

Opuha Water Limited - Budget Assumptions

2012/2013 Financial Year (July 2012 – June 2013)
Updated June 2012 following May Board Meeting

INCOME

Irrigation Income

Board approval for \$10/hectare increase in total water charges (to nearest \$). Equivalent to 5.3% increase.

Operation levies charged to shareholders on a monthly basis have been increased. They are now \$11.59 per month, or \$139.12 plus GST, per hectare, per annum

Water charges on a monthly basis have also increased, to \$4.82, or \$57.87 plus GST, per hectare, per annum

Total shareholder irrigation charges are therefore \$197.00 plus GST per hectare per annum. Also allowed for is direct debit discount based on an estimate of 92% of shareholders on direct debit.

The water charges were adjusted by the Board to ensure the company meets financial covenants with the ANZ Bank and the company's own financial objectives.

Sutherlands Scheme Charges

Increase from the original charges that were established in September 2011 in line with change in OWL water charges.

Sutherlands Scheme: Capacity Charges – \$461.05 per litre/sec based on nominated flow rate (unchanged)
Incremental Water Charge – based on 135% of OWL Water Charges, \$643.89 per litre/sec.

Based on the current capacity utilisation and shareholding (unchanged from 2011/12) the monthly income based on these charges remain at \$7,489.96 for water charges and \$10,719.43 capacity charges.

Totara Valley Irrigation Scheme contribution to Gardners Pond: \$30,865.70pa or \$2,572.14 per month

There is spare capacity in the scheme that could be taken up (15% or 120 hectares equivalent) and provide additional income (\$23k capacity charges and up to \$31k additional water charge if unshared)

Additional Water

Allowance made for additional income from P Scott water supply \$7,250 per month (290 hectare supply @ \$300 per hectare) Note November start.

Management Fees

LPIC, KIL and TVI monthly management fees remain unchanged from the 2012 financial year. Timesheets are now being completed by all staff of Opuha to determine actual time spent within schemes to set future year charges.

Electricity Sales

Future electricity prices have been based on the PPA contract with TrustPower and the NZ Electricity Futures price data as posted on the ASX for the May to September months when we are on a Spot Priced based contract.

Generation volumes are based on historical average monthly volumes – 90% of average generation over the last five years. On this basis, generation volume for the year is estimated at 21.55 GWh and income at \$1.65m.

TDC Water Abstraction & Extra Water

The TDC Water Abstraction charge has been calculated from 2011/12 year charges of \$225,708 per annum plus a CPI increase of 1.6% (March 2012 quarter) as per agreement – total \$229,319 @ \$19,109.94 per month.

The TDC Extra Water charge has been calculated from 2011/12 year charges of \$89,664 per annum plus a CPI increase of 1.6% (March 2011 quarter) as per agreement – total \$91,099 @ \$7,591.55 per month.

Interest & Sundry Income

A \$500 per month allowance has been made for interest received and shareholder share transfer charges. An electricity rebate from LineTrust South Canterbury of \$50k has been allowed for in December.

EXPENSES**Scheme Charges – LPIC & KIL**

Based on prior year actual levies that Levels Plain and Kakahu Irrigation set but will ultimately be dependent on the final budget that the other schemes set. Opuha Water pays out the funds received the following month therefore it will have no overall effect on the OWL budget.

Electricity Use of System Cost & Connection Costs

The Alpine Energy distribution charge (use of system costs) have been advised by Alpine Energy. A PPI increase was applied to previous charges which were indexed from June 2008. This resulted in a 4.88% increase compared with our 2011/12 costs. Another PPI adjustment is applicable from October 2012 and this has been estimated at 1.5%.

Distribution charges: from April 2012 \$13,325.25 per month
 From 1 October \$13,525.13 per month

As per our 2011 agreement with Alpine, we receive 50% of the reduction in Transpower Interconnection Charges as a result of Opuha's generation during Regional Coincident Peak Demand Periods. This is calculated retrospectively and is \$6,478 per month for April 2012 to April 2013. Assume they are similar for the remainder of the budget period..

Monitoring Charges

Monitoring charges includes \$45 charged monthly from Met Service (total \$540). An allowance of \$23,480 for Tonkin & Taylor monthly reporting and weekly review costs of surveillance data – 52 weekly reviews @ \$200 (last year \$190 p/m) (total \$10,400) and 12 monthly reviews @ \$1,090 (last year \$1,040 p/m) (total \$13,080).

Also other Tonkin and Taylor costs including monitoring plan revision and general office disbursements and communications totaling \$5,430. DE & BJ Bray annual access fee of \$675 for Fox Peak site. Total budgeted \$30,125.

