

NEWSLETTER

February 2014

WELCOME

I think 'unsettled' best describes the season so far – temperatures were below average in January and we have experienced changeable weather since mid-December. I'm not even certain if summer's been or still to arrive?

In this newsletter, I have an important message regarding our policy for water use above your 80% allocation which I encourage everyone to please read carefully. I also update on the restructure process, how things are going operationally around the scheme as well as some general news briefs.

WATER USE – over 80% charges

The water supply agreements currently in effect specify that the annual water charge (2014 = \$197/ha) covers water use up to 80% of the annual allocation for each share. The annual allocation is 5,625 m³ which is derived from an application of 25mm per hectare per week for 22.5 weeks per season. 80% of this allocation is therefore 4,500 m³ per hectare.

In most seasons, the majority of shareholders do not use more than 80%. There are some consistently higher users (mainly smaller landholdings) and, in a high demand season, the average water use can typically approach or exceed 80%.

In previous seasons, there has been an inconsistent approach to charging for water use over 80%. The Board has recently approved a policy to ensure a consistent approach across the scheme which is very straightforward and, we believe, fair for everyone.

Since we do not yet have water meters across all the schemes, we rely on water orders as a basis for individual water use. Our new water ordering system tracks orders for each user through the season. The information (volume and % of entitlement used) is available to each water user via their individual login on our website. It is up to each water user to be aware of their water use as the season progresses and the water ordering system on our website is the best way to do this. Those that use more than 80% of their seasonal allocation will be advised and will be charged for the additional volume used.

For those of you that aren't yet using the website and want to know your current usage, please contact Christine for your login details so you can then check your own information any time. Even if you are not using the website for ordering, it will still provide your season-to-date usage.

The pricing policy approved by the Board is that water use between 80% and 100% will be charged at the incremental rate based on the annual charge. Water use above 100% will attract a 50% penalty rate and water above 100% can only be used with prior approval. The basis for approval for additional water use will be the status of water storage and is unlikely to be approved if we anticipate there may be any overall restrictions during the season. Restrictions start when the lake level reaches 50% full (lake level at 385m RL).

On this basis, the charges for extra water use for this season are as follows: (information detail available on our website)

CHARGES FOR WATER USE > 80% (ALL USERS)

80%-100% (4,500m³ – 5,625m³) – 4.38c/m³

At the normal application rate of 0.41 l/s per hectare, this equates to approximately \$1.56 per hectare per day.

Above 100% (>5,625m³) – 6.57c/m³

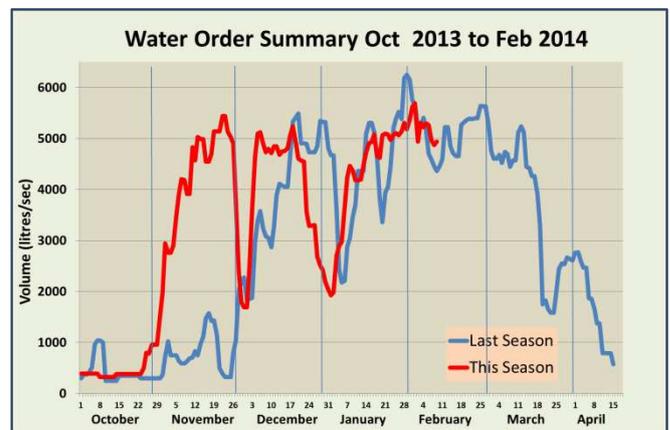
This equates to \$2.35 per hectare per day.

Note that water use above 100% is only available by pre-approval.

OPERATIONS

Irrigation Demand and Scheme Operations

Apart from the much heavier start in November, irrigation demand has followed a similar pattern to last year with a drop off after the Xmas/New Year rain but a return to fairly steady demand through January. We are currently running at about 80% capacity overall although the Totara Valley and Kakahu in particular are each near to full capacity.



Earlier this season, we commissioned a new flow monitoring site on the Kakahu scheme which we refer to as the Hawke Rd Discharge. This site provides on-line information to Steve's team that significantly reduces their travel time involved in trimming up the flows in the Kakahu scheme, enabling more efficient and timely delivery decisions to be made.

We appear to be clear of the algal issues we experienced within Levels prior to Xmas and Steve's team are continuing to manage aquatic weed across all three schemes. It appears to be a heavy season for didymo in the Opuha and this does impact on the intake operation at Kakahu in particular.

Flushing Flow Proposed

We have NIWA carrying out more monitoring of the algal conditions in the river this season and we are currently looking at conducting another flushing flow before the end of the month (February). We will likely be advising irrigators near the top of the scheme (including Kakahu) to shut down during and

immediately following the flush to reduce any problems with screen blockages. Ideally, we would like to time the flush with a rain event so that there is already extra water in the river and irrigators may be backed off in any case; however we don't have absolute flexibility with the timing because of the resources required to monitor the flush and the public notice periods involved.

