



Meeting of the Hawke's Bay Regional Council

LATE ITEMS

Date: Wednesday 30 January 2019
Time: 10.15am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

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HAWKE'S BAY REGIONAL COUNCIL

Wednesday 30 January 2019

Subject: NAPIER PORT IPO TRANSACTION PROJECT UPDATE

Item 12

Reason for Report

1. This report provides Council with an update on the Port Capital Structure Project following the 19 December 2018 decision to proceed with preparing for an IPO of Napier Port.

Update

2. Over the Christmas period, consistent with the requests made by Council at the 19 December Council meeting, the Executive Steering Committee (ESC) and HBRIC and Napier Port Boards have activated steps to progress the detailed planning phase for a potential IPO of Napier Port.
3. Key work streams for this phase include:
 - 3.1. Appointment of an Independent Commercial Adviser.
 - 3.1.1. Following a competitive tender process, Flagstaff Partners has been appointed as the independent commercial advisor to this process given their extensive understanding of the Port sector and Port and IPO transactions, both in New Zealand and across Australasia.
 - 3.2. Appointment of investment banks.
 - 3.2.1. A competitive tender process has been conducted for investment banks to support the detailed design of the potential IPO. Interviews and commercial negotiations are ongoing at the time of writing this report. Appointments are anticipated by the end of January.
 - 3.3. Appointment of Communications and Stakeholder Engagement Advisors.
 - 3.3.1. An RFP has been released (25 January 2019) for the appointment of an advisor to support the Council with continued community and stakeholder engagement.
 - 3.3.2. Separately, and in parallel, the Port has issued an RFP for communications support, which also includes possible investor relations matters.
 - 3.4. Detailed due diligence across legal, trade and economic, engineering, environmental, accounting and tax work streams.
 - 3.4.1. All advisors appointed in the previous phase of preparatory capital structuring design work (and tendered for the possibility of continued work subject to the December Council decision) have been mobilised for pre-execution preparation.
 - 3.5. Planning for the legal and financial structure of the potential IPO.
 - 3.5.1. Tax and legal advice is that this is likely to require the formation of a new legal entity which will issue shares and be the legal entity listed on the NZX. Such a decision will require additional public consultation.
4. Selection of director candidates for the Napier Port Board (subject to Council approval). There are currently two vacancies to be filled. The Board of HBRIC and Chair of Napier Port have presided over the appointment process, supported by local agency RED.
5. A Council workshop to discuss key IPO design elements (timing to be confirmed).
6. Council sign off to proceed to execution phase (targeted for the April Council meeting).

Adoption of the LTP Amendment – Update

7. Before any final decision to transfer or change the ownership or control of Napier Port from the Council, the Council must amend its current Long Term Plan. The amendment with minor changes (within the bounds of what was consulted on as part of “Our Port – Have Your Say”) includes changes to the following sections of the 2018/18 LTP:
 - 7.1. Financial Strategy (Part 3)
 - 7.2. Statement of financial Position and Funding Impact Statement (Part 6)
 - 7.3. Treasury Policy (Part 7)
 - 7.4. Revenue and Financing Policy (Part 7)
 - 7.5. Statement of council Controlled Organisations Policy (Part 7)
 - 7.6. Significant Forecasting Assumptions (Part 7)
8. The revised amendment must be audited and will then be brought back to Council for adoption at its meeting in February or March (depending on the completion date of the audit).

Decision Making Process

9. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision making provisions do not apply.

Recommendation

That Hawke’s Bay Regional Council receives and notes the “***Napier Port IPO Transaction Project Update***” staff report.

Authored by:

Blair O’Keeffe
HBRIC LTD CHIEF EXECUTIVE

Approved by:

James Palmer
CHIEF EXECUTIVE

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL

Wednesday 30 January 2019

Subject: PAN PAC FOREST PRODUCTS LTD WHIRINAKI WASTEWATER DISCHARGE

Item 14

Reason for Report

1. This item provides Councillors with an overview of the response to date to a leak from Pan Pac Forest Products' (Pan Pac) wastewater outfall at Whirinaki.

