

CONFIDENTIAL



Water Authority of the Cayman Islands

Minutes of 246th Meeting held on 19^h of February 2014

Members Present:

Chairman:	Mr J L Hurlston
Members:	Mr J Gill Mr M Jacques Ms A Owens Ms T Mortimer Ms R Sharma Mr O Watler Mr A Wright
Secretary:	Dr G Frederick-van Genderen
Apologies:	Mr H B Ebanks Mr C Randall
Guests:	Mr Tom van Zanten, Deputy Director Ms Lori Bergman, Financial Controller

Call to Order

The Chairman welcomed members and called the meeting to order at 1:31pm after ascertaining that there was a quorum and acknowledging apologies from Mr H B Ebanks, and Mr C Randall. The Chairman then proceeded to invite Mr A Wright to offer a special prayer and the meeting was then opened.

Minutes of the 245th Meeting held on 05th February 2014

The Chairman asked for confirmation of the Minutes of the 245th Meeting held on 05th February 2014. Mr A Wright moved the motion to accept the Minutes, Ms A Owens seconded the motion and the motion passed unanimously.

Declaration of Conflicts of Interest

The Secretary declared a potential conflict with the donation request from the Sunrise Rotary Club. The Secretary noted that Ms T Mortimer is associated with Rubis and that there was an update that involved that company.

Matters Arising

a) Lower Valley Reverse Osmosis Plant (LVRO) - Update.

The Chairman reported that water production (with one train) resumed on 04 February 2014 (after the bearings etc. on one of the high pressure feed water pumps PD pump had been replaced). Since then water production rate averaged 1,552 cubic metres per day (which is slightly more than the design production capacity of the RO Plant with one train).

The Chairman reported that the opening of the returned tenders for the Design and Build Contract for the LVRO Plant was done the afternoon of 19 February 2014 by the Central Tenders Committee (CTC).

b) 30 June 2013 Audit of Consolidated and Divisional Statements - Update.

30 June 2013 Audit of Consolidated and Divisional Financial Statements for Water, Wastewater and Statutory

The Chairman reported that the divisional financial statements were sent to KPMG on 13 January 2014 and are expected to be going through the internal final review and sign off, the draft island statements were sent to KPMG on 14 February 2014. The Authority has been in contact with KPMG who gave assurance that they are working on them and will arrange for a meeting in the near future to answer their outstanding questions.

OAG - RFP for 30 June 2014 Audit (Statutory, Divisional and Island)

The Chairman reported that there was no further discussion concerning the above during the last several weeks; however the Financial Controller sent the Deputy Auditor General an email on 03 February 2014 and again on 17 February inquiring as to the status of this project, and will continue to follow-up.

Annual Report 2011/2012

The Chairman reported that the Authority received confirmation that the Annual Report had been approved by Cabinet and will be sent to the Legislative Assembly as soon as possible.

Annual Report 2012/2013

The Chairman reported that the Authority sent the 2012/2013 Annual Report to both the OAG and KPMG for their final review on 13 January 2014. Feedback was received by KPMG on 04 February 2014 and OAG on 10 February 2014. The Authority will make the requested changes (some formatting, clarification etc.) and request the Chairman's signature and then forward to the Ministry. The Authority expects this to be completed by the end of February 2014.

2014/2015 Ownership Agreement

The Authority is compiling the required financials that accompany the Ownership Agreement. Once this information is completed it will be sent to the BMU and Ministry prior to the 22 February 2014 Deadline.

c) Cayman Water Company (CWC) Negotiations Update.

The Chairman reported that on 10 February 2014 the Water Authority's lawyers Mourant forwarded a copy of the Statement of Grounds, dated 31 January 2014, submitted by CWC's lawyers Conyers Dill & Pearman. This document details the grounds upon which relief is sought in the Judicial Review. The document did not include any surprises and is similar to the affidavit of Mr Rick McTaggart, President and CEO of CWC.

