

Season's Greetings!

Once again, I seem to be needing to start my newsletter with a "who would believe the conditions!?" This season we have seen an almost unprecedented (certainly in my time at Opuha) swing in conditions from very wet to extremely dry in a very short time. This swift shift in conditions resulted in a very rapid increase in irrigation demand from virtually zero in early November up to near 100% four weeks later. This required some very special efforts from our Ops team to get the schemes up to full capacity in such a short time and presented some unforeseen challenges which I will explain later.

In this newsletter we provide an update on our storage situation and our recent operational challenges and advise of a very significant milestone in the Healthy Catchments Programme which we believe all shareholders need to be aware of. I've included some comment on water metering, flood flows and a request for your assistance as we head into the Xmas/New Year season. There's some information on our new lake operating regime and we also have advice of some shares available for lease.

I expect this will be my last newsletter as I hand over to the incoming CEO, Andrew Mockford, on the 15th January. I will be around for a couple of weeks from the 15th as part of a handover process to Andrew.

On that basis I would like to wish you all the best for the Xmas and New Year period and onward into the season and seasons ahead. It has been an absolute pleasure and privilege to lead your cooperative over the last (nearly) seven years. We've achieved some good things and also faced some real challenges in that time. There is no doubt there are still plenty of challenges ahead for all of us – especially as we adjust to the changing regulatory, political and social environment in which we must operate. I am confident that Opuha has a good foundation (a single, united cooperative; a robust Farm Environment Plan programme; a very competent and informed Board and a very capable team headed by an enthusiastic CEO), to ensure the best outcomes for our shareholders.

WATER STORAGE SITUATION

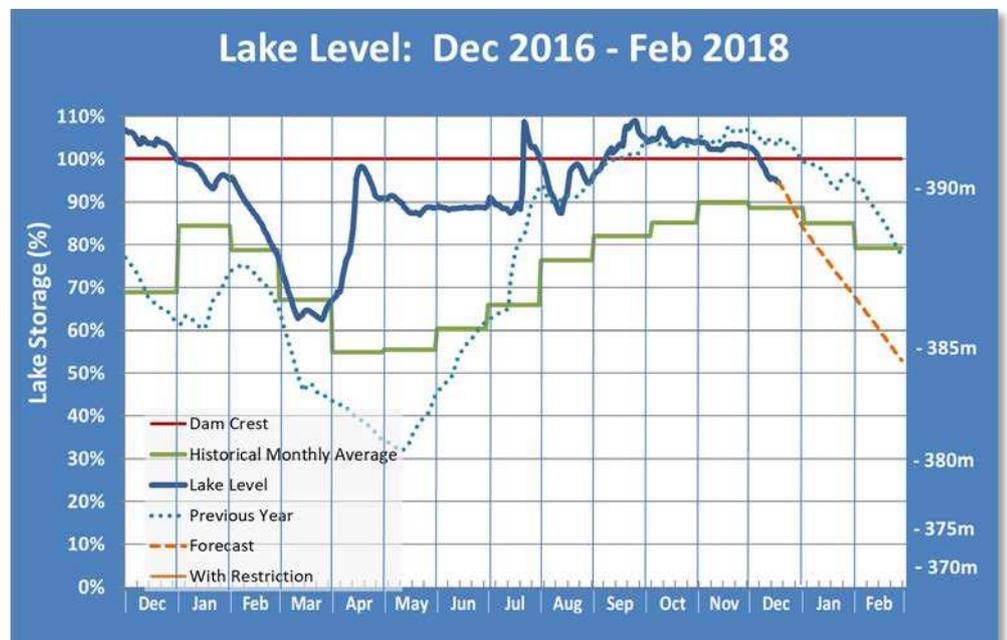
The graph below shows how the sudden dry conditions have impacted on the lake storage and how we are forecast (as best as we can predict at this stage) to give the lake quite a workout this season.

Inflows to the lake actually held up well through November however they have dropped rapidly since the start of November. This reduced supply to the lake, combined with a very rapid rise in our releases to meet irrigation and river flow demands, saw the lake level start to drop at quite a dramatic rate in early December.

We were actually concerned enough to convene a meeting of OEFrag to see if there were grounds for some constraints on water use or river flows. The group heard from us that we were experiencing very high loss rates in the Levels scheme but we felt that we were starting to get on top of those (see later comments). We also explained that with the late and rapid start to the irrigation season, many of our shareholders were struggling to catch up or keep up with their irrigation. There was rain forecast in the week ahead and the group agreed to keep a close watch on conditions. It was agreed by the group that a precautionary reduction in the minimum river flow was the best option if some constraints were considered necessary.