Complaints about water quality at Whirinaki Beach – January - September 2018

2. Between January and early September 2018 Regional Council staff received nine complaints regarding Pan Pac's Whirinaki mill. Two of these complaints were in relation to odour coming from the mill's effluent storage ponds in March and one was in relation to sediment in a nearby stream. Six of the complaints related to discolouration in the sea suspected to be arising from Pan Pac's wastewater outfall. Each of these complaints was either not confirmed following a site inspection by Council Pollution Response staff or where observed was attributed to either an algal bloom or outfall discharge being pushed inshore.
3. Regional Council Coastal Science staff have confirmed there was an algal bloom in Hawke Bay from Cape Kidnappers to Tangoio in May 2018, when three of the six complaints were made. A water sample taken and analysed by the Cawthron Institute showed an extremely high-density bloom on 11 May. The high density would lead to a widespread bloom and this is supported by satellite imagery from the period.

Confirmation of the leak

4. A large storm event hit Hawke Bay on 7 September with wave height of up to 7 metres. On **Saturday 15 September 2018**, a Regional Council Duty Officer received a complaint through the Pollution Hotline regarding discolouration from the Pan Pac wastewater outfall. They investigated but could not see anything substantial and reported:
 - 4.1. *"There was a very vague brown/reddish smear close to where the outfall heads out – no odour, but there were also other smears out in the waves and other parts of the shore line – nothing to make me suspect that the outfall had burst, as alleged."*
 - 4.2. The Duty Officer alerted Pan Pac and informed them that on previous advice from Regional Council coastal scientists and the lack of evidence on the day, that it was likely to be another algal bloom. Pan Pac spoke directly to the complainant.
5. On **Sunday 16 September 2018** another complaint was received from the same complainant. The Duty Officer visited the site again, reporting:
 - 5.1. *"Upon arrival, it was very evident that something was wrong and that this was not algal. A continuous obvious dark, red contaminant was present. The tide was on the way out and I would guess that the breach was around half way between low and high tide. I took samples."*
 - 5.2. Pan Pac was contacted once again. The Duty Officer informed them it looked like the outfall pipe had burst. Pan Pac staff visited the site and agreed it looked very likely and contacted engineers and a dive squad to investigate as soon as possible.
 - 5.3. Both Pan Pac and Hawke's Bay Regional Council took shore water samples to determine if there was a risk to public health or the environment.
6. Regional Council staff and Pan Pac can confirm that, while the leak may have been in existence prior to 16 September, neither party was aware of it until this date.

7. On **Monday 17 September 2018**, Pan Pac formally notified the Hawke's Bay Regional Council, Hawke's Bay District Health Board (HBDHB), local authorities and the community that there was a leak from the pipeline. Pan Pac also advised the parties of the potential health risks within the immediate area and the plans for repair, which included a provisional three week timeline, weather permitting.
8. Also on that day Council Compliance staff met with Pan Pac and discussed the company's planned remediation programme and associated timeline, and options for stopping the discharge. These discussions indicated that the only option available for Pan Pac to immediately stop the discharge for any length of time was to shut down the pulp mill, with flow on consequences across Pan Pac's operations. A temporary cessation of the discharge could be achieved for up to 8 hours but would have an effect on the performance of the biological treatment system. Council staff advised Pan Pac of an initial view that that shutting the mill down was disproportionate in light of the likely low level of public health or environmental risk posed by the discharge of the treated wastewater at the shore line.
9. On Tuesday 18 September 2018 signage was erected warning people to stay outside of the exclusion zone, which was initially 50m either side of the outfall pipe. Daily water quality sampling was also initiated on the 18th, and Pan Pac staff were present on the beach informing residents.
10. When the initial sample results and dilution tests were returned in the week following the discovery of the leak Council staff confirmed their initial view that the low health and low environmental risks still did not warrant shutting down the mill. However, Pan Pac was asked if they could reduce the discharge or use temporary storage to minimise the leak. Pan Pac reconfirmed that the only practical option was to shut down the mill. The sampling results were also sent to the HBDHB to ensure they could advise if they had further concerns about public health risk, which they did not.

Complaints since the leak was discovered

11. Between September 2018 and January 2019 there have been four complaints, principally from local residents, about the effect of the leak on water quality along Whirinaki Beach. All complaints to the Regional Council came through the Pollution Hotline. Several members of the local community have approached the news media, highlighted the issue on social media with and the local Member of Parliament demanding stronger action from the Council and that the discharge be stopped.

