

Waimakariri Irrigation Ltd – August 2016 Newsletter

Introduction

WIL shareholders have once again demonstrated their positive attitude towards change by yet again achieving another significant milestone. At the end of this month every shareholder will have completed a farm environment plan or small block management plan and this is our first step in gaining an exact insight into what farming practises are happening within the zone, and where the risks sit from an environmental perspective.

While individually this might not seem important, from an aggregated position it is significant because it will allow the company to enter into the sub-regional planning process in possession of real facts. More importantly, at individual farm level through your FEP, and at scheme level through the Environmental Management Strategy we now have a documented plan of where improvements can be made and what outcomes will be achieved.

Farming practices across the scheme are generally very good and you should all be congratulated for this. However, just the smallest improvement to an irrigation system and scheduling can dramatically reduce the amount of nitrogen that leaches past the root zone and go a long way towards achieving Good Management Practise (GMP) by 2020. If we can demonstrate, document and prove enhanced water use efficiency and reduced nitrogen losses across the catchment, then this will go some way to silencing those critics in the community that are against any form of farming intensification enabled by irrigation.

Earlier this week you will have received the Nutrient Management Policy (NMP) and the proposed changes to the Water Supply Agreement (WSA). We now have a discharge consent and a set of rules that should provide a level of certainty, at least for the next 5 years. If we start to make a series of small but immediate improvements, there is a high likelihood that the discharge consent will be renewed in 5 years with very similar conditions to those we are currently operating under.

If WIL shareholders as a collective continue to take an active role in improved water use efficiency, and adopt those practises required by the Nutrient Management Policy, this will further cement our position as leaders in water management.

In this newsletter we provide a summary of the key activities that have been happening over the recent months. If you have any questions or suggestions, please do not hesitate to contact me on 0220 869986 or at brent.walton@wil.co.nz

We look forward to seeing you at one of the shareholder engagement meetings next week to discuss the NMP and WSA:

- Mandeville Sports Club – 22 August 1.00pm
- Oxford Town Hall (A&P Room) – 23 August 7.00pm
- Rangiora Town Hall (function room upstairs) – 24 August 1.00pm

Brent Walton
General Manager

Water Charges

In the last newsletter, and again at the 2015 AGM we indicated to shareholders that water charges will be increasing for the 2016/17 irrigation season. In recent years' water charges have only increased by the Consumer Price Index (CPI) per year and last year this was only three cents per share. However, operating costs have increased significantly and in the past five years the governance, regulatory and operating environment for all schemes has changed dramatically.

In the financial years 2010 to 2016 water charges only increased 8.8% through CPI adjustments, but operating and administration costs have increased 38.8% with an overall revenue increase of 29.1%. The main contributor to the revenue increase is due to the Ngai Tahu conveyancing agreement. This revenue has offset some of the increased costs.

Capital expenditure has remained constant around \$550,000 per annum. This excludes the costs associated with the Wright's Road storage proposal and the purchase of new water. The most significant difference is a reduction in the net surplus which was previously about \$150,000 per annum.

In order to meet actual cost increases including compliance requirements, achieve shareholder expectations, meet our strategic goals and maintain an end-of-year after tax margin of \$150,000, the Board is announcing that the water charge for the 2016/2017 irrigation season is **\$17.55** per share, an increase of 9.96%. This takes water charges from \$111.72/ha to \$122.85/ha.

WIL water charges are still very much at the low end of the scale. In 2016, of the 24 schemes surveyed, the average cost of water supplied by irrigation schemes was calculated as \$780/ha/year and \$0.14/m³. However, the range of costs is large, \$91 – 1,471/ha/year or \$0.02 – 0.43/m³.

In general, operating costs have been held steady with the exception of three key areas. The company has historically spent \$60,000 on race maintenance per annum. This level of maintenance is insufficient and unsustainable if we are to deliver water at full capacity for much longer periods than in previous years. The increase in demand is due to 4.5Mm³ of on-farm storage and irrigation system upgrades. The race maintenance budget has now increased to \$160,000 which will allow for the main race and tributaries to be cleaned more frequently.

The second increase are the costs associated with completing FEP's and audits. The company can provide this service, while at the same time adding significant value to shareholders for much less per FEP than if the individual shareholder were to outsource the activity. The reporting requirements around managing the discharge and water take consents are complex, the combined budget for the compliance of these activities, including the preparation of FEPs and audits is \$200,000 or an average of \$1,000 per shareholder. Individual irrigators in the region that are subject to similar compliance and reporting regimes are paying on average \$4,500 per annum for the same service using external advisors. This does not take into account the extra time required by the irrigator to organise and manage the FEP process.

Total operational salaries have increased by 27% over the past five years. The company now provides 7 days per week coverage across the entire year accounting for most of the increase. Five

years ago water ordering was restricted to Monday to Friday with emergency weekend call outs only.

Administration costs have held steady. In 2011 for every \$1.00 in revenue the administration cost was \$0.37 compared to a forecast of \$0.31 for 2017. These figures include storage costs and interest but exclude the costs associated with the purchase and sale of new water.