Site Inspection Costs

Estimated costs for year of \$36,000 – the same as previous. Monthly charges from Siebers International for site inspection at Opuha Power Station as per contract (Mondays and Thursdays each week @ \$300 – total \$31,200). Plus any general call out costs associated while on site – estimated at \$4,800 based on charges from 2012 financial year. Assume that whether this contract stays with Siebers or not, that the contracted price would remain similar.

Water Measurement & Telemetry Management

Allows for \$5,550 monthly from Environmental Consultancy Services for routine costs in operating data-logging equipment and for resource consent compliance monitoring – total \$66,600 per annum. This contract was renewed at these rates in May 2012.

Plus an annual allowance in Dec 2012 of \$550 for Dept of Conservation telemetered rain gauges.

Water Measurement R&M

An allowance of \$25,000 for Environmental Consultancy Services for maintenance of seepage drain recording equipment, re-gauging rivers, water quality probes, rain gauge monitoring, DSW meters, measuring flows/loss of flows during the year and any other services that may be required. This budget is an increase of \$5,000 from last year's budget of \$20,000 and reflects actual expenditure for the year. \$25,000

Power Station Operations Management Fee

The Fixed Fee under our O&M Contract with TrustPower is \$274,000 pa with a CPI adjustment provision in October. Based on 2.5% CPI this equates to \$22,833 per month up to October and then \$23,404 per month after that.

Electricity, Light & Heat

Contact Energy and Genesis Energy monthly charges for electricity at Opuha power station and downstream weir, Opuha House, and monitoring sites at Clayton Road, Trentham Road and Salesyard Bridge. Estimated monthly costs at \$1,100 based on last year actual +8% price increase.

Electricity costs for Sutherland's scheme will be recorded separately. While there is unallocated capacity in the scheme, OWL covers that proportion of the fixed costs within the total bill. All energy costs are allocated to the current irrigators. Estimated fixed cost component to OWL is \$320 per month.

Annual Inspection & Survey Costs

Total amount budgeted for \$139,800, based on the following:

- Annual Safety Review – completed in March each year by Tonkin & Taylor, estimated \$12,800 paid Apr/May
- Comprehensive Dam Safety 5 yearly review completed by consultants in May 2012. Not due again until 2017
- Self-monitoring Report – prepared by ECS and OWL and is provided to ECan. Estimate \$7,500 and paid May/Jun
- Biota and River Cross Section – due March, paid April \$3,500 every year
- Instrument Maintenance Inspection – due every 3 years, estimate \$6,000, last done 2008 by Damwatch and now overdue (July)
- Penstock Inspection – due every 3 years, last done 1999. We have been waiting until lake levels are low to carry this out but have now reached a point where we need to carry out the inspection regardless of lake conditions. Estimate \$95k over 2 months – March/April
- Comprehensive Dive Survey – required every two years. Will be carried out as part of penstock inspection. Estimate \$15k – March/April
- Generator and Turbine Inspection – now included in R&M

Weed and Pest Control

The majority of weed and pest costs incurred are passed on as maintenance costs and are reimbursed by other schemes – LPIC, KIL and TVI. An allowance of \$4,200 has been made for spraying at the Dam and around Opuha House.

Wages and Allowances

Casual Staff – allowed \$7,800 for casual staff wages mainly for help over the irrigation and Christmas season as well as one-off assignments such as archive housekeeping and painting.

Permanent Staff – as per employment agreements – total \$213,750 made up of:

- C Gardner - gross salary of \$48,000pa plus Kiwisaver
- C Emmerson –gross salary of \$48,500 p.a. plus Kiwisaver
- Second Raceman – seasonal employment Oct to Mar \$26,000k
- Operations Manager – \$84,000 + Kiwisaver
- Allowance for salary reviews in range 3-5%

Repairs and Maintenance

Allowed for general repairs and maintenance at the Dam and Power Station of \$7,500 per month based on current expenditure levels.

Provided for major maintenance items as follows:

Generator rotor slip rings	\$20,000
Refurbish Draft Tube Stop Log	\$20,000
Rekeying the Abaloy locks around the schemes and dam	\$6,000
Allowed \$3,000 for maintenance on Sutherlands Scheme equipment	

Repairs and Maintenance Downstream Weir

Experience with the leakage and slumping in 2012, suggests regular maintenance on the DSW fusible embankment is required. Provisional allowance for minor repairs to embankment upstream face and crest. \$4,000

Motor Vehicle Expenses

The running allowance for fuel, repairs and maintenance and registrations has been based on the 2011/12 expenditure. Similar vehicle usage is envisaged with higher use during irrigation season.

Average costs \$2,400 fuel and oil per month, \$1,000 repairs per month, \$760 registration (including road user charges) per month.

