



NEWSLETTER

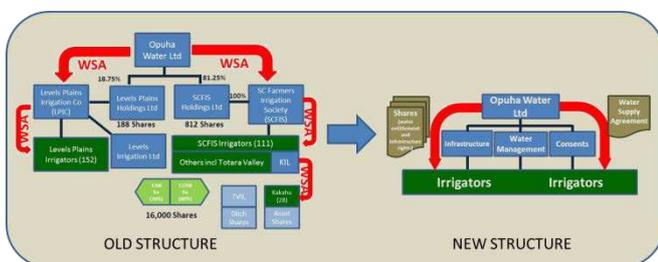
WELCOME

A couple of key updates are provided in this newsletter. Firstly, I will explain where we are currently at with the restructure process and, over the page, Julia Crossman introduces herself and the Land & Water Regional Plan (LWRP) in an Environmental Update section. The LWRP is now legally 'effective' and there are implications for everyone - but most especially anyone contemplating a change in land use on their property. It is important to note that land use change encompasses activities that previously may have been considered 'normal' developments within an existing enterprise (as well as the more obvious changes such as dairy conversions). The implications of the LWRP for OWL and for all our irrigators is a key area of work for Julia and she will be providing regular updates to you all and is planning roadshow type presentations in conjunction with the rollout of our ASM programme. So, with acknowledgement to Lewis Carroll (c1871),

*"The time has come," the Walrus said,
"To talk of many things:
Of zones - and limits - and nitrogen
Of OVERSEER - with strings!
And why we need to give a toss
And why - before this Spring!"*

RESTRUCTURING

As I described in last month's newsletter we have identified the revised process for restructuring the Opuha group of companies into one entity. We are currently preparing consolidation documents as well as applications to the Financial Markets Authority. In parallel we are busy preparing financial information that includes a budget for the new consolidated enterprise going forward. All our irrigator shareholders will be receiving documents in May relating to the restructure and including this financial information. In the meantime, I will be engaging with each of the Boards within the group to brief them on the process and the approval requirements.



The process involves a sale and purchase of the Kakahu and Totara Valley schemes into SCFIS, then an amalgamation of the remaining entities (OWL and LPIC) with SCFIS which will become the 'new' OWL.

Our target implementation date is now June 30th. While this seems a long way off now, we will be going flat out to meet that date with the various publications and approvals that are required. The June 30th date does provide some benefit with regards the logical conclusion of the current accounting period.

Company Financing

Due to the delay in the restructuring programme we are looking at the attractive re-financing package we have available from ANZ to see what interim steps we might be able to take. On this basis, we have chosen to apply some of our current cash holdings to reduce some of our long term debt by buying out one of the interest rate swaps we had. This will reduce our interest charges in the short term and will also provide us with some on-going flexibility to further reduce debt if (mainly) our electricity operation provides favourable returns.

OPERATIONS

Flushing Flow

We undertook a flushing flow on 27th Feb in an effort to clear out, as much as possible, the relatively high level of didymo in the top of the Opuha. In planning this exercise, we were very aware of some of the problems that occurred last year at the bottom of the catchment and in the Opihi lagoon in particular. This year we were assisted by Fish & Game and ECan in preparing the river mouth at the lagoon and we ran the high flows through the system for as long as we could sustain them (approx. 20 hours). Fortunately the arrival of the 'flush' at the lagoon coincided with a low tide so, with the newly opened channel, the conditions were ideal for the silty water and didymo debris to move straight through and out to sea.

From the initial feedback I have received, the flush appears to have been successful in achieving what we set out to do - clean out the top and not leave a mess at the bottom.

Thank you to the Kakahu irrigators in particular for your patience during this exercise.

Lake Opuha Storage Level

The lake level is drawing down steadily now with the higher releases in March required to meet the minimum flows in the river. We are currently about one metre (8%) lower compared with last year. Irrigation demand has backed off with recent easterly rain but we expect we will continue at reasonably steady levels through March.



Regards

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ENVIRONMENTAL UPDATE

This newsletter gives me a good opportunity to introduce myself, as the new Environmental Manager for Opuha Water Ltd. In my previous life I worked at ECan in both the land management and planning teams, where I was actively involved in both the development and implementation of the Canterbury Water Management Strategy. It is exciting for me to be able to bring that experience to OWL and I am really looking forward to working with you to facilitate improved environmental outcomes within the scheme and on-farm.

One of my first tasks has been to assess the implications and opportunities of the new Land and Water Regional Plan (LWRP) for our shareholders and for the scheme as a whole. The LWRP is now legally effective and so has an immediate impact for those contemplating a change in land use that may lead to an increase in nitrogen loss.

