

MEETING MINUTES

Date: 05/12/2017 @ 7.30pm

Board meeting #12

Present: Carol Thomas, Peter Thomas, Agnes Fleming, Irene MacLounnan, Chrissie Sugden

Present via Skype, then conference call: Cath Auty, Andrew Swann, Michael Odomuso.

MINUTES

- 1) **Apologies** Libby Foy
- 2) **Approval of previous minutes** – Approved.
- 3) **Actions Arising from previous meetings** CT still to move decommissioning bond to restricted asset in Xero.
- 4) **Communications:**
Main communications issued/received during October & November:
 - Newsletters issued
 - Various Invoices – all listed on Xero and included in Finance Report
 - FeXco re setting up and then using Euro facility
 - Various comms with SSE (all publicity deferred to January)
 - Various HMRC comms:
 - Returns for annual accounts
 - VAT
 - ECoW report
 - Project progress Reports
 - Additional Investor enquiries
 - Energy 4 All draft document exchanges
 - Stopping Up order bill
 - Manuals for Turbine
 - FCA re Registration Charges
 - Various PPA related communications
 - Gregor Cameron Consultancy
 - Ricardo

- New Stream Renewables
- Engie
- Quote from Ricardo for PPA Services – rejected
- Car Licence comms
- A&B Rate Valuation Office

KEY DATES / ACTIVITIES

Month	Item	Area	Note
January	Annual SEPA abstraction report	Operations	Starts 2019
February	Quarterly Reports due to SIS	Finance	Starts 2018
May	Quarterly Reports due to SIS	Finance	Starts 2018
June	Year End Accounts due to FCA	Finance	Started 2017
June	Insurance Renewal Due	Admin	Needs investigating March
August	Quarterly Reports due to SIS	Finance	Starts 2018
November	Financial Year End	Finance	Started 2016
December	New Operating Budget due to SIS	Finance	Starts 2017

5) **Finance report** – please also refer to Executive Financial Summary, Balance Sheet, and P&L issued to Board members on 05/12/2017.

- a. CT commented that there was nothing unusual in any of the reports. The balance sheet and P&L will need checking and slight alterations before being submitted for the end of year accounts.
- b. The meeting with Rob Halliday was very successful. The full balance of the loan will be drawn down on 13/12/2017 and will be for the full balance outstanding, £200k bringing our total borrowing with SIS to the expected £1.1m.

c. **Bank Account Authorisation Levels**

During October, it became apparent that our bank authorisation levels were not working as expected. We have the following limits on the Triodos Account:

- 1) Transactions to the value of £10k can be entered and authorised by one person
- 2) Transactions to the value of £100k need two authorisations.
- 3) There is a daily limit of £150k on transactions

It was assumed that Item 3 = the total amount that could be paid out on any one day, when in fact it is that and number of transactions can be scheduled for payment on a given day but only £150k can be **authorised** on a single day. Board agreed to

ratify Finance team recommendation that we keep the levels as they are but amend Finance protocols to reflect need for people to authorise specific items in a specific order on a given date. It is not expected that this will be an issue when we are in operational mode.

d. FCA Registration Fees

FCA Registration fees are based upon the capital assets declared in the last accounts filed with FCA. Therefore to date, we have been paying £65 pa as our declare asset base was less than £50,000. However, depending on our declared asset base in Nov 17, we will either pay £265 p.a. (asset base between £250k & £1m) or £480 if asset base is over £1m. Our annual registration bill will from 2019 be £480. We will put £480 in this year's budget as, it is probable that our asset base at the end of November will be confirmed as in excess of £1m.

e. Share Offer /Energy 4 All

We have been in discussion with Energy 4 All since August 2017 with a view to using them as a partner for the second share offer. The principle behind the second share offering was to eliminate our CARES loan and possible reduce some of the other debt.

We have sent an inordinate amount of time trying to get clarity on their proposals and I am sorry to say that whilst we do have an indication as to the likely cost of them managing & administrating our shareholder database, we still do not have a definitive cost of the share offer itself (rumoured to be around £15k) or the additional costs associated with 'moulding' to their way of working. Yesterday we got a preliminary response to an Executive summary document we issued in mid-November having already sent several iterations of their standard contract and it became apparent that Energy 4 All are looking to take over AED. As a minimum that would want veto rights on expenditure, their original suggestion was for any spend planned or otherwise over £1000; they wanted 4% of turnover p.a. for their share administration services; wanted to have a veto over PPA, Insurance and Accountancy contracts.

