

# Board Paper

## April 2015

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**Title:       Scheme Nutrient Load Consent**

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### **Purpose**

This paper presents a summary of the key points from the Nutrient Management Workshop, held on the afternoon of Friday 1<sup>st</sup> May. The paper is presented for information and for discussion by the Board regarding the proposed nutrient management approach and suggested priorities.

### **Background**

Over recent months OWL Board and Management have been considering the company's nutrient management approach, including where we want to position ourselves in the nutrient management space, what our priorities are, and what resourcing is required. There is a significant linkage between these matters and OWL's wider strategic direction and the workshop on the 1<sup>st</sup> May was an opportunity to explore these two elements.

One of the key decision points of the nutrient management approach, is whether or not to apply for a scheme nutrient discharge consent, as provided for in the LWRP. This decision has significant implications for the company and our shareholders, and is guided and influenced by our shareholder make-up, risk profile, environmental objectives and growth aspirations.

A number of factors, which influence OWL's decision to apply for a scheme load, were discussed at the workshop. These are presented below.

- OWL shareholders are currently operating under the LWRP default rules. As they are written at present, these rules prohibit any increase in N loss in the Red Zone (Kakahu) but provide some flexibility to intensify in the Orange Zone. Under the current rules, most farmers in the Orange Zone leaching >20kgN/ha/yr need a consent by Jan 2016; this is Jan 2017 for the Red Zone farmers.
- ECan have indicated that the MGM policy framework is likely to replace the 2016 and 2017 requirement for consents; instead, all farmers will be expected to be working at GMP/MGM by 2017. The current understanding is that under this new framework, those irrigating more than 50ha, or winter grazing more than 20ha, will need a resource consent, though the timing of this is still uncertain.
- Key drivers for other schemes applying for a scheme discharge consent have been growth and new water opportunities. OWL is fully subscribed in terms of its shareholding and has a relatively 'mature' group of shareholders. In the short term, this is likely to remain reasonably stable, with any expansion of scheme possible only through efficiency gains (on-farm, distribution and storage). In the long term, however, the potential for 'new water' coming into the Zone may allow for further development potential and increased reliability.
- There is greater advantage in applying for a scheme consent where shareholders are largely in the Red Zone and therefore are unable to intensify unless they operate under a

scheme load. OWL shareholders are predominantly Orange Zone (approx. 80% of shareholding) with some ability to intensify, either as a permitted or consented activity.

- OWL shareholders are a mix of land uses and farm sizes. There are approx. 85 shareholders with farms <50ha which would otherwise not be captured under the LWRP rules. Additionally, approx. 45% of shares are used on farms other than dairy platforms, which are generally (though not always) likely to be lower intensity farmers, many of which would fall under the 20kgN/ha/yr threshold for consent.
- The sub-regional plan process is getting under way now. This process will review the science that led to the 'red zoning' and will undertake more sophisticated modelling. The current understanding is that the red zoning was based on phosphorus rather than nitrogen issues and so may be reviewed through the development of the sub-regional plan.
- ECan have indicated that any scheme consent applied for at present is likely to be short term duration (5 years) pending the sub-regional plan. Therefore, it is questionable how much more certainty a consent provides.

## **Nutrient management priorities**

As a result of the discussion at the workshop, the Board decision was NOT to apply for a for a scheme nutrient discharge consent, *at this stage*.

In the absence of a nutrient discharge consent, the following nutrient management priorities are now presented to the Board for feedback.

### **1) Continuation of FEP rollout**

The roll-out of the FEPs is a priority for OWL, particularly in terms of gathering information. OWL management are currently seeking some external resources to assist in the FEP rollout over the next 6-12 months. The roll out will target the larger, more intensive farms in the first instance.

A key driver of this roll-out is obtaining the scheme-wide information required to enter and engage in the sub-regional plan process in an informed way for, and on behalf of, our shareholders.