OAG – CWC Review Engagement

The Chairman reported that on 20 December 2013 the OAG sent the draft of the RFP to the Authority for their review. The Director, Deputy Director and Financial Controller are in the process of reviewing the documentation and now expect to provide comments back to the OAG by the end of the week 28 February 2014.

Cayman Water Company - Leak Detection

The Chairman reported that CWC has provided the appropriate information as requested and the Authority has no problem with the project. The CEHO has also been advised and provided the relevant information. CWC has also committed to provide information on their website as well as a press release on the project.

d) West Bay Beach Sewerage System Pipeline Rehabilitation Project (2013) – Update.

The Chairman reported that three of five staff for which a temporary work permit was approved are on island. The contractor had some equipment problems (e.g., computer, audio etc.), and progress remained slow. It is anticipated that starting 24 February 2014 the pace will pick up.

e) Cayman Brac Infrastructure Upgrade & Expansion Project - Update.

The Chairman reported that to date, pipes had been installed in all side roads off Gerrard Smith Avenue, except one (unnamed) road. It is anticipated that by mid-March these pipeline sections will have been commissioned (tested, disinfected and flushed).

f) Miscellaneous Updates

- a) *In-House Pipelaying Crews*** - The Chairman reported that work had not yet resumed on the pipeline upgrade (from 6-inch to 12-inch) in South Sound, between the boat ramp and the intersection with Walker's Road. The pipelaying crew continued to work on the installation of a 4-inch pipeline in Printer's Way (upgrade from the existing 2-inch) to accommodate the large, new development for the Security Centre (near the CNB roundabout).
- b) *Water Supply Division*** - The Chairman reported that on 10 February 2014 Operations started the replacement of approximately 800 feet of pipeline in Oak Mill Street, Windsor Park (between Anthony Drive and Fairfax Way). Pipelaying will be completed tomorrow and all customers should be reconnected to the new pipeline by the end of next week.
- c) *Wastewater Division*** - The Chairman reported that due to other priorities, no invoice has been sent as yet to Logic to recover the costs incurred by the Water Authority as a result of Logic (actually their contractor Trenchless Technology) cutting through the sewer pipeline near The Pavilion.
- d) *Red Gate Water Works Reservoir Demolition of Existing Fibreglass Tank*** - The Chairman reported that on 24 February 2014 the contractor, A&A Heavy Equipment (Alfredo Powery), will commence demolition of (part of) the concrete base of reservoir #2. This contractor offered the best price for this work (total cost approximately \$10,000). Under the agreement the contractor will only be responsible to break up the concrete. Water Authority staff will haul away the material (concrete and rebar).
- e) *North Sound RO Plant*** - The Chairman reported that the contract with OCL for the North Sound RO Plant expires on 01 April 2014. One of the Authority's long term goals is to regain control over the various RO plants and operate them in-house rather than outsource. Later this month OCL/CWCO will start hands-on training for some of the Authority's staff related to the operation and maintenance of the North Sound RO Plant. In anticipation of this training, the O&M manuals for the North Sound RO Plant were forwarded in mid-January 2014. On 11 February 2014 the Authority received a letter from Consolidated Water (dated 05 February 2014) offering to extend the operations contract for an additional 7 years. The Authority will respond to Consolidated Water after a thorough review of the proposal.
- f) *Informal housing - sanitation issues*** - The Chairman reported that the Water Authority has adopted the term *informal housing* to define any

development that does not meet Planning and Building Code requirements. Informal housing exists all over the Cayman Islands and from time to time sanitation issues come to the attention of the Authority, through complaints from neighbours about untreated wastewater being discharged onto their property, through Department of Environmental Health, through Planning or as a result of the Authority's own work. The Authority always strives to find a solution for the wastewater issues, through discussing the matter with owners, notices of violations and involvement of other agencies.