We sent the following reply:

Having reviewed your proposed changes, and done some quick calculations on the numbers, our initial thoughts are:

With an annual fee of 4% turnover, your proposal will cost us a minimum of £8,080 per annum (4% of £202,000 p.a.), in reality this is likely to be higher because we already know that we can secure a higher Export PPA than that in our current business plan and we are confident that the LFD is going to be exceeded based on prior years run-of-river data and the fact that we have now secured a failsafe level for the ANM of 350kW, which means that we will be able to export everything we generate, just as if we were currently unconstrained. This could lift our turnover to around the £275k mark, which would give you £11,000 p.a. If we assume that the share offer goes out at 5%

then we are only saving 2% in interest and that becomes very marginal even if you raise £700,000. Plus we would, of course have to increase the rate to existing shareholders to match. Additionally, that saving reduces year-on-year as the debt capital reduces.

We still have no clear indication as to the costs that would be levied on the Share Offer itself (other than it won't be more than we can afford) or the costs of bringing our website in to line with your "standard" or the "expenses" you would pass on over and above your 4% cut of turnover. All of which makes it difficult to do a full appraisal of your proposal but leaves us feeling that it will be of marginal benefit to us.

We understand why you want to take control of the day-to-day operations to protect your investors interests but we feel that level of control you are seeking is unnecessary for AED and flies in the face of the principles upon which AED was set up.

CT and AS recommended to the Board that whilst there is no doubt that E4A could bring in a significant swath of shares, the cost of partnering with them is too high. In financial terms, it would give only marginal benefit over the existing plan, it would provide E4A with a right of veto that nobody else has, including DIG, and a level of control that our existing funders have not requested. AED is a shareholder led and managed company set up to run the Avich Hydro Scheme for the long-term benefit of the community. They have already spoken with SIS and LES about the inevitable delay to share offering, they are comfortable with this and are encouraging us to look at alternative routes to managing the share offer. The Board agreed unanimously not to pursue the discussions with E4A any further.

- f. AS pointed out that we have spent £17K less on the turbine than was budgeted for, due to savings on the expected exchange rate.
ACTION CS and CT to check how to change Xero settings so the comment about exchange rates on the reports is corrected.
- g. **Operating Budget Notes**
Within 30 days of the last financial year we have to publish a budget for the next financial year. Hence, the annual operating budget for our financial year 2017/18 needs to be submitted to SIS on or before 30/12/17.

Assumptions that will be factored in to the budget are:

- Rates will be adjusted to 50% of £26,800 as we expect to secure 100% rate relief but do not have this guaranteed, it would be wrong to leave the full rate amount in but also foolhardy to remove the total sum without written confirmation.
- PPA will be uplifted from 4.6p kW to 5.8p per kW as we are expecting a final PPA of between 5.8 & 6.5p. If we get the contract finalised before the return is submitted we will use actuals but either way we will show an uplift of at least 8% on export income.

- We will remain with LFD P50 generation numbers in the initial operating plan and will add a note to plan that this will be uplifted based on actual generation figures as we progress through the year.
- We will keep the expected additional £300k share revenue income in the accounts as per discussions with LES & SIS, although we will move it to March.
- We will leave the combined admin & operational sums at the current level as we do not yet have any better data to use
- Sums will be put in for telephony and utilities based on discussions with Gregor Cameron.
- CINK annual servicing and maintenance costs will be entered on a 1:1 exchange rate basis given market uncertainty
- We are seeking guidance on the following:
 - Annual Pigging costs
 - Any other routine maintenance not yet uncovered
- We will assume an insurance premium uplift of 10%

The following items will be in the forecasts for 2019 onwards but will not be in this year's annual operating budget submitted to SIS and used as the basis for quarterly variance against plan reports:

- SEPA reporting costs
- Shareholder payments (first lot will fall due within 3 months of the AGM following year end Nov 2018)
- Shareholder administration – it is likely that there will be some cost associated with shareholder statements, reports, AGM etc
- Website / GDPR compliance
- Annual Pigging costs (first one will fall due around February/March 2019)

6) **Project progress** CT reported:

a. **Intake Bryophytes**

Following a meeting on site with SNH, we are now clear exactly where the protected species of Bryophyte is located. SNH were unable to provide guidance on the ecological conditions preferred by the species and asked that we endeavour to replicate existing conditions as closely as we can.