### **2) Education and advocacy of shareholders e.g. regulatory requirements, irrigation efficiency, nutrient management/mitigations**

To complement the FEP roll out, OWL will continue to promote and facilitate an ongoing training and education programme to assist shareholders in understanding and adopting Good Management Practice.

OWL management will also seek to inform and update shareholders on their regulatory obligations and any changes to the LWRP that may impact them.

### **3) Active engagement in OOP Zone Sub-Regional Plan**

The OOP sub-regional plan process will set community agreed outcomes in the rivers, the required limits to meet those outcomes, and a system to allocate those limits. This allocation could be based on an individual property-by property system, or as a collective or scheme load. There will be opportunities through the sub-regional process to guide which allocation system should be implemented for OWL shareholders. There is the potential for OWL to apply for a scheme load at that point.

Over the next 3 years, OWL will participate in the Zone Committee meetings, and provide input into any technical work streams supporting the process. Through the FEP

process, we will be able to offer ‘real’ on-farm information, rather than rely on models and assumptions.

**4) Keep a ‘watching brief’ on the regulatory environment, in terms of the factors that may influence our decision to apply for a scheme nutrient discharge consent**

It is anticipated that the policy framework surrounding MGM will replace the requirement for more intensive users to apply for a resource consent by 2016 (Orange Zone) and 2017 (Red Zone). While the detail and timing associated with these rules is unclear, this new framework may influence the decision of whether to apply for a scheme nutrient discharge consent. OWL management will continue to seek information and assess the consequences for our shareholders.

The option exists of applying for a ‘Red Zone’ load, to provide flexibility to Kakahu shareholders. There is a strong case for arguing the N vs P issue in this catchment. The pros and cons of such a ‘sub-scheme’ consent need to be assessed.

It will also be important, over the next 2-3 years, to stay informed regarding other sub-regional plan processes in Canterbury, and the Zone Committee recommendations in terms of limits, allocation mechanisms and the role of schemes in managing nutrients. While every sub-regional plan is different, each does, to an extent set precedent for future plans.

**5) Engagement with non-shareholders**

There are 3 ‘classes’ of properties in the catchment in terms of the influence OWL can exercise:

- 1) properties owned by OWL shareholders and irrigated with OWL water;
- 2) properties owned by shareholders but not irrigated with OWL water; and
- 3) properties not owned by OWL shareholders.

There is a significant threat posed by the 2nd and 3rd class of properties. Their environmental footprint presents a risk to water quality and has both inter and cross catchment impacts, that are currently unmanageable by OWL.

It is anticipated that the 2nd class of properties could be bought into the OWL system through the FEP process. The FEP is easily transferrable outside the scheme and it is anticipated that we will see demand for the use of the FEP by shareholders who have other dryland properties in the zone.

The 3rd class of properties are harder to reach, however the catchment groups provide a valuable pathway to engage with these landowners. There are also other entities in the OOP Zone, E.g. Orari Water Users Group, who would benefit from an organised FEP process and could be approached.

OWL will seek opportunities to include properties, not irrigated with OWL water, into the environmental management systems already developed, through the FEP and catchment group processes.

**6) Understand new water and growth opportunities**

The opportunity for growth or new water will influence future decisions around applying for a scheme consent and the size of the load. It is important that water sources and the potential for growth is sized in time for the sub-regional plan process. OWL management will engage in discussions around infrastructure and new water at a Zone level, where appropriate.

## Conclusion and Recommendation

A key outcome of the Board workshop on 1<sup>st</sup> May was the decision NOT to apply for a scheme nutrient discharge consent, *at this stage*. This does not mean that OWL ‘does nothing’ in the nutrient management space. In the absence of such a consent, this paper has proposed a number of nutrient management priorities.

We recommend these nutrient management priorities be accepted by the Board, and welcome feedback regarding additional priorities or actions needing to be addressed.

These priorities are focused on nutrient management. There were a number of other strategic priorities discussed at the Board workshop that will be presented by Jenn Bestwick and OWL management at a follow-up workshop.



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