The initial repair attempts

12. The initial repair proposal was put forward by Pan Pac on Monday 17 September and Regional Council consents and compliance departments confirmed on the same day that the proposed repairs could be carried out under rule 118 of the Regional Coastal Environment Plan, as long as Pan Pac were able to meet the criteria of the permitted activity.
13. Due to a combination of poor weather and the challenging near shore environment the initial repair timeline was extended to an estimated completion at the end of November. This was communicated to the Regional Council by Pan Pac and it was accepted that Pan Pac was doing its utmost to repair the leak as soon as possible.
14. The first step was to identify the location and extent of the problem. A substantial temporary jetty was constructed over the area and an enclosure was installed approximately 5m x 2m around the leaking section. This was then pumped and excavated out until the pipeline was reached at approximately 2.5m below the seabed.
15. The actual leak through the steel pipe was not located. It was instead seeping from a point out of the concrete casing, which had developed two 10-20mm cracks running the length of the pipeline within the excavation and was also evident further up the beach. In addition to this longitudinal crack, there were several circumferential cracks identified although no leak was coming from these.

16. Just prior to the Christmas break the Regional Council was notified that attempts to repair the pipeline externally had been unsuccessful and were stopped just prior to the Christmas break. The last attempt was on 22 December, which Pan Pac had been optimistic about, and Council compliance staff had urged Pan Pac to achieve resolution prior to the holiday period when the beach would be in higher use.
17. Pan Pac had attempted to both clamp and to encase the pipe to stop the leak but both techniques were unsuccessful due to the difficult environment despite several attempts. This has mainly failed because of the difficulty in keeping out sand and water long enough to effect the repairs. A copy of the draft repair schedule is attached.
18. The Regional Council was kept informed of all attempts and failures to repair the pipeline. During this time Pan Pac engaged pipeline repair specialists to assess other repair options.
19. On 10 January 2019 a meeting was held between Pan Pac and the Regional Council consents and compliance staff to assess further repair options.
20. At this meeting, Council staff reiterated that the discharge continuing is unacceptable and repairs were needed as soon as possible. Pan Pac acknowledged this and proposed another solution.
21. Pan Pac was once again asked if it was possible to divert or reduce the discharge to minimise impacts and it was indicated that Pan Pac would have to shut production to stop the discharge. It has been able to hold back discharge for a brief period to assist in their assessment of the problem but this was for a very limited period.
22. Following the 10 January meeting, the Regional Council made a decision to carry out its own weekly sampling within and without the exclusions zone at the leak, 100m and 200m either side of the leak. This is in addition to the sampling carried out by Pan Pac at the source of the leak, 50m and 100m either side of the leak, and is to provide confidence that the data supplied by Pan Pac's laboratory is consistent with the data collected by Pan Pac.

The latest repair attempt

23. A further meeting was held between Pan Pac and the Regional Council consents and compliance staff on 24 January. The latest plan is to repair the pipeline from the inside by using resin patches. This work is to immediately repair the leak so Pan Pac can return to discharging within the terms of its resource consent.
24. A Timaru company has been engaged to undertake the work; they are very experienced in this type of work and are engaged in the repair of piping systems as part of the Kaikoura rebuild. The patches will be applied over an area of between 900mm to 1 m.
25. The work has begun. An access hatch will be installed and a camera/scanner will be run down the pipe to check for viability of the solution. Internal cleaning and patch repair will be done by completed by 24 February.
26. It is possible that the internal sleeve option is not viable solution due to the internal condition of the pipe, however this will not be known until the drilling company has investigated. If this is the case then the only remaining option would be to significantly expand the sheet-piled enclosure around the leak to allow for a further attempt at concrete casing to be installed.

Long term repairs

27. While the short term repairs are carried out as quickly as possible to stop the leak Pan Pac is considering longer-term options.
28. Because of the size and extent of the identified cracks, Pan Pac has assumed that it is caused by aging of the pipeline, rather than solely environmental impacts such as storm or wave damage. Pan Pac has therefore suggested that the deterioration of the older pipeline seen in the excavation may affect the entire stretch. Because of this, it is possible that another leak could occur in the future and a longer-term solution rather than a patch will be needed. Council compliance staff have requested that Pan Pac

provide the Council with an independent engineering assessment of the condition of the pipeline.