Through the week of the 11th Dec, we did get reasonable rain around the catchment which enabled some irrigators to ease off. We also got some good river flows in the catchment downstream so we were able to pull back our releases from the dam for several days. The lake inflows did rise but only for a short period. The high loss rate we were experiencing within the Levels scheme did also abate considerably.

The outcome of this slight 'reprieve' mid-month is that we don't think any restrictions are required at this stage but that the season is shaping up to be one where we will need to keep a very close eye on water use, lake storage conditions and outlook. Certainly no room for complacency by any of us on water use.



OPERATIONS UPDATE

There have been two main issues for Craig, Chris and Sam this season – weed and water losses.

The main weed issue was in the Totara Valley scheme and Gardners Pond. The problems are most prevalent during the start-up period and so have eased off now, however we are keeping a close eye on Gardners Pond as this seems to 'bloom' at quite short notice – especially in warm conditions.

The high loss rate that I mentioned earlier was particularly problematic in the Levels scheme. There was a period of around 10 days when we were struggling to get sufficient water around the scheme due to high losses over several specific sections. This situation has eased right back now and we believe the losses were a result of a combination of circumstances but most especially the rapid start-up. In most normal seasons, when we have a steady ramp-up of flows, there is an initial period where the open races 'take up' as they are filled with water for the first time. This would typically occur over several weeks and the loss rate is very moderate as the scheme is not a full pace. We also typically see a 'staggered' start up as different land uses require water at different times. This season it was virtually zero to full bore in a week and so we had races very full very quickly which, we believe drove a high 'take-up' rate combined with the natural increase in losses that occurs when the races are run very full. Our take out lesson will be to look for an opportunity to fill and 'condition' the races prior to the ramp up of the irrigation demand.

NEW LAKE AERATION REGIME

Earlier this year NIWA completed a study for us on 'In Lake Processes and Aeration'. The objective of the study was to review the current science on the management of storage lakes and in particular to identify whether we could improve the lake water quality through better use of the aeration system we upgraded in 2016. The report we received has identified potential improvements in the instrumentation we have installed at the lake and also the operating regime for the aeration system that should lead to a reduction in the low oxygen conditions that occur naturally in the lake in the hooter months of the year.

On the basis of this report, we have ordered new instrumentation to better measure temperature and dissolved oxygen levels in the lake and have been operating the aeration system well ahead of the trigger conditions we used previously and that are prescribed in our resource consent.

We will be monitoring the water quality to compare with previous seasons to identify any improvements through this new regime.

LAST SEASON OF FLOOD IRRIGATION

Just prior to the merger in 2014, the Levels Plain Board made a policy decision that all flood flow irrigation should be phased out over the next three years.

Since that time, OWL has been working with the remaining flood irrigators to find an alternative irrigation method with the intention that this season (2017/18) will be the last one where we operate a flood flow regime at Levels.

There are now less than ten properties still operating on a flood irrigation. As well as being recognised as a very inefficient method of watering pasture (with a high likelihood of high nutrient loss), the 'cost' of providing water under this regime has become disproportionately expensive – both in the amount of water used to deliver to the properties and with the operator time required to run a flood flow regime which requires around 48 hours of nearly constant operator time. Most of the remaining flood flow properties are small landholdings where the cost of converting to a spray system presents a relatively high cost but there needs to be an acceptance by the landowners that continuing with flood irrigation is no longer an acceptable option – both within our cooperative and in the new regulatory and social environment.

WATER METERING AND TELEMETRY

This is still work in progress for some irrigators as they await final installation by WaterForce. It has been great at our end to be able to check in on individuals' water use via the new telemetry as we have been trying to meet the very high demand recently.

SHARES AVAILABLE TO LEASE

72 water shares (with or without 72 T shares)

Lease terms negotiable

Contact James Fraser

Ph 03 614 7080 or 021 1864796

Email: frasers.sternangus@xtra.co.nz

ORGANISATIONAL UPDATE

CEO Replacement

As I mentioned in my introduction, Andrew Mockford starts at Opuha on the 15th January. Notice from Milne Horne of Andrew's appointment was circulated to you all at the end of November. I am sure Andrew will make himself known to you all in short time as he familiarises himself with the organisation. Andrew was involved directly with Opuha when he was with Trustpower where he coordinated the maintenance support from Lake Coleridge. So I think it's safe to assume he's got the Power Station part of the business under his belt already!