The Chairman reported that unfortunately the problems of inadequate sanitation of informal housing are continuously increasing, just in the last 2 weeks the Development Control staff visited 3 locations to deal with this issue (1 in West Bay and 2 in George Town). Formal notices are sent to property owners and other agencies are informed of the Authority's actions. Usually it takes a long time and substantial effort to resolve these issues. By way of example, the situation found at a dwelling in West Bay consisted of a collection of dwellings built on 2 properties, with the septic tank now inside one of the dwellings and part of the wastewater generated by the complex being discharged on the ground and finding its way into adjacent property. The owner had tiled over the septic tank inside the living room to address the odours. This dwelling also has a number of issues with Planning.

The Chairman noted that the issues of informal housing pose a challenge to multiple Government agencies, such as Planning, Department of Environmental Health, Public Health, MRCU and NRA. When one agency tries to resolve their specific issues, it may not be an adequate or acceptable solution to another agency. Earlier attempts (2008 and earlier) from the Authority to initiate a cross agency discussion were not successful and the initiative from Planning in 2011 to create an inventory of informal housing and to prepare a report to initiate action also has not resulted in follow up. As a result of the current cases, the Authority has approached Planning, DEH and Public Health to reinvigorate an overall cross agency approach. Members agreed that a multi-agency approach was needed to address these problems and that the Water Authority should continue to seek a combined approach through the Ministries.

- g) CUC - fuel pipeline damage* - Members noted that Ms T Mortimer works for Rubis however as this agenda item was only for Board information it was not necessary for her to leave the meeting. The Chairman reported that at noon on 05 February 2014 the Authority was notified by the Chief Petroleum Inspector and CUC that CUC had damaged a fuel pipeline between the SOL (formerly Esso) and Rubis fuel terminals at Jackson Point. The CUC crew was installing a support for their utility pole and was not aware of the pipeline. The location is at the Riviera Grand Cayman complex (formerly Coconut Harbour Hotel). There are 2 pipelines at this

location, the pipeline that transfers fuel to Rubis from the SOL terminal when the tanker comes in was damaged. The pipeline contained aviation fuel and an estimated 100 Imperial gallons of fuel leaked into the ground. Rubis took the lead in the emergency response; they exposed the pipeline and recovered the remainder of fuel. On 06 February 2014 the pipeline was repaired.

The Chairman reported that the Authority's response consisted of observing the excavation works, the emptying of the pipeline and the repair. As this area is located over the South Sound fresh water lens a household survey was carried out of nearby residences. One of the households uses groundwater for irrigation and toilet flushing; a basic test indicated that fuel had not contaminated the well. The other households nearby do not use groundwater.

A similar incident had taken place in 2000 when CUC damaged a fuel pipeline at practically the same location while in the process of installing a utility pole.

The Chairman reported that the Chief Petroleum Inspector held a meeting with all parties involved on 14 February 2014 and the incident was analysed in depth. A significant issue that came out of the meeting is that there is no comprehensive database of all subsurface utilities in public roads, private roads and private properties. Although such information will not resolve all issues, it would be a starting point for the utilities to avoid issues like these. The NRA has specific procedures to permit excavation works in public roads, but this system also fails from time to time.

The Chairman reported that the Water Authority will follow up with CUC and Rubis on the remediation of affected groundwater in the area.

- h) *request to the Chairman* - The Chairman reported that he had been approached by [REDACTED] to request the Authority to revisit its decision of 07 September 2006 to void approvals granted to [REDACTED] for constructed wastewater treatment systems.

The Chairman explained that from 2001 through 2006 the Authority reviewed several proposals for engineered custom built wastewater treatment plants proposed by [REDACTED], initially operating through [REDACTED] later on through [REDACTED]. Four of these plants were built, however the review of the proposals took substantial resources from the Authority and the four plants were not constructed as per proposal. Once built the four plants were plagued by operational problems and no other service providers was willing to provide repairs and maintenance once [REDACTED] discontinued servicing these plants. In September 2006, after the Authority became aware that [REDACTED], it voided its approvals for proposed plants. [REDACTED] however continued to provide proposals and commenced

* Redacted under section 23 of The Freedom of Information Law, 2007

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construction of a plant for * [REDACTED] without the Authority's approval. In January and March 2007 the Authority received an appeal against its decision not to approve the plant at * [REDACTED]. On 12 March 2007 the Water Authority adopted the following general policy, which was subsequently published in the media.

