

CONFIDENTIAL



Water Authority of the Cayman Islands

Minutes of 252nd Meeting held on 18th of September 2014

Members Present:

Chairman:	Mr J L Hurlston
Members:	Mr H B Ebanks Mr J Gill Ms T Mortimer Ms A Owens Mr C Randall Mr A Wright Mr O Watler
Secretary:	Dr G Frederick-van Genderen
Apologies:	Mr M Jacques Ms R Sharma

Call to Order

The Chairman welcomed members and called the meeting to order at 1:32pm after ascertaining that there was a quorum and acknowledging apologies from Ms R Sharma and Mr M Jacques. Mr H B Ebanks then proceeded to offer a special prayer and the meeting was then declared open by the Chairman.

Minutes of the 251st Meeting held on 20th August 2014

The Chairman asked for confirmation of the Minutes of the 251st Meeting held on 20th August 2014. The following correction to the Minutes was noted:

Page 8, 5th line should read "As of 20 August 2014 no...."

Ms T Mortimer moved the motion to accept the Minutes as amended, Ms A Owens seconded the motion and the motion passed unanimously.

Declaration of Conflicts of Interest

None were declared.

Matters Arising

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

The Chairman reported that work on the interior and exterior of the existing RO building had been completed, although the contractor, Edgewater Development Ltd, will need to address a few remaining problems with the roof repair (minor leaks).

During the week of 08 September 2014 Ocean Conversion Ltd (OCL) was provided access to the RO building. OCL indicated they will temporarily store some of the large volume items (e.g., RO vessels and membranes) in the building, until the skids for the RO vessels are installed.

The Chairman reported that the Water Authority continued to review the various submittals by OCL, the majority of which were submitted during the period 28 August -12 September 2014.

The Chairman reported that on 09 September 2014 a contract was signed with Industrial Services Inc from Vermont, USA for the rehabilitation of the feed water wells at Lower Valley. This well development project will use acid injection into the wells to reduce well drawdown and increase the yield (well production rates), thus reducing pumping costs and potential pump damage due to cavitation. It is anticipated that, barring unforeseen circumstances, this project will be completed by early November 2014, or several weeks ahead of OCL's First Delivery Date for the Lower Valley RO Plant of 25 November 2014.

b) West Bay Beach Sewerage System Pipeline Rehabilitation Project (2013) - Update.

The Chairman reported that the process for cleaning and televising all sewers had been completed. The CCTV revealed that nearly 9,600 linear feet of pipeline will require the structural liner repair. To date 12 pipeline sections, totalling approximately 1,400 linear feet (or approximately 15% of the total) have been lined.

The Chairman reported that at a meeting held on 16 September 2014 the contractor acknowledged that a lot of the problems and the significant delays on this project were due to equipment problems and staffing issues but these have now been resolved. In fact the contractor successfully installed 900 feet of

8-inch liner between 26 August and 9 September 2014. Approximately 8,000 feet of sewer pipe must still be installed, and the contractor still expects that this contract will be (substantially) completed by the end of this calendar year, as 2 additional staff will be brought in to accelerate the progress, and they will work 6 days each week (however, their staff will be allowed 1 week leave after every 4 weeks work, as the work is physically exhausting and contractor's staff are away from their families).

The contractor also acknowledged that the conditions are worse than they had anticipated at the time of tender preparation which has resulted in lower production than they would expect based on their US experience (i.e., more infiltration, offset joints complicate the liner installation). However, the contractor accepts that it is his responsibility to overcome these problems. The contractor has already successfully counteracted the problem of wash-out of the resin from the liner due to heavy groundwater infiltration by installing a pre-liner ahead of the actual liner and it appears that he has a good understanding of what is required.

The Chairman reported that the contractor indicated that it may be very difficult to install the liner in some pipeline sections due to the large infiltration, and that he may have to grout some of the leaking joints prior to attempting to install the liner. He will forward a method statement soon.

It is also acknowledged that some work may need to be carried out during the weekends, particularly wherever the work affects the traffic on West Bay Road.