Accident Compensation Levies

ACC levies based on 2011/12 charges of \$575 per month. Allow \$600 per month

Accountancy and Secretarial Services

Accountancy and secretarial services provided by Quantum Advantage estimated at \$7,200 per month for first six months and reducing part way through the year if accounts receivable are managed from Opuha House. Allows for monthly management reporting, annual audit preparation and liaison with auditor, attendance at board meetings, working with Christine Gardner and Tony at Opuha House, monthly shareholder invoicing. Water orders, database recording and accounts payable to be done at Opuha House.

Audit Fees

New auditor to be appointed so some uncertainty over fees. Opuha Water now subject to IRFS reporting standards and there will be additional work involved with restructuring OWL. Allow \$9,000.

Software Fees

Based on charges from the 2012 year - allowed for \$35 per month for ANZ online software fees. Plus an allowance for two Ace Payroll upgrades at \$120 each and a Custom Software upgrade of \$620. Included a general allowance for software requirements at Opuha House such as upgrading programs. Total \$2,400.

Computer Expenses

Allowance similar to 2012 year - additional staff and computers at Opuha House. Also allowed for database and remote access services at Opuha House. \$350 p/month - total \$4,200.

Internet & Website Charges

Current charges from Maxnet web hosting of \$22 per month (\$264). Intention to upgrade website in 2012 - \$4000 plus an allowance for maintenance and training on the website and increased monthly charges. \$5,000

Conferences, Seminar and Training Costs

Main training endeavors are a hydro engineering course and a dam surveillance course for Steve Pagan. Other allowances for computer and website training and industry training as needs are identified. \$11,600.

Consultancy Fees

Historical spend has been approximately \$45k - \$55k per annum covering investigations on energy options and review of the Alpine agreement. Focus this year on water efficiency and system optimisation including in-scheme storage is envisaged to require a similar budget. \$55,000.

CEO Management Salary

Board approved increase of +2.5% on previous year.

Directors Fees

Board recommended provision for increase to \$100,000 total per annum. Allocation to be determined and approved at AGM. (2012 financial year allowed \$80,000 for Directors Fees - \$20k for Chairman, \$10k for independent directors and \$8k for farmer directors.)

Ministry of Economic Development Levy

We incur a quarterly MED Levy based on our generation. Rate is \$0.165 per MWH

Environmental Management Strategy

The budget provision provides for Claire Mulcock to continue her support for this initiative at an average of 40 hours (\$6,000) per month plus a general provision of \$30k for the 2012/2013 year. Also allowed \$10k to investigate database options to replace or enhance the current Access database system.

Management & Strategic Projects

This cost code covers engagements such as management consultants and also strategic projects such as the Tekapo Water investigation. It is uncertain whether we will be expected to support further work on Tekapo above an advocacy role. Similar budget to previous \$40,000

Subscriptions

Allows for Irrigation NZ subscription of \$1.20 p/hectare – based on a total of 16,000 hectares = \$19,200 per year. Paid by quarterly installments of \$4,800. Membership of NZSOLD (NZ Society of Large Dams) \$800.

Telephone and Tolls

A rationalization of our phone systems and accounts has reduced our on-going costs to approximately \$1,200 per month.

Valuation Fees

An annual valuation of our main assets is required for insurance purposes and we intend to have a review of Tonkin & Taylor's previous estimates of this and also to consider RCC construction as an alternative to embankment fill. Last year we relied on an escalation of the previous year's estimate. Cost of review estimated at \$9,000.

Insurances

Marsh Insurance brokered policies were received mid June 2012.

Total premium for 2011/12 was \$295,709.51 for the year - paid by installments.

A 40% increase was considered possible for this new period equating to \$414,000.

Actual premium is \$420,518.77

Initial installment paid in June 2012, balance to be paid over 9 months at \$42,051.87 per month. This includes insurance for the Sutherland Scheme.

Initial installment for 2012/2013 premium will be due in June 2012 and allowed \$49,680 as an estimate only.

Also \$15,012 for an interest charge which is prepaid over a period of 10 months – 1 month prepaid June 2012, remainder over 9 months - \$1,501 per month. This has been shown separately under Interest - Hunter Premium Funding.

An allowance of \$6,000 (based on a 20% increase) has also been included in June 2013 for Reid Manson insurance covering Opuha House building, office equipment, tools & equipment and vehicles.