"The Water Authority of the Cayman Islands has adopted the following general policy in dealing with applications for permits for the installation of wastewater treatment plants pursuant to section 34(1)(a) of the Water Authority Law (1996 Revision):

- 1) *Subject to (2) below, all such plants shall be certified by a third-party testing facility (NSF or equivalent organization).*
- 2) *The Authority will only consider custom designed plants in cases where wastewater flows exceed the hydraulic or organic treatment capacity of readily available third-party certified package wastewater treatment plants.*
- 3) *All custom designed plants must be designed by a professional engineer."*

* Redacted under section 23 of The Freedom of Information Law, 2007

The Authority spent substantial time, resources and money to prepare for the appeal, it was assisted by Mourant. The appeal did not go to Court. In view of the historic situation, the Chairman advised that he had written to [REDACTED] informing him that the Authority was not considering a change in policy. The Chairman read the letter for members' information. Members supported the Chairman's decision.

i) * Redacted under section 21 (1) (b) of The Freedom of Information Law, 2007

[REDACTED]

Current Business

b) **Management Accounts January 2014.**

The Chairman reported that the Finance Department had prepared the 31 January 2014 management accounts for the Board Review.

Based on estimates for the first seven months of the 2013/2014 financial period Operating Revenue increased slightly over the same period as last year, showing a modest increase of 1.9%. *

* Redacted under section 18 (1) and 21 (1) (b) of The Freedom of Information Law, 2007

* The Authority expects that revenue figures will be within budget as the 'dry' season continues.

Operating Expenses dropped from the same time as in prior year, showing a decrease of 3.9%, and consistent with the December 2013 analysis. The Authority expects to start receiving invoices from the WW CCTV survey project which fully commenced in late January 2014 and it is the Authority's expectation that this expense will directly affect operating expenses, with the expenses rising over that of prior years but within budget expectation.

Administrative expenses were higher than prior years, coming in at 9.5% above, this is a result of a combination of the administrative cost of the Brac in July/August, whereby GCM staff went to CYB to assist, interview, train, orientate etc., the cost of the 30th Anniversary celebration, the \$50k National Gallery Contribution, and the \$50k that was invoiced from KPMG for the SOA project.

Although sales were slightly down, according to budget the Authority is in a very strong financial position, with sufficient cash reserves to successfully complete the CYB and WW CCTV projects and meet day-to-day operational and administrative expenses.

c) Presentation of the Rate Cap Adjustment Mechanism (RCAM).

Members agreed to move the discussion on this Agenda item to the end of the Agenda.

Donation Requests

The Chairman advised that the revised 2013/2014 budget showed the revised amount of \$45k. With the proposed increase and the commitment to the Pines Retirement Home, \$10.3K is available for disbursement during the current fiscal period.

a) Rotary Sunrise - Polio Fundraiser.

Members noted that the Secretary had declared her connection with the requestor from Rotary Sunrise however members felt it was not necessary for her to leave the meeting as long as she did not enter into the discussion. Members agreed to sponsor the Rotary Sunrise Team in the Polio Fundraiser Bed Race in the amount of \$450. Additionally, members agreed to sponsor a Water Authority team to enter the race for the same amount of

\$450 of which \$200 is the entrance fee and \$250 for materials. Members encouraged the team to use a water bed if possible. The motion was moved by Mr A Wright, seconded by Mr M Jacques and passed unanimously.

Any Other Business

- a) **Request from Customer Account# [REDACTED]**
The Chairman reported that the above customer had a leak that resulted in a high water bill. Through the Customer Service Department [REDACTED] requested an extended period of 3 years and payment of \$175 per month. Members agreed that the customer should be advised that they considered the request and agreed for the Water Authority to offer an extended period of 3 years and \$175 per month as requested along with the usual waiver of late penalties providing the payments are made regularly.