Under the conditions of contract, the Water Authority are entitled to charge Liquidated Damages for late completion (US\$300.00 per day) but the contractor has asked the Authority not to impose this penalty on this contract as it is unlikely that he will break even, but he has indicated that he will persevere and fulfil his obligations under the contract and finish it. The Authority decided to not impose the Liquidated Damages clause at this time, but with the proviso that if progress does not improve, this clause will be enforced as per the contract. Members did not object to this.

It must be noted that imposing the penalty may result in the contractor abandoning the project. The Authority is covered by the Performance Bond, but finding another contractor to finish this contract may be difficult and time consuming. It must also be noted that the two other bidders for this project were significantly more expensive, and even with the protection of the Performance Bond, the difference in cost will be the Water Authority's to absorb. The contractor agreed to pay all costs related to temporary work permits going forward.

Based on the recent rate of progress, this project could be completed by late November 2014.

c) **Cayman Brac Infrastructure Upgrade & Expansion Project - Update.**

The Chairman reported that during the week of 08 September 2014 the Water Authority's in-house pipelaying crew completed the installation of the last remaining section of pipework: between Valerie Avenue and the intersection with Bert Marson Drive (in front of the Alexander Hotel). This section was commissioned during the week of 08 September 2014. The existing 6-inch pipeline situated within the airport property has finally been abandoned.

The Chairman reported that a total of 3,880 feet of pipework had been installed thus far this fiscal year 2014/2015. A total of 17,770 feet of pipework has been installed since this project was started in early November 2013. The first new water service crossings (in the various side roads off Gerrard Smith Avenue) were installed.

The Engineering Services Department commenced the design work for the first phase of the extension of the Cayman Brac water distribution system along the north coast, i.e., between the West End Crossroads and the West End Primary School, including all side roads. It is anticipated that this work will be started later this year.

New Water Services - Cayman Brac Piped Water Supply

The Chairman reported that the Water Authority started installation of new water services in the various roads off Gerrard Smith Avenue. New water service installations will be carried out using the same guidelines as those used in Grand Cayman, and accordingly the standard services inspection record must be completed prior to any new water services being installed.

The Chairman advised that in Grand Cayman the quality assurance inspector verifies that the customer-side pipework and shut-off valve are in place (and at correct depth (i.e., 16-18 inches deep) before a meter box is installed. The Water Authority normally does not enter the individual properties further than approximately 2-3 feet to install the water meter, and no pipework is installed downstream of the water meter box (i.e., on customer-side).

It is much more efficient for the New Works pipelaying crew to install all new water services in a road in a continuous effort, than spread these meter installations over a long period of time, as this will increase the number of mobilisations required, etc. Therefore the limited time waiver of connection fees (as approved by the Water Authority Board) will encourage potential customers to apply for water service en bloc (and save \$80.00 each), but this will actually save the Water Authority cost. Members agreed that this waiver remains in place for the area covered in Phase 1 until 30 September 2014.

The Chairman advised that the General Services Manager-CYB, reported that several potential customers have indicated that it is difficult to install the customer-side pipework in a trench (as the several side roads off Gerrard Smith Avenue are on the western tip of the Bluff and thus the ground conditions are typically solid rock) in a timely manner, thus frustrating the Authority's efforts to install the water services in a continuous effort. There appears to be limited options to carry out this type of small length trenching in Cayman Brac.

The Water Authority prefers that the customer-side pipework is well protected (i.e., installed in a trench, of sufficient depth) as this will reduce future issues with high water bills due to pipe breaks (either due to physical damage, such as car tires, or due to chemical deterioration from long-term exposure to sunlight).

In view of the circumstances on the Brac explained above, the Secretary respectfully sought the Board's consideration to implement the following policy (for Cayman Brac customers only):

The Water Authority is prepared to excavate a 12-inch deep and 6-inch wide trench downstream of the agreed-upon water meter location, up to a total length of 50 feet, at no cost to the customer, provided the following conditions are met:

- *The customer will confirm that no other underground services are present along a route agreed upon between the Water Authority and the customer.*
- *No other services will be installed in the trench provided by the Water Authority.*
- *The customer will indemnify the Water Authority against any damage done to his/her property by the Authority's crew whilst excavating this trench (except for gross negligence by the Authority's staff).*
- *The customer will install the pipeline in the trench and ensure proper backfill (i.e., the Water Authority will not install, or assume any responsibility for, the customer-side pipework and/or the adequacy of the trench provided).*
- *The customer will sign an agreement form, detailing the above and prior to the Water Authority carrying out any trenching work on the customer's property.*

Members discussed the situation on the Brac and agreed to adopt the above policy regarding trenching for new services.