AGM and new Board Member

We had only 14 shareholders (plus our Directors and invited guests) attend the AGM on the 5th November.

The key outcomes from the meeting included:

- Announcement of the results of the Director elections. Milne Horne and Brendan Caird were the two elected Directors.
- Acknowledgement of Dermott O'Sullivan's long and dedicated service to Opuha.
- All the resolutions circulated prior to the meeting were passed – Directors' remuneration; Constitution amendments and Auditor selection.

- Ryan O'Sullivan gave a very interesting presentation based on his Nuffield Scholarship global study trips in 2017. It was a fascinating insight into global food markets and trends in consumer choice and consumption.



Board of Opuha Water Ltd 2017/18

WATER ORDERS OVER THE XMAS PERIOD

While we recognise we operate a 24/7 business over summer, I would once again ask you to consider doing your part to help our Operations staff in particular enjoy a bit of a quieter time over the Xmas and New Year period, so they can enjoy as much of that time with their families.

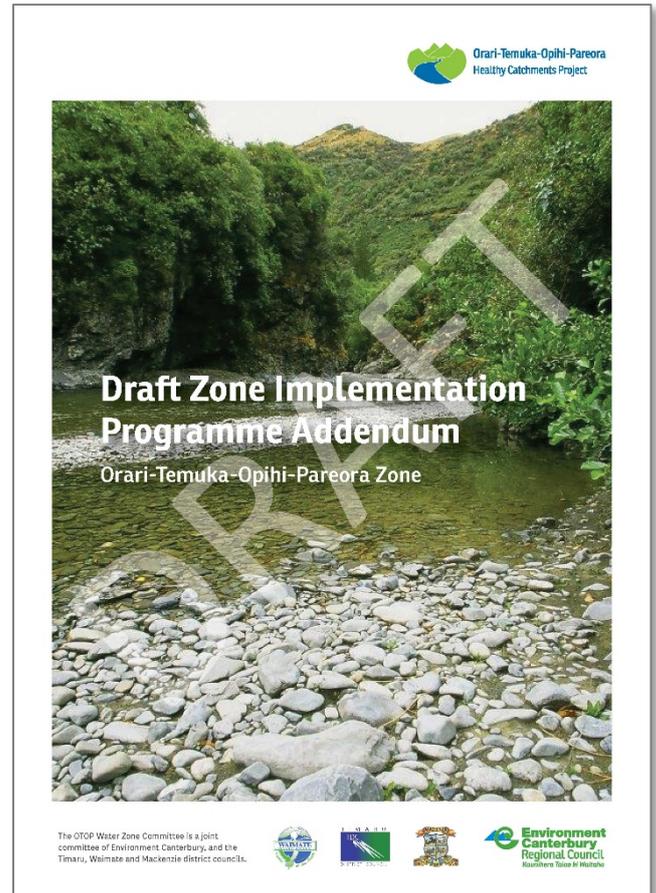
The single most important thing you can all please do is make sure your Water Orders are up to date and as accurate as possible, for at least a week ahead. We understand that unforeseen weather changes will likely see irrigation demand and river flows changing but with the weather looking reasonably settled (perhaps some showers on Boxing Day?) it should be a steady as she goes situation for most of you I hope. Steady conditions require less time out and about by the Ops team.

HEALTHY CATCHMENTS PROJECT



Last Friday the Orari-Temuka-Opihi-Pareora Zone Committee (OTOP ZC) released its Draft Zone Implementation Programme Addendum (ZIPA). This ZIPA is a package of recommendations which aims to address the water management challenges in the OTOP Zone. Importantly for OWL shareholders, is that the ZIPA will provide the 'writing instructions' to ECan for the review of the Opihi River Regional Plan.

The ZIPA is too large to summarise into a newsletter, therefore we encourage all shareholders to view the document online on the ECan website: <https://www.ecan.govt.nz/your-region/your-environment/water/whats-happening-in-my-water-zone/orari-temuka-opihi-pareora-water-zone/have-your-say-on-the-draft-zipa/>.



We are happy to print a copy off and send it to you if you would prefer – please let Christine know if you would like a copy. Feedback on the Draft ZIPA closes on the 2nd March 2018. OWL management and technical advisers are currently working through the Draft and will form a response in the new year. It is important that our feedback accurately represents shareholders' opinions, therefore we are likely to hold some meetings during