Members discussed the option of providing authorisation for the Secretary to handle and make decisions on customer complaints and issues that fall within the Authority's policies. It was noted that a significant amount of Board time is sometimes spent on customer issues that clearly can be dealt with based on existing policies. The Secretary was requested to provide the Board with a proposal for members' consideration.

- b) **The Public Authorities and Good Governance.**
The Chairman reported that in light of the OAG's report on the relationship between the CIG and Statutory Authorities & Government Companies (SAGCs), the Government recently established a committee to review the previous work done on the Public Authorities' Bill. The committee will be chaired by the Deputy Governor and the first meeting will be on 20 February 2014. The Chairman reported that the Secretary had been asked to serve on the committee and had accepted.
- c) **The Global Water Summit.**
The Chairman reported that the Secretary had been invited, as a member of the Global Water Leaders Group, to participate in the Global Water Summit to be held in Paris, France in April 2014. The Secretary will be partially sponsored by the organisation and will attend several workshops whilst there. The Water Authority would cover the accommodation and per diem cost.

Current Business

- b) **Presentation of the Rate Cap Adjustment Mechanism (RCAM).**

The Chairman welcomed guests, Mr Tom van Zanten, Deputy Director and Ms Lori Bergman, Financial Controller to the meeting. The Chairman reported that the Authority's management and primarily the Deputy Director have worked on the background research and documentation necessary to support the RCAM. In consideration of the CIG's directive to implement the RCAM as the methodology to adjust the Authority's base rates, a PowerPoint presentation was presented to members by Mr T van Zanten.

The presentation provided members with a high level overview of the concept of the RCAM. The main objectives of having the ability to annually adjust any utilities base rates is mainly to ensure the utility's economic viability and to protect the public interest whilst providing reliable service at the lowest possible rates. The presentation explained how rates are currently adjusted for CWC and in the Water Authority Regulations. The Authority did not adjust rates for the 2013 period as the objective is to get to change the Regulations to affect the RCAM methodology as directed by the CIG. The Deputy Director explained in the presentation that the RCAM Model is used in the CUC Transmission and Distribution Licence as well as in various formats in the regulated utility industry for electricity, gas, water, and telephone in other countries. Generally, the model takes into account the inflation rate adjusted by an appropriate factor and performance standards to ensure the utility is operating efficiently.

The Deputy Director explained how RCAM is calculated considering the Rate Base, Inflation Rate, Cost of Capital as well as the impact of Performance Standards. He then took members through working examples for both the water and the sewerage rates using the Water Authority's financial statements for 2012/2013.

Members discussed the advantages and disadvantages of RCAM. Members agreed that the RCAM would provide stability for investors, predictable and fair prices for services, be responsive to changes in the economy, as well as being sustainable in the long term. Members recognised that robust regulation would require increased resources for reporting and regulation. After further discussions and questions to the Authority's management, members requested that the Authority proceed with providing a timeline for the implementation plan. It was agreed the entire process would take approximately 12 months with the first effective adjustment, if any, in July 2015.

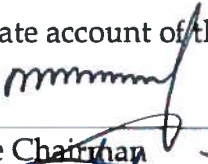
Members thanked the Deputy Director for the presentation as well as the Authority's management team for the thorough explanations. Mr T van Zanten and Ms L Bergman left the meeting at this point.

Members discussed the process to implementation further and asked the Secretary to ensure that a timeline outlining the process to implementation

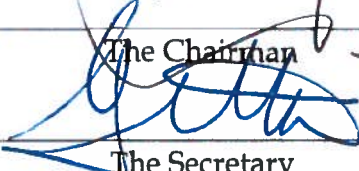
was prepared so that the Ministry and Government would be informed as to the status of the Cabinet directive.

There being no other business the Chairman thanked members and adjourned the meeting at 3.33pm.

This is a true and accurate account of the proceedings.



The Chairman



The Secretary