Cayman Brac Containerised RO Plant Contract

The Chairman reported that Consolidated Water Company (CWCO) indicated that once they start the installation of the RO Plant in Lower Valley, work on the 227 cubic metres per day containerised plant will be temporarily halted. As the First Delivery Date must occur on or before 17 December 2014, it is anticipated that the container will be shipped to Cayman Brac in early November 2014.

Cayman Brac Emergency Generator Contract

The Chairman reported that the platform around the emergency generator is in the process of being constructed (a requirement for the electrical approval), and the Authority awaits the shipment of a missing breaker for the electrical panel. Cayman Brac Power & Light will soon be carrying out some of the outstanding work (e.g., installation of high voltage cable between the pole and the transformer). It is anticipated that electrical approval will be obtained by early October, and power switched to the new transformer, with commissioning of the new 200 kW emergency generator (by Corporate Electric Ltd.) soon thereafter.

The Chairman reported that the Water Authority's in-house pipelaying crew continued the installation of the necessary infrastructure (pipework, electrical conduit) at the West End Water Works to accommodate the pad-mount transformer, the emergency generator and the containerised RO plant.

The Chairman reported that most of the work was carried out over the weekend (06-07 September 2014) in order to minimise affecting regular water trucking. To date just over half of the work has been completed. Progress was hampered slightly due to the lack of detailed as-built drawings (as most of the existing underground pipework etc. was installed in 1990/1991 prior to the availability of GPS equipment), and time-consuming trial pits had to be dug to avoid damage to existing underground services, which would have resulted in the interruption of the water production and/or water distribution). It is anticipated that this work will be completed within the next few weeks. Upon completion of the works the Authority will request District Administration to have the area re-paved with hot mix asphalt.

d) 30 June 2014 Audit of Consolidated and Divisional Statements - Update.

30 June 2014 Audit of Consolidated and Divisional Financial Statements for Water, Wastewater and Statutory

The Chairman reported that the Finance Department met the 31 August 2014 Public Management & Finance Law (PMFL) deadline for submission of the draft Trial Balance and Financial Statements to the Office of the Auditor General (OAG), providing the complete information to OAG, KPMG and Budget Management Unit (BMU) on 29 August 2014.

The Chairman reported that on 01 September 2014 the KPMG auditors came on site to commence the field work. The Finance Department is of the opinion that the Authority is in a good position and will have the information available when it is requested.

The Finance Department will continue to balance the audit requirements with those of the current fiscal period 2014/2015.

Non-Revenue Water (NRW) Calculations

The Chairman reported that the Deputy Director prepared a report regarding the NRW calculations for the fiscal period 2013/2014, a copy of which has been provided to members. In summary the report highlights that the Board approved an Infrastructure Leakage Index (ILI) of 3.0 as a benchmarking leakage performance indicator for the Water Authority at the 213th Board Meeting held on 16 March 2011. However the calculation for the current fiscal period (2013/2014) shows an ILI of 3.56, that is, 0.56 in excess of the agreed upon ceiling. The Authority acknowledges the water distribution system does not appear to be achieving the level it should for the control of real leakage losses (moving from 2.70 to 3.56 in the last 4 fiscal periods). In response to the high ILI the Authority proposed 3 strategic plans to be implemented throughout the 2014/2015 fiscal period, 1) install bulk (electromagnetic) meters within specific zones to compare the water flowing through those areas as compared to water sales, 2) continue to replace all water meters with accumulated registered consumption in excess of 1,800 cubic meters to ensure accurate water meter reads, and 3) work with Cogsdale (utility billing software) to ensure the integrity of the data. Members reviewed the report submitted by management regarding non-revenue water (NRW) calculations for fiscal period 2013-2014. Members acknowledged that the Authority's ILI for 2013/2014 is outside the 2011 agreed upon parameters by 0.56. Members had no objection to the Authority's strategy to actively pursue the recommended technical actions to reduce the amount of non-revenue water, such as, bulk (electromagnetic) meters installed at strategic points; continue to remove all water meters with accumulated registered consumption of 1,800 cubic meters from service; reducing the inaccurate meter reads and to gain a comfort over the extraction of data from the Cogsdale system as compared to engineering records.