The decision to increase water charges was not taken likely given the current economic climate however the increases are necessary. The Board will continue to monitor spending closely with expenditure only being allocated to maintain the infrastructure and business, consent compliance and in areas that add significant value to shareholders.

Storage Project

The Environment Court Hearing resumed on 16 May 2016, this followed a series of Court facilitated caucusing sessions where the engineers representing WIL, Councils and ECESS mostly agreed on previous points of contention. Despite providing the required material, the Court was not satisfied with the view from the expert conferencing that the Emergency Action Plan (EAP) and the Emergency Evacuation Plan (EEP) be addressed after the Consent is issued with sign off via certification. The Court ordered that 'close to final' plans should be produced before they would be prepared to consider issuing consent. On 18 May 2016 Court was again adjourned with the Judge indicating that they provide an interim decision sometime over the next few months.

Subsequent to the hearing being adjourned the following workstreams are underway or have been completed. DamWatch have reformatted the Dam Safety Assurance Plan and the EAP to meet the objectives of the NZSOLD Guidelines. In addition are working with NIWA and GNS and have developed a practical auto-sensory alarm system. Further, DamWatch have remodelled the inundation maps using a higher coefficient number than was used in the original dam break analysis. This is to partly satisfy ECESS's claims that the original inundation mapping did not take into consideration hedge rows, tree blocks and fences and, therefore how could WIL be certain that South Eyre and Thongcaster Roads would remain clear of flooding.

GNS are to complete an internationally recognised risk assessment to help inform evacuation procedures. Following the completion of the above work the draft plans will be presented to Police, Fire and Civil Defence for their contribution and sign-off. The latter is required as their involvement will need to be documented.

As at the time of writing this newsletter much of the above work has been completed and the next notice to the Court is due at the end of September. It is unlikely that the Board will be able to return to shareholders for final approval before the New Year.

Farm Environmental Plans

We would like to thank all shareholders who have completed their FEP's to date and thank you in advance for those few that need completing. It is a compulsory requirement that the FEP's are completed by the end of August so it has been a huge achievement by the shareholders,

Paul Reese and his team to meet this rather ambitious target. In total there are 105 FEP's completed or pending for properties or enterprises over 20ha and 84 properties of less than 20ha using the ECan Small Block Management Plans.

It is also a compulsory requirement that all properties 20ha or over must complete an Overseer budget by 01 September 2016. Many of you are well through this process but if you haven't yet arranged for a budget to be completed then we urge you to contact your fertilizer rep, Fonterra, Synlait or your farm advisor.

Many of you will have identified areas and practices on your farm where improvements can be made. Justified irrigation scheduling is one area where significant improvements to water use efficiency can be made. We currently have 12 farms across the scheme involved in NIWA and ReGen trials. While both systems require some capital outlay for a weather station and soil moisture probes, the payback and operating cost savings are compelling and nitrogen losses are significantly reduced. More information on these systems and trials will be provided to shareholders next month.

Water Meters

Once again the consenting rules have changed and the company is now required to respond. As with the management of nutrients and the requirement to prepare FEP's, flow metering, accurate measurement and recording on all take 20lps and greater is now the responsibility of the individual irrigator and not the company.

During the off season Datacol completed an audit and repair of the WIL flowmeters and dataloggers. We would like to thank shareholders for your cooperation on this matter as we acknowledge testing in the off season was not ideal. We would also like to thank in advance those remaining shareholders that still need their meters to be tested and verified.

At or close to 01 September all WIL installed flowmeters will be reading and logging accurately. Some of the existing meters will need replacing and this will be done at the company's expense over the next month. There are a small number of new meters that will be required that were not installed over the period from 2009 to 2011.

Moving forward and to eliminate the risk of any one individual jeopardising the overall consent, the Board is indicating it will be handing over the ownership of flowmeters to the shareholders. This means that from 01 September irrigators will be responsible for meeting all hosting, maintenance and replacement costs associated with that property. The company will pass these costs on, and shareholders will be invoiced directly. Annual hosting costs for 2016/17 are \$300 per telemetry unit and estimated annual maintenance costs average between \$500 - \$700, but this may vary depending on the age and condition of the meter.

At face value this might seem an unreasonable approach but approximately 50% of shareholders have flows less than 20lps and are not required to have meters. Up to this point in time they have essentially been subsidising those shareholders who have company installed meters. Further, we have observed on a proportion of farms that the meters have not been particularly

well looked after or protected from stock. This is virtually impossible for the scheme to manage let alone budget for, so an alternative arrangement is now required.

In the coming years there will be a lot of discussion and focus on Good Management Practise (GMP). To achieve GMP water usage will need to be actively managed and each irrigation event justified. None of this will be achieved without accurate and timely water metering by each individual irrigator. Therefore, water metering and telemetry should be looked upon as much more than just about compliance, it is now part of your irrigation decision making and a crucial management tool.