The construction team seem confident that a) they can build the outfall without detriment to the colony and b) the ecological conditions should remain largely unaltered (approved water abstraction aside).

b. **Turbine Installation**

The turbine arrived as expected on the 27/11/17 and was installed by the CINK guys.

As previously reported there was a glitch with the flange plate:

The turbine is installed barring the flange plate which had to be replaced as the one provided was a PN6 (6bar pressured) and we need a PN16 (16 bar); this was **not** CINK's fault, nor was it necessarily attributable to any one party involved in the design and specification. It is in my

opinion, an almost inevitable result of the pressure on the project during the period Feb - May when life was changing daily. It was a combination of factors around steps and payments needing to be made in order to secure delivery of the turbine in the right timeframe; the budget design vs detailed design vs ad hoc changes and the timeline associated with that, coupled with the sign off /payments sequences, and the funding delays. All of that resulted in nobody noticing (despite several different people checking the various drawings & specifications) that whilst a PN6 is more than adequate for a 2 bar scheme such as ours, which is what CINK specified and delivered; the UK industry standard for our type of pipe is PN16 (or 16 bar). The like cost of fixing it, which DAM will do is a couple of thousand. So far that is the only error we have hit, and the only cost arising from an error that the construction project has incurred, which is pretty good going given the nature of the site, the time pressures, and the level of concurrency the project had to impose. There is no scrap value to the supplied flange plate.

c. **ANM & Failsafe**

We have confirmed with SSE that our failsafe level will be fixed at 350kW because Innogy are unable to generate more than 2.125MW, in other words, should the ANM monitoring system fail, we will need to confirm that we have curtailed generation to 350kW. This means that, effectively we will be operating in an unconstrained environment. The ANM has to remain in situ because Innogy are contractually allowed to increase their existing generation capability up to their licence limit of £2.5MW by giving us and SSE three months' notice. We would still be able to generate whatever they didn't (Hydro schemes usually only generate at full capacity around 5% of the time) but we would then need the ANM system to manage our generation. The other plus to this apart from revenue considerations are that we will be able to build a generation profile from year one that gives us a good yardstick for future revenue projections.

d. **Risks & Issues**

No major changes to the risks & issues register. Points of note:

Risk related to digging out the rock next to the intake is now closed as the intake flange has been successfully connected and the penstock is now being installed. 5 sections installed as at last Friday.

Health & Safety risk identified at tailrace: low wall with deep water in the tailrace and a locked bar screen gate on the end – covering and “roofing” the tailrace was going to cost more than £12k. Solution agreed and underway is to erect a school fence on either side (green, difficult to climb) to prevent accidental entry, cost £2k

Core path proximity to intake – this is on a watching brief as it is likely that the core path will need to go right alongside the intake. We have FES approved barriers in place and these will have warning signs. However, it is possible that we will view this as insufficient when the depth, pace and volume of water is clear and we may need to replace the existing with similar fencing to that used on tailrace – to be

reassessed after intake is complete – possible £2-5k additional cost – will be listed as a risk in summary accompanying drawdown
Steepness of hillside above intake – FES are concerned that there might be an issue with this. To be assessed during restoration, our concern will be with landslide into intake, their's is with people wandering off the upper core path and falling down the hillside.

e. **ANM Service Levels**

We are currently obliged to pay for 24/7 cover on ANM because of the liability risk placed on SGS if Innogy must stop production. Given our agreed failsafe level, this has gone from a highly improbably situation to a virtually impossible one. We have agreed with Ricardo that we should pull forward the periodic review of the cover level ASAP as we should be able to curtail that to 9 – 5 cover and save 40 – 50% of the £26k annual service cost. Annual budget staying at £26k until agreement reached. It will be listed as a potential upside.