29. Pan Pac are investigating installing a new section of pipeline running from the mill and connecting with the new polyethylene pipe section. This would be carried out by a NZ based company that would drill from the Pan Pac site, under the highway at approximately 15m (within a solid strata) and pop up on the seabed to connect with the newer section of pipe. This new pipe would be of the same polyethylene construction. This solution would be expected to take a minimum of 12 months as resource consent, shareholder and board approval and sourcing of materials would be required. The estimated cost for this is estimated to be in excess of \$1 million. The Pan Pac Chief Executive is meeting with the mill's shareholders in Japan on Monday 25 January to discuss the situation.
30. Staff consider that in light of the ongoing discharge it is important the Pan Pac continue with attempts to repair the existing pipeline while longer-term options are considered.

Communication of issue

31. The Hawke's Bay Regional Council, local authorities, the Hawke's Bay District Health Board and the local community have been kept up to date with regular notices and emails detailing the repairs being done and expected timeframes, as well as problems encountered. This community engagement is continuing.

Regular Water Sampling

32. As required under its consent, Pan Pac undertakes monthly water sampling and sends the result to the Regional Council for review.

Specific Water Sampling after leak

33. From day one of the leak having been identified, the company has been undertaking daily water sampling and providing the results to the Regional Council. Weekly sampling has been undertaken to ascertain the risk to public health of the leak (bacterial and dispersion sampling) with the results being made available to the Regional Council and the DHB for comment as well.
34. Following a review of the data by Regional Council staff within a week of initial sampling the exclusion zone was extended to 150m either side of the leak and signage was erected at these limits. This was as a precaution due to the high bacterial levels (no confirmed risk however, studies ongoing).
35. The discharge does not contain any human or animal effluent but is wastewater from the pulp mill, sawmill, kiln and boilers. The wastewater undergoes extensive treatment prior to discharge including dissolved air floatation, moving bed biofilm reactor (biological treatment), activated sludge treatment and finally clarifying.
36. The samples that have been taken have been assessed for E. coli, enterococci, total coliforms and total faecal coliforms. This sampling suite was selected as the best identifiers from the Pan Pac discharge allowing the Regional Council to identify the extent of any plume. Additionally E. coli was added as an indicator species for public health.

Consideration of appropriate regulatory action following leak

37. Pan Pac understands clearly it is in breach of its consent requirements and that the Regional Council requires it to remedy the situation as quickly as possible. Issuing an abatement notice would not achieve anything as Pan Pac is already actively addressing the problem. This step is usually only taken by the Regional Council where there is some reluctance or tardiness in addressing the issue. That is not the case in this situation.
38. The Regional Council Compliance team is undertaking an investigation into whether Pan Pac has adequately maintained this asset in accordance with its consent conditions. The Regional Council has not yet determined whether any enforcement action by way of an infringement notice or prosecution for the incident is required as our

investigation into the incident is still underway. The immediate focus by the company and Regional Council staff is on stopping the leaking discharge.

39. After reviewing the science reports on the discharge, as well as the water monitoring data, Regional Council staff are satisfied that the environmental and public health impacts from the discharge are sufficiently low that they do not necessitate shutting down the pulp mill. The Hawke's Bay District Health Board is of a similar opinion.
40. The discharge is heavily treated and already consented for discharge into the marine environment.
41. Given the time the repair is taking, it would have seen the pulp mill inoperable for 4-5 months. This would have major impacts on the workforce and the wood supply chain within Pan Pac's operations, weighed against the environmental and public health impacts of partial discharge at the shoreline. Had the environmental or public health impacts of the discharge been significant the Regional Council would be prepared to take this step.
42. While Regional Council staff acknowledge the situation is far from ideal and a significant inconvenience for some Whirinaki residents, as a regulator it is important that our actions are proportionate and take into account the overall public interest.

Decision Making Process

43. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision making provisions do not apply.

Recommendation

That Hawke's Bay Regional Council receives and notes the "Pan Pac Forest Products Ltd Whirinaki Wastewater Discharge" staff report.

