Based on estimates for the first 11 months of the 2010/2011 financial period Operating Revenue continued to be flat from last year, showing a modest 4.0% decrease over the same eleven month period in 2009/2010, and approximately 6.0% above budget figures. Dry season is over and the Authority expects monthly revenue in June and July to reflect this.

Operating Expenses were slightly higher than last year (2.0% and 9% above budget). This increase is due primarily to the increase in depreciation expense and increase in energy charges on water purchases. Administrative Expenses were the same as last year (0.2% decrease) and were approximately 11% under budget.

Overall earnings for first 11-month period in 2010/2011 were estimated at \$3.2 million which is higher than expectation by \$1.0 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 wastewater assets sale.

b) **Public Piped Water Utility Lease Project.**

The Chairman reported that in keeping with the Ministry's and Government's directive to proceed with the move of the water utility operations to private enterprise, the Authority has drafted Terms of Reference (TOR) which encompasses decisions communicated by the Ministry to the Authority last year. The Strategic Options Analysis (SOA) will result in three standalone reports:

- a. Public Piped Water Utility Lease Project (PPWULP)
- b. The Public Piped Water Utility IPO Project
- c. Overall Conclusion

The Authority sought the approval of the Central Tenders Committee (CTC) in August 2010 to proceed with KPMG as that firm is already very familiar

with the Authority's water and wastewater operations and financials as a result of the wastewater divestment process.

The Chairman advised that the draft TOR to engage KPMG to carry out the SOA is before members for their review and approval. Members were provided with a copy of the draft TOR for the SOA. Members discussed the document and had no objection for the Authority to proceed with the study.

Donation Requests

The Chairman advised that the amount remaining for donations is \$4.2k.

a) National Gallery of the Cayman Islands.

Members agreed to sponsor a fountain in the amount of \$50K for the new National Gallery site providing that the Authority is able to identify the savings from another account/s. The Secretary will review with the Financial Controller and circulate the information for approval via email.

b) West End Primary School – Ratification.

Members agreed to ratify Chairman's decision to sponsor the West End Primary School fundraiser with 5 gift certificates for 1,000 gallons of trucked water each in Cayman Brac. The motion was moved by Mr J Banks, seconded by Mrs I Simms and passed unanimously.

c) Rotary Club – Observatory for UCCI.

Members agreed to sponsor the construction of an Observatory for UCCI via Rotary Club of Grand Cayman in the amount of \$1,500. However, the funds should be held by the Authority until such time as the UCCI and the Rotary Club of Grand Cayman advise that construction has commenced. The motion was moved by Mrs P McGaw-Lumsden, seconded by Mr O Watler and passed unanimously.

d) CARE – Sponsor for Bus Stop Sign.

Members agreed to sponsor a Bus Stop Sign for CARE (Cayman Animal Rescue Enthusiasts) in the amount of \$500. The motion was moved by Ms A Owens, seconded by Mrs I Simms and passed unanimously.

e) Red Bay Primary School 'Staff Retreat'.

Members agreed to sponsor the Red Bay Primary School's "Staff Retreat" to Honduras 4-11 July 2011 in the amount of \$500 through the School's PTA. The motion was moved by Mrs P McGaw-Lumsden, seconded by Mr T Hydes and passed by a majority vote. Ms R Sharma and Ms A Owens voted against the motion.

Any Other Business

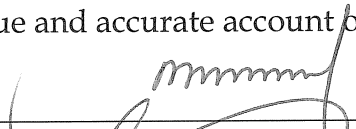
a. **Training**

The Chairman reminded members that 20-25 June 2011 the Chairman, Deputy Director, Financial Controller and the Water Resources Engineer will attend a course on regulation of the water, energy, transport and communications organised by PAI (Public Administration International) in London, UK. This course will provide meaningful insight on the regulatory framework for these sectors. With the Authority being in a transition from a utility to a regulatory agency it is expected that this course will assist and prepare key staff for the transition of the Water Authority from utility to regulator.

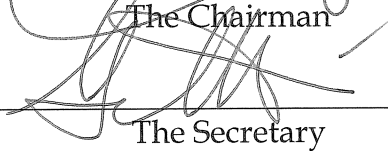
The Secretary advised that the Caribbean Water and Sewage Association (CAWASA) organizes its third annual Water Operators Conference in Antigua from 04-06 July 2011. CAWASA has asked that Ms Marcela Martinez-Ebanks, the Authority's Laboratory Manager participates in this conference. She will deliver a presentation on the Water Quality and Environmental Compliance.

There being no other business the Chairman thanked members for their cooperation and adjourned the meeting at 2:48pm.

This is a true and accurate account of the proceedings.



The Chairman



The Secretary