While the Board is indicating to shareholders that you will be individually responsible for your meters, this is one area where company involvement could provide shareholders with real value. We have been working closely with Datacol to find a positive solution, and this will likely be in the form a fully serviced supply and hosting agreement. While the individual shareholder will still be required to meet the hosting, maintenance and replacement costs we should be able to benefit from volume discounts and a quasi-wholesale arrangement. More importantly there will be a single point of contact that will provide a 'one stop solution' for shareholders. We will be in direct contact with those shareholders involved over the ensuing months.

As mentioned in the last newsletter, from time to time the company will request information that is vital to ensure shareholders meet the conditions of the Discharge Consent and the new Water Take Consent. Attached to this newsletter is a form that we require shareholders to fully complete. The information we require relates to your pumping system and nominated off take points. This will help us complete the water balance modelling required by the consents. If you haven't received the same form by email over the past few days, it most likely means that we do not have your email address. **Filling out the form is a compulsory requirement** and it must be completed (electronically or hard copy) and either emailed or posted before 01 September 2016. The form must be completed before your 2016/17 irrigation water will be delivered.

New Water

The Board is pleased to announce that earlier this year it purchased 341 litres of water from another consent holder on the north bank of the Waimakariri River. This is in addition to the 200 litres purchased and sold as shares in 2014. Both volumes of water have been added to the main WIL water take consent (CRC166677) which now has a total volume of 11,041 litres per second. It is important to note that the restrictions on the 2014 shares have been removed and all shares now have equal water entitlements and nutrient management obligations.

The company is currently preparing a Product Disclosure Statement (PDS) which formally replaces the traditional prospectus. Following the same tendering process as the last sale, the Board anticipates making the new shares available for sale in mid-October with a closing date of in mid-November. There is a requirement that the latest set of audited accounts are included in the PDS, but that they can be no older than 6 months. Therefore, the company has to wait until the June 2016 accounts have been audited and this process will not be completed until the end of September.

On 12 August shareholders were sent the Nutrient Management Policy (NMP). The policy outlines the nutrient management requirements for all WIL shares and properties using WIL water. Any share sales and transfers, and annual quota transfers must comply with the NMP.

This will also include the shares associated with the 341 litres per second of new water. Any shareholder contemplating on purchasing the new shares must first demonstrate how the water will meet the requirements of the NMP, and this is in addition to ensuring that there is sufficient race capacity to the off-take point. Share transfers can occur but Board approval is now required before water can be delivered.

For those shareholders who think they might be interested in purchasing the new shares we encourage you to register your interest with the company, this has two purposes. First of all, the company maintains a Schedule of Requests to Purchase Shares and this requires updating. Secondly, the information that a shareholder is required to provide for the Board to consider an application for share transfer is quite detailed. Essentially a due diligence exercise is required and based on recent experience this can take a shareholder several months, so we encourage you to work with us very early on in the process. Of course a shareholder can purchase shares but this is at their risk as the water will only be delivered on farm once the NMP conditions have been met, and Board approval has been given.

Depending on how early the irrigation season starts, the company might consider leasing out the 341 litres (or part thereof) on a short term arrangement. You can register your interest to lease the water and/or purchase shares by emailing admin@wil.co.nz

Auction Based Water Trading

In the last newsletter we went into some detail describing the Water Trading Platform that was being developed between WIL, Crown Irrigation Investments Ltd and Datacol. The development of the software and trading platform is now at a stage where it is ready to pilot. Depending on the outcome of the pilot, water trading could be available on a permanent basis from 2017. The company ran an initial workshop late last year and has a list of shareholders who are willing to be part of the pilot. We are actively looking for additional participants so please let us know if you are interested.

Essentially water trading is a reallocation of water entitlement on a short term basis and within season. It will work on a run of river scenario but the true benefits will be realised once scheme wide storage is available. Ultimately allocation trading (both storage and run of river) might eliminate the need to continue with the current zoning restrictions, however this will be some years in the future.

Noxious Weeds

A shareholder has kindly brought it to our attention that they have found ragwort adjacent to the water race. Lupin, gorse, broom, wilding pine and briar are common place and are controlled through our annual spraying program. Unfortunately, ragwort can be very harmful to stock and should be removed immediately by simply pulling it out and leaving it on the ground

to breakdown. If this method is impractical, please contact Jamie Hamilton and he will organise Dan and/or Russ to spray the affected areas.

ECan Elections – North Canterbury Constituency

WIL shareholder Claire McKay is standing as a candidate for the coming Environment Canterbury elections. The company fully supports Claire’s nomination and urges shareholders and the community to do the same.

Claire is on the Waimakariri Water Zone Committee and, up until very recently, was the Chair having joined the committee as a community member in 2010. She is also a member of the Infrastructure and Land Use and Water Quality working groups on the Regional Committee of the Canterbury Water Management Strategy.

Claire and her husband Bruce have been farming in North Canterbury since 2000. Claire has diverse experience and knowledge of the agricultural sector through her career as a veterinarian, combined with 36-years’ experience in dairy farming.

Claire says her previous business experience, professional training and governance expertise mean she is well positioned to provide effective leadership in a collaborative and consultative way.

“I believe my environmental leadership will result in a clear sense of direction and balance of competing interests, to ensure I focus on delivery of environmental sustainability and long term viability for both rural and urban based communities,” says Claire.