Annual Report 2012/2013

Ms A Owens reported that the September 2014 sitting of the Legislative Assembly is over and the 2012/2013 Annual Report has not yet been tabled.

e) Cayman Water Company (CWC) Negotiations Update.*CWC – Rate Structure Proposal*

The Chairman reported that on 20 August 2014 the Water Authority's lawyers forwarded a copy of the final approved judgment from the Court regarding the three issues raised at the Judicial Review hearing, which was held at the Grand Court on 01 April 2014.

The Chairman reported that on 12 September 2014 the Water Authority responded to CWC's submission which was forwarded on 09 June 2014 (without a cover letter). As CWC's final submission did not include any specific recommendations regarding a more appropriate water rate model, and the model in the existing licence does not balance the interests of customers and the utility, CWC was informed that the Water Authority will

proceed to prepare the licence with the inclusion of RCAM. Members were provided with copies of the correspondence.

OAG - CWC Review Engagement

The Chairman reported a meeting was held on 22 August 2014 as noted at the previous Board meeting. The lawyers for the Office of the Auditor General (OAG) and the Authority's lawyers were expected to meet briefly thereafter. To date, no additional information/updates are available.

f) Rate Cap Adjustment Mechanism (RCAM) - Update.

The Chairman reported that on 25 August 2014 the Authority's management made a presentation on RCAM to Caucus. The Secretary noted that the RCAM would provide for a regular payment to the government. While the Water Authority awaits formal confirmation on the next step, the Ministry of PLAHI has indicated that it would be arranging for a paper to Cabinet regarding the formal adoption of the RCAM, and that the Authority is to proceed with preparing the draft amendment to the Water Authority Regulations, with anticipated implementation by early 2015.

g) Review of Public Services - Phase 5 Rationalisation - Update.

The Chairman reported that the Ernst & Young's (E&Y) report was released to the public on 09 September 2014. There are some significant but not unexpected recommendations to Cabinet regarding the Water Authority on pages 17, 88-94, and 216-221. Members were provided with copies of the relevant pages. Upon implementation of the RCAM for the Water Authority, the Authority plans to complete the Strategic Options Analysis started with KPMG. This document will also assist the Government in their decision process. At this point, the Water Authority has not yet been requested to provide feedback, however it is likely that it will be requested to do so in the course of Cabinet's process of reviewing the report. The establishment of a "Utilities Commission" is a logical and expected recommendation. At this point, it may be prudent to await guidance from Cabinet; however this does not preclude the Authority expressing its thoughts and opinion. The Chairman reported that there is general confusion and apprehension amongst some staff about their future and job security, which is understandable. Members noted that this was to be expected.