7) **Operational Issues**

- a. Loan compliance: declarations will all need to be done by the time of the AGM. **ACTION All directors:** Please check the relevant email with list of declarations required and see if you have a template for any of them. PT and Marc Blair will do the SEPA extraction report.
- b. Operational Resource Planning. PT reported:

The operation of the hydro plant for Dalavich will require manpower resources to operate efficiently. These can be split to two types

1. Local routine operational resources
2. Specialist support resources

Specialist support resources have been identified during the ongoing project and include mechanical servicing and maintenance by the supplier CINK, accounting services by Haines Watts ,Electrical servicing by IES and SGS. Legal services by Twin Deer Law. Annual pigging of the pipeline by D A Macdonald

Local routine operational resources split to operational administrative and managerial. It needs to be remembered that the objective of the scheme is generation of benefit for the local community and that the scheme is relatively small and remote. It is therefore desirable that wherever possible opportunity is created for local employment.

A key driver for local employment is accessibility to the site. Lost opportunity for generation is expensive especially where peak output periods are concerned. A contractor travelling for 4 hours with the turbine stopped averages out at £100 minimum lost revenue with additional cost involved for his travel time

During routine production, visits will need to be made to the site very second day. This may be reduced to twice a week when we have some experience with the plant to monitor the plant and carry out simple routine tasks. These include:

- 1 Checking run timers and greasing as required (4points about once a week)
- 2 checking gearbox seals
- 3 visual and audible check of the turbine.
- 4 visual check of the inlet screens including the water supply screens
5. Manual draining of the inlet sump to ensure silting is cleared
6. Check for error messages and record output and temperature reading on manual run chart
7. Site security including the locking of any doors and gates and the physical checking of safety covers.

Additionally weekly inspections of the pipeline route, fences and security covers will need to be carried out. Occasional strimming of the pipeline and off path access areas.

Local routine administration will include purchase ledger and invoicing as well as preparation of monthly management reports, for AED and SIS. Site data recording will need to be downloaded from SCADA and converted to daily water flow data for SEPA and this should be checked against the export meter readings which should be recorded on the routine visits but totalled for claims on a monthly basis.

Operator specification

Operators need to be available for call out 24/7 to minimise potential for generation loss although the system is claimed to be robust and not liable to much downtime. Indications are that the most likely trips are from the grid interface but these can be reset from a home pc via SCADA by an authorised operator. Similarly in the event of a grid failure although the turbine will shut down it will self start on return of the grid supply.

Owing to the low number of working hours but need for availability and quick response the operators will most likely be local, self employed persons, either retired or carrying out other self employed roles in the area and therefore able to work flexibly and invoice AED monthly for their time.

Key skills

Mechanical awareness. Operators will ideally have experience of simple mechanical maintenance including such as greasing, adjusting seal pressures and the removal and replacement of covers for cleaning and clearing debris/obstructions. Mechanical maintenance will be carried out by a qualified mechanical service engineer.

Literacy/numeracy. Collection of data, and entry into the site logbook and onto run charts to record normal running conditions is a necessity. Previous experience with SCADA would be an advantage.

Ability to carry out ground maintenance including strimming of the pipeline route as required.

PT also said that we would need an asset register, so that we can budget and plan for spares and replacements. A team of 3 people was suggested, with one acting as the lead to organise, and manage data etc. The team needs to be recruited ASAP.

The Board agreed to post a notice on the village notice board. CINK will provide them with training, probably on Friday 26th January (or during that week).

8) Any other business –

- a. The Board set a target date of weekend of 21st /22nd April 2018 for the AGM and Grand opening. **ACTION AF** will check with Mike Russell MSP to see if he is available to officially open the hydro.
- b. We are still waiting to hear back from Tom Black of Foundation Scotland with a quote for managing the Community Benefit Fund. **ACTION PT** will chase up.

Meeting closed at 21:18pm
Next Meeting 16/01/2018 @ 7.30pm

Minutes approved at Board Meeting #12 on 16th January 2018.



Signed by Sheila Clark: Chair