You will appreciate there is a lot to tell in this space, so consider this newsletter an introduction to the LWRP, that I will build on in future newsletters, on the website and at information sessions around the catchment. More fact sheets and information about what OWL are doing in response to the LWRP will be on the website www.opuhawater.co.nz shortly, and I encourage you to have a look at this.

Julia Crossman

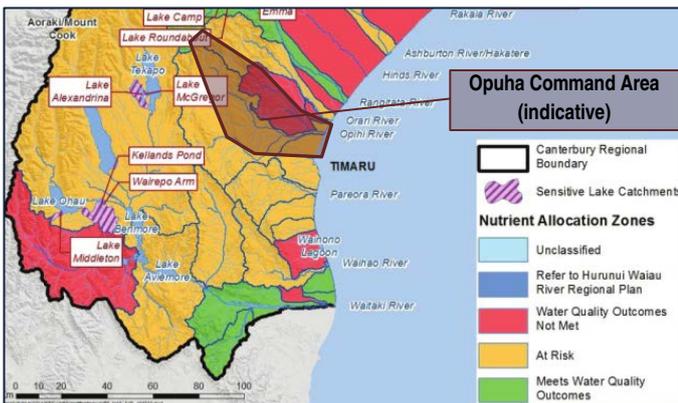
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Land and Water Regional Plan (LWRP)

Canterbury has been categorised into Nutrient Allocation Zones which indicate where the water quality outcomes are or are not being met. The rules in the LWRP regulate nitrogen leaching according to these zones.

Within the OWL command area there are both Orange (Opihi) and Red (Temuka incl. Kakahu) Nutrient Allocation Zones.



Across ALL Nutrient Allocation Zones, farms less than 5ha, or farms leaching less than 10kgN/ha/yr are a permitted land use. All other farms are regulated by the rules which apply for that particular Nutrient Allocation Zone.

Two important concepts to understand when looking at the rules are the Nitrogen Baseline and the Nitrogen Loss Calculation:

Nitrogen Baseline: The mean discharge of nitrogen below the root zone over the period 1 July 2009 - 30 June 2013, modelled with OVERSEER® and expressed in kgN/ha/yr.

Nitrogen Loss Calculation: The discharge of nitrogen below the root zone, as modelled with OVERSEER®, averaged over the most recent four year 01 July to 30 June period and expressed in kgN/ha/yr.

ALL farms larger than 5ha must establish a nitrogen baseline and it is important that it is robust and accurate. Your nitrogen baseline has significant implications for the future management of your land and options for the future.

In a **RED** Nutrient Allocation Zone, there is no flexibility to leach beyond the nitrogen baseline— that is, any increase in N loss is a prohibited activity. This does not prevent development, but it does mean that any development cannot cause an increase in nitrogen loss i.e. other on-farm mitigations may need to be introduced. All farms leaching more than 20kgN/ha/yr will need a consent by 1st January 2017, and a Farm Environment Plan (FEP) will need to accompany that consent application. The 20kgN/ha/yr is a threshold, not a limit; the limit is the baseline i.e. a farm leaching 40kgN/ha/yr can continue to operate as long as losses do not increase above the baseline and they hold a land use consent and FEP post January 2017.

There is greater flexibility in the **ORANGE** Nutrient Allocation Zone for development or intensification beyond the nitrogen baseline.

- Farms leaching less than 20kgN/ha/yr are Permitted if farm information is recorded (FEP preferably).
- Farms leaching more than 20kgN/ha/yr are Permitted provided the property is smaller than 50ha and there is no increase in nitrogen leaching above the baseline.
- All other farms leaching more than 20kgN/ha/yr are Permitted until 1st January 2016 provided any increase in nitrogen leaching is limited to less than 5kgN/ha/yr.
- Farms leaching more than 20kgN/ha/yr will need a consent and FEP by 1st January 2016, if their property is over 50ha or if they increase their nitrogen loss above the baseline.

WHAT YOU NEED TO DO:

- Know what Nutrient Allocation Zone your farm is in. If you are near the boundary of the Opihi and Temuka Nutrient Allocation Zone, go to the webpage <http://files.ecan.govt.nz/public/lwrp/council/lwrp-intro-legend-page.pdf> for more detailed maps, or contact Julia.
- All shareholders with farms larger than 5ha need to work out your nitrogen baseline. First you need to collate the information you need to populate OVERSEER for the four baseline years 2009-2013, including production (crop yields, stock numbers, wool weights, selling weights, milk solids etc); fertiliser (amounts, where when and how applied); and supplements bought or sold.
- If you are contemplating a change to your farming operation, such as transferring shares or winter grazing, you need assess whether it will increase your nitrogen loss calculation above your baseline and therefore whether that change is permitted, prohibited, or a consent is required.
- All farms requiring a consent must prepare a Farm Environment Plan as part of their consent application. OWL will be able to assist you in this, so keep an eye out over the next few months for information regarding the Farm Environment Plan rollout.