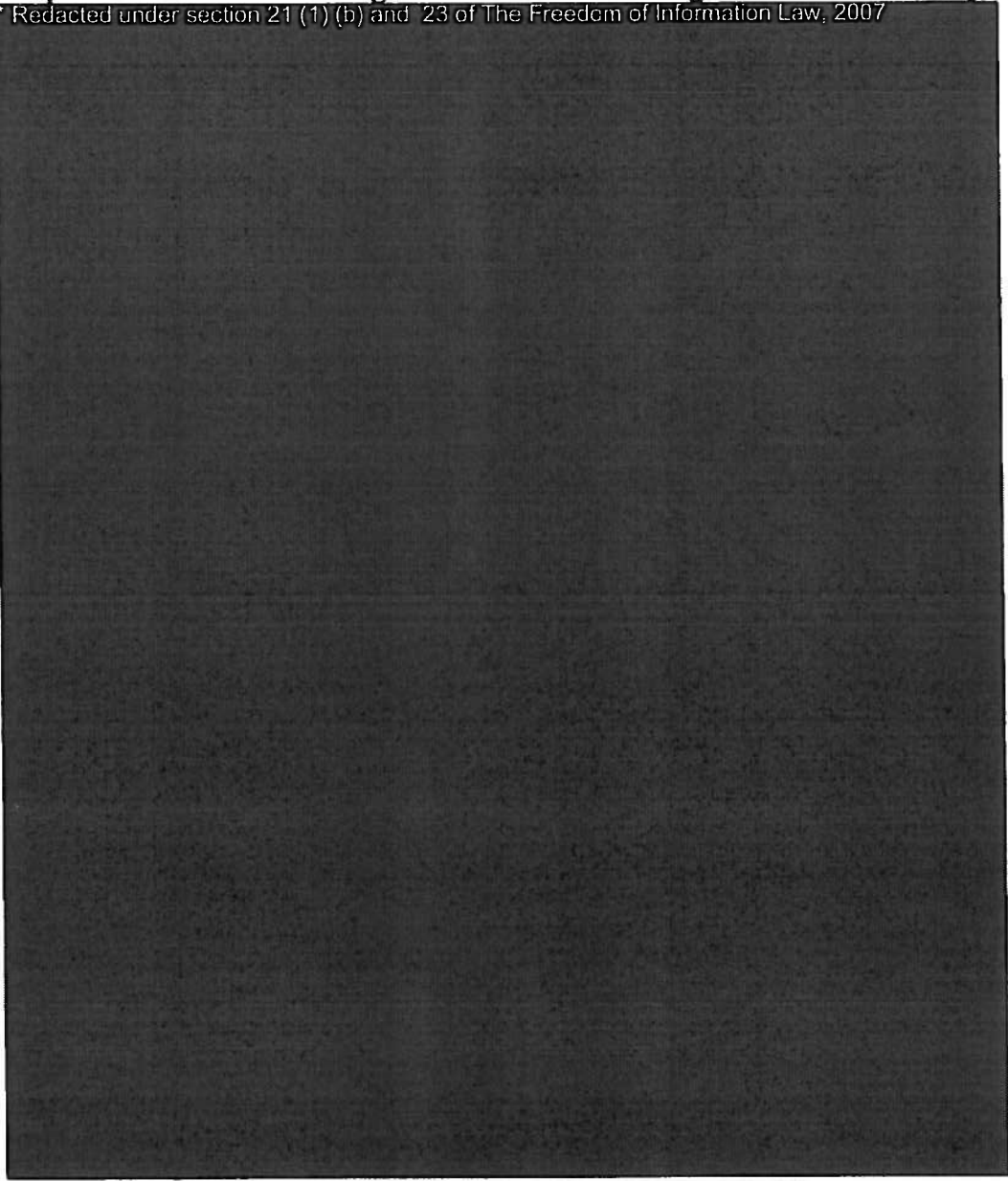
h) [REDACTED] - application for a concession and licence to produce and supply water.

The Chairman advised that the Board's decision was communicated to the Ministry and the Authority awaits further direction on how the Ministry wishes to proceed. The Secretary noted that the Authority would work with its lawyers to draft the format of the concession and to review the licence pending CIG's confirmation regarding the concession.

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

i) **Request for Indefinite Forgiveness of Bond Obligations - Scholarship**

Redacted under section 21 (1) (b) and 23 of The Freedom of Information Law, 2007



j) **Miscellaneous Updates.**

a) *In-House Pipelaying Crews* - The Chairman reported that the last phase of the pipeline upgrade (from 6-inch to 12-inch) in South Sound (between the San Sebastian development and the intersection with Walker's Road) was completed during the week of 08 September 2014. The pipeline is now operational. During the week of 15 September 2014, all customers were expected to be connected to the new pipeline.

This crew will start the installation of large diameter pipework at the Red Gate Water Works, necessary to connect the new bolted-steel storage tank,

and in anticipation of the new water distribution pump station (to be constructed in early 2015).