Interest – ANZ Bank

Have allowed for loan interest funds borrowed of \$26m and \$1m assuming that no principal will be repaid. The loan interest has been based on the following Interest Rate Swap contracts in place:

	Amount	Start Date	End Date	Swap Rate
1)	\$10,800,000	02 Dec 2012	02 Apr 2019	7.26%
2)	\$10,800,000	05 Jan 2009	02 Dec 2012	5.31%
3)	\$ 4,400,000	02 Jan 2012	02 Jan 2016	5.82%
4)	\$10,800,000	02 Apr 2007	07 Jan 2019	7.15%

Using these contracts and the 1 year fixed interest rate (4.32%pa) for the \$1,000,000.00 not covered by the interest rate swaps, an indicative interest cost has been calculated (by ANZ Bank) of \$2,149,860.00, for 12 months, as follows;

\$10,800,000	X 6.96%pa	(base rate 5.31%pa plus margin 1.65%pa)	= \$ 313,200	Up to Nov 12
\$10,800,000	X 8.91%pa	(base rate 7.26%pa plus margin 1.65%pa)	= \$ 561,330	From Dec 12
\$ 4,400,000	X 7.47%pa	(base rate 5.82%pa plus margin 1.65%pa)	= \$ 388,080	
\$10,800,000	X 8.80%pa	(base rate 7.15%pa plus margin 1.65%pa)	= \$ 950,400	
<u>\$ 1,000,000</u>	X 4.45%pa	(base rate 2.8%pa plus margin 1.65%pa)	<u>= \$ 59,700</u>	
\$27,000,000			= \$2,198,110	

Interest on the capital financing debt facility has been calculated based on a programme of financing the Downstream weir modifications of approximately \$1.2m.

Rent of Office & Lodge

Based on Tony’s rent at Irrigation NZ office in Christchurch of \$430 p/m, plus lodging in Pleasant Point of \$100 per week paid fortnightly. Total \$830 per month.

Rates

Allowed for Timaru District Council rates for Opuha House (875 Arowhenua Road) of \$840 paid quarterly – Sept, Dec, March and June. Allowed for MacKenzie District Council annual rates of \$30,160, paid quarterly – Sept, Dec, March and June. Allowed for Environment Canterbury rates of \$55 per year which are due in Oct 2012 and Apr 2013. Total for year \$31,110.

CAPITAL EXPENDITURE**General (Capex)**

Allowed for general capital items to be purchased of \$20,000 with the following items currently identified:

Safety and General Signage \$5,500

Downstream Weir Modification

The programme for the downstream weir modifications is still being finalised and, if additional hydro generation is to be included in the modifications this will have a significant impact on capital cost and possibly programme (lead time for generation plant). At this stage, the previous budget estimate for the modifications of \$1.2m has been retained. The major costs for this programme will be financed initially using our capital debt facility. The available balance from this \$2m facility is currently \$1.39m.

This programme and major expenditure will be subject to separate Board review and approval.

Note that a new initiative for DSW modifications now includes investigation of installing small hydro generation as part of modifications. This will potentially increase capital cost of upgrade but will be subject to its own economic analysis/business case.

Motor Vehicle

Allowed \$45,000 for a replacement flat deck utility in time for the new irrigation season. Existing 2WD utility will be traded.

Emergency Generator

Allowed for purchase of an emergency generator and installation at \$60,000. This was in the 2011/12 budget but not purchased. Still required at Power Station to allow for loss of incoming power scenario.

Building – Opuha House/Depot Upgrade

A new storage facility is considered necessary in the future for the Opuha depot but will not be done in this budget year. An upgrade of the office furniture was completed February and a new Dangerous Goods shed was completed in December. No provision in this budget for any upgrade work at the office/depot.

Dam Ablution Facilities

There are no toilet facilities at the dam and we rely on David William's goodwill to use the facilities at his woolshed. This is not ideal for the variety of contractors and visitors we have to the site. For major work periods we have been hiring a Portaloos but a permanent installation is preferable. To avoid consenting and potential water quality issues at this sensitive site, an environmentally benign system such as the self-composting type that are deployed at a couple of sites around the lake is being considered. Total budget \$12,000.

Control System Upgrade

There will be some capital cost associated with bringing an operations capability back to Opuha House. This facility will include viewing of the remote control CCTV cameras at the dam and power station as well as the current operational capability that exists at Tauranga. The capital cost covers mainly the dedicated new radio link. Estimate \$25,000.

Strategic Spares

As we progress our plant condition assessment programme, we are also identifying critical spares that could impact on plant availability because of their long lead times. Systems such as the hydraulic power system and governor are two examples where component failures can disable the plant for an unreasonably long period. An allowance of \$40,000 is proposed for procurement of critical spares this year.

PROVISIONS FOR EXPENDITURE**Downstream Weir**

An allowance of \$50k has been included as a provision for expenditure in the cash budget to cover an uncontrolled flood event damaging the fusible section. This has been based on \$50k over 5 years – total \$250k provision.