Authored by:

Joanne Lawrence
GROUP MANAGER OFFICE OF THE
CHIEF EXECUTIVE AND CHAIR

Helen Shea
PRINCIPAL ADVISOR COMMUNICATIONS

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MANAGER COMPLIANCE

Approved by:

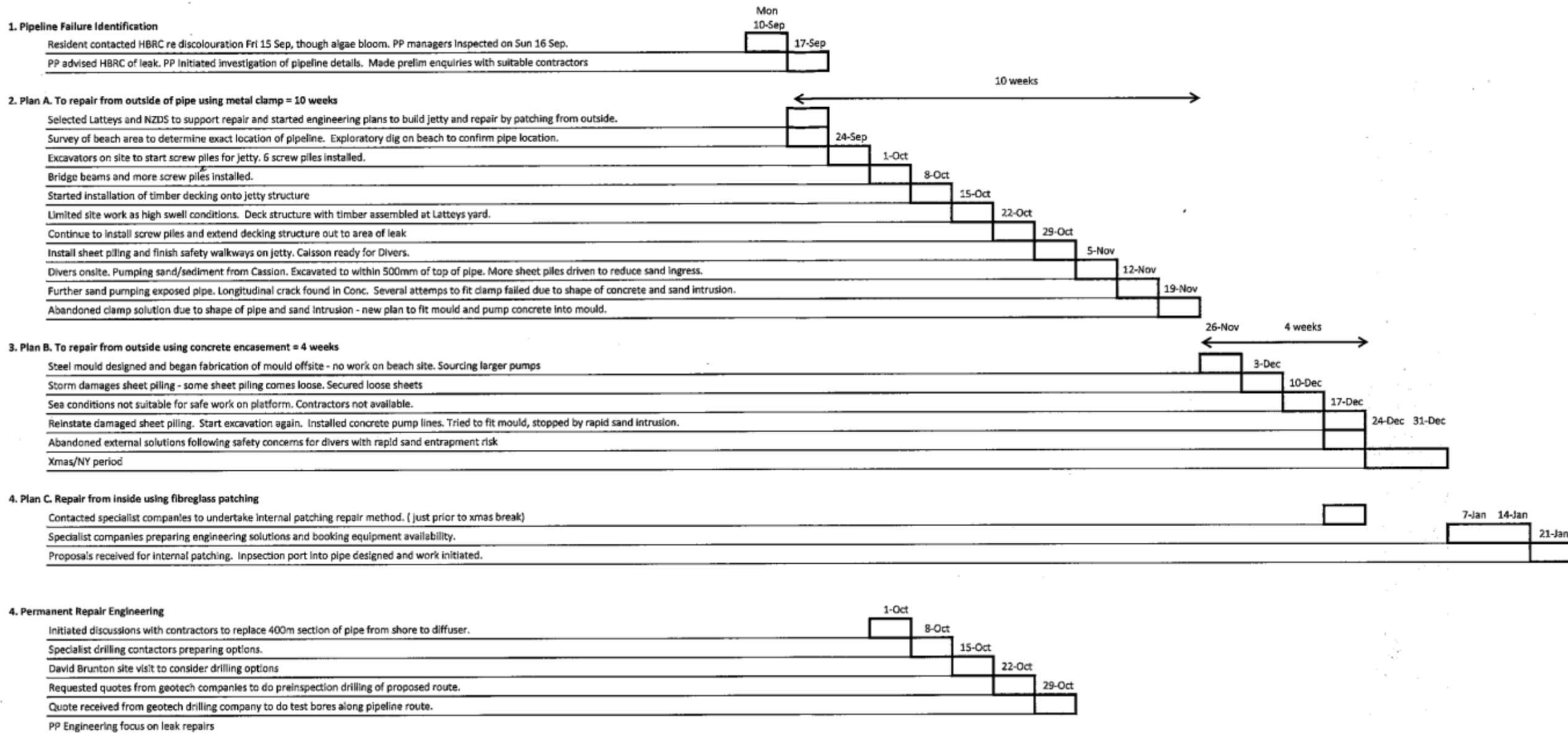
James Palmer
CHIEF EXECUTIVE

Attachment/s

- [↓](#) 1 24Jan19 draft Pan Pac Historical Timeline of Engineering works

Pan Pac Wastewater Pipeline Leak - Historical Timeline of Engineering works

DRAFT 24/1/19



Item 14

Attachment 1

HAWKE'S BAY REGIONAL COUNCIL

Wednesday 30 January 2019

Subject: NAPIER PORT DIRECTOR APPOINTMENTS

That Council excludes the public from this section of the meeting, being Agenda Item 13 Napier Port Director Appointments with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being:

GENERAL SUBJECT OF THE ITEM TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION	GROUNDS UNDER SECTION 48(1) FOR THE PASSING OF THE RESOLUTION
Napier Port Director Appointments	7(2)(a) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to protect the privacy of natural persons.	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Authored by:

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