- b) *Water Supply Division* - The Chairman reported that Operations WS continues the hot mix asphalt reinstatement at various small roads throughout the water distribution system.


On 04 September 2014 the emergency generator at the North Side Water Works would not start. A replacement control board was immediately ordered, which was installed on 12 September 2014. Unfortunately it was found that the electronic control module (ECM) on the engine had to be replaced also. The ECM has been ordered and is expected to be on island on 21 September 2014.

- c) *Wastewater Division* - The Chairman reported that during the month of August 2014 the design hydraulic capacity of the plant (2.5 mgd) was exceeded for 14 days. The average daily influent for July 2014 was 2.56 mgd (or 103% of design capacity). This daily average influent approximately 32% less than the average influent measurement during the same period last year (3.76 mgd). August 2013 was a very wet month with several heavy downpours.

- d) *Informal Housing - Sanitation Issues (update)* - The Chairman reported that further to the report on sanitation issues at informal housing complexes and the Board's discussion on this subject at the April 2014 meeting, the report was presented to the Ministry for action. The Secretary has been invited with relevant staff to attend a meeting at the Ministry on 23 September 2014 with the Chief Officers PLAHI and HSYC, Ministry staff, Directors of MRCU, Planning and Environmental Health.

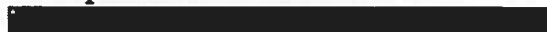
- e) *Geology Education* - The Chairman reported that the Water Resources Department is preparing a week of geology education during the week of 13-17 October. Dr Brian Jones, geology professor at the University of Alberta, Canada has agreed to provide the education as was done last year. The programme for the week covers a 1-day geology course for high school teachers, geology lessons for high school students and public lectures in Grand Cayman and Cayman Brac. The lectures are organised in conjunction with the National Trust. At the next Board meeting, scheduled for 15 October 2014 in Cayman Brac, Dr Jones will also provide a presentation on the work he has done over the last 30 years in the Cayman Islands, including the context of the geology at the future Cayman Brac Water Works.

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



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



- g) FOI updates** - The Chairman reported that two requests were received and processed as shown in the FOI Report dated 17 September 2014 and provided to members.
- h) 2014/2015 Scholarship Award** - As requested the estimated cost for the 2014/2015 scholarship recipient  which is inclusive of 2 tickets home.

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

Current Business

b) **Management Accounts August 2014.**

The Chairman reported that at this point the Finance Department does not have opening balance sheet numbers as the Audit is on-going, however although a balance sheet is not yet available the Statement of Comprehensive income was provided for review and feedback.

The net income for the period was 14.3% higher than prior years, and significantly above budgeted figures (149.2%), the bottom line was primarily a result of sales being higher than prior years and just below budget.

Based on estimates for the first two months of the 2014/2015 financial period Operating Revenue was above that of prior year's figures (6.6%), and marginally below budget by 1.2%. The trend is expected to continue, with the increased development over prior years will likely keep the sales slightly above that of prior year and within budget expectations.

Operating expenses for the first two months increased by 7.0% over prior year, primarily as a result of increased water purchases. Repairs and maintenance is consistent with prior years, however significantly below budget figures, attributable to the delay in the CCTV survey project which was expected to be completed in the first quarter of 2014/2015, but now the Authority is optimistic that the project will be completed by the end of December 2014.

Loan interest is expected to decrease and be within budget expectations as there are no new borrowings and the interest rate has been relatively stable over the last couple of years. The decrease in royalties indicates that Cayman Water Company has lower sales than that of prior years.

Administrative expenses were well below budget and prior years, 5.3% and 27.7% respectively. The significant reduction from the budget figures is a result of the delay in implementing the new security features (additional monitoring etc.), and lower than expected legal fees as a result of lower additional costs associated with CWC after the favourable outcome of the judicial review. The Authority expects that legal fees will surpass that of last year and come within budget expectations as the 2014/2015 year will see the resumption of the CWC licence renewal process as well as the continuation of the OAG review of the CWC accounts.

The Authority continues to be in a very strong financial position, with sufficient cash reserves to commence the CYB and WW CCTV projects and meet day-to-day operational and administrative expenses.

Cash Balance

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

The Chairman reported that the Authority holds a strong cash balance as at 30 June 2014 [REDACTED], all of which is held in regular bank accounts earning no interest. The Chairman reported that Secretary and the Financial Controller met during the week of 08 September 2014 to discuss several options with regards to the balance. It is very important that a sufficient cash balance be maintained to fund scheduled projects (Cayman Brac Water Works on the Bluff property, estimated [REDACTED], CCTV Survey and Manhole Rehabilitation [REDACTED], etc) as the CIG moratorium on borrowing is not expected to be lifted in the near future. It was decided that the Financial Controller will research various options and will focus on short term arrangements either with the CI Treasury or a short term deposit at a traditional bank. The Secretary sought the Board's feedback on placing funds on a short term deposit to earn interest with the re-evaluation as part of the upcoming 2015/2016 budget process (November/December). Members discussed various scenarios and requested that the Authority's management prepare a proposal inclusive paying off loans which would in return assist in reducing the CIG's debt ratios.

Any Other Business

a) 2014 Caribbean Water & Wastewater Association (CWWA) Conference & Exhibition 06-10 October 2014.

The Chairman reported that Honourable Minister (PLAHI) was invited to attend the High Level Ministerial Forum 09-10 October 2014 to be held during the conference above. He has requested that the Director represent him at the forum. All costs, except the per diem will be met by the organisers.

b) Travel Policy.

The Chairman reported that the Chief Officer of the Ministry had requested that the Water Authority adopt the Cayman Islands Government's Travel Policy instead of using its own policy which has been in place for over 14 years. The Secretary advised that she was queried as to why the Authority had not adopted the Civil Service Travel Policy. She advised the Chief Officer and copied to the Chairman that it was her understanding that the Board is not required to adopt the Civil Service Travel Policy and the matter had not been raised as the Authority has had its own travel policy in place for years. Additionally, Water Authority employees, as those of all SAGCs, are not considered Civil Servants. The Water Authority's travel policy has served its needs for many years without any issue of abuse. However as requested by the Chief Officer, the matter is before the Board. Copies of both policies were made available for Board members. Members discussed and subsequently decided that the Water Authority should continue using the Water Authority's Travel Policy and should not adopt the Civil Service Travel Policy at this time as requested by the Chief Office of the PLAHI Ministry. Members recognised

that when the proposed Public Authorities Law comes into force, it is possible that all SAGCs will be required to have the same policy.

c) **American Water Summit 2014.**

The Chairman reported that Global Water Intelligence (GWI) will cover the cost of two hotel nights for the Secretary to attend the American Water Summit in Houston, Texas 22-24 October 2014. However, in order to be on time for the workshop and other activities starting in the afternoon on 22 October she needs to leave Cayman on 21 October, and as the 24 October activities do not end until after lunch it is not possible to get back to Cayman the same day. Therefore, the nights of 21 October and 24 October are requested to be covered by the Authority. Members agreed for the Authority to cover the costs of the two additional nights referred to above. Additionally, the Authority provides the per diem for the travel period.

Donation Requests

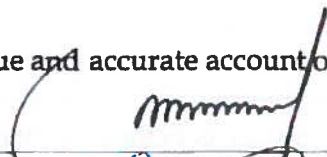
The Chairman advised that the review and decisions on donation and sponsorship requests will be dealt with as requested previously by the Board. The Sponsorship Assessment Sub-committee (SAS) will report to the Board on a quarterly basis. SAS will meet after each Board meeting if members are in agreement. The members are as follows:


Chairperson - Board Secretary
Mr A Wright - Board Member
Mr C Randall - Board Member
Mr O Watler - Board Member
Mr John Bodden - Water Authority Staff Representative

The Chairman reported that a draft Terms of Reference for the SAS was drafted for members review and approval. Members reviewed the draft Terms of Reference, made a few minor changes, and agreed to adopt the amended Terms of Reference.

There being no other business the Chairman thanked members and the meeting was adjourned at 2:50pm.

This is a true and accurate account of the proceedings.



The Chairman


The Secretary