Water on Roads !!!!!!!?

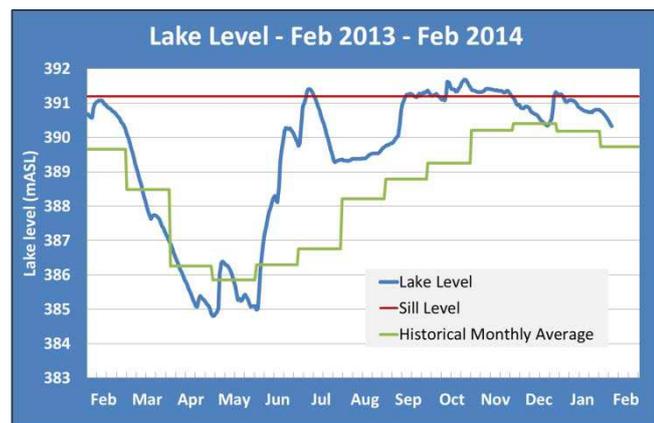
We continue to come across instances of irrigators spraying water directly onto roads. Some spray drift in windy conditions is one thing but the situations we are encountering is simply bad practice. It is dangerous (a significant road hazard) and as equally as important is the very bad image it portrays of every one of us to the public, i.e. we have more water than sense and can't control our operations. I think the message is simple-

If you operate irrigators (incl K-line and pivot end guns) in paddocks adjoining roads, ensure you check that the water does not impinge on the road at any part of the cycle.



Lake Opuha Storage Level

The lake level is starting to draw down even with the minimum required releases but we remain in a comfortable storage position (90% full) for this time of the season. Our current operating philosophy is to maintain the minimum release flows for as long as we can to conserve storage. As mentioned, we are anticipating a flushing flow release before the end of the month and our minimum flow requirement steps up significantly in March.

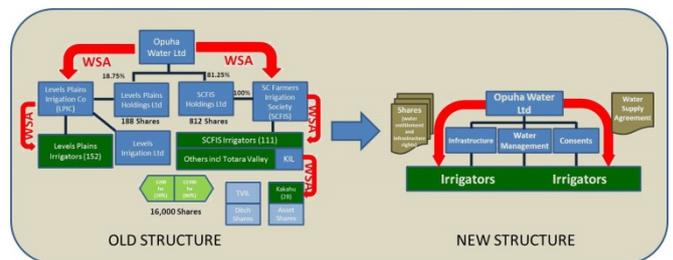


COMPANY RESTRUCTURING

When we pulled up last year, I was very disappointed that we had not been able to wrap up the restructuring process after receiving advice of a very significant tax issue with the process we had planned. To start this year, we have been looking once again at the options to consolidate the current seven entities into one. A new process has been identified and we have had our tax advice peer reviewed. The scheme valuations have

been updated and reviewed. The process we now are embarking on will involve the issue of a prospectus (by SCFIS) as part of an offer to all existing shareholders. The preparation and approval for issue of a prospectus is quite a complex task and our initial programme suggests it will take most of the first six months of the year to get everything in place and everybody across the line. As I have said before, I continue to be amazed and frustrated at how such a conceptually simple process has proven to be so complex. Unfortunately most of the complexity is a result of the response by the government to the fallout from the multitude of financial company collapses in recent times and in particular the safeguards that are now in place to protect shareholder/investors.

With the potential extent of the delay to the restructure process, I will be working with the ANZ to see if there are any interim measures we can take to take advantage of the very attractive re-financing package we have agreed with them.



OTHER NEWS BRIEFS

New Website and On-Line Ordering

We are really pleased to see the steady increase in the number of irrigators that are utilising our new web based water ordering and the feedback from the new users has been very good. The new system is also proving very successful within the office, providing the Operations team with more timely and accurate information for them to set up the various schemes and deliver the ordered water and has streamlined our recording of orders.

Sale and Lease of Water Shares

We receive regular enquiries to our office regarding availability of shares for purchase or lease. We have decided that the best way we can assist with this process is to simply post information on our website regarding availability and demand for parcels of shares as we are made aware of them. Vendors and purchasers can then make direct contact with each other to agree the commercial arrangements. All sales and leases still need to be confirmed with the office and we can assist with documentation for sale or lease of shares.

Land and Water Regional Plan (LWRP)

The LWRP was notified on the 18th January. One of Julia Crossman's first tasks as our new Environmental Manager is to assess the implications and opportunities for our individual irrigators and for the scheme as a whole under the new Plan. We will be providing update information on this very important topic via newsletters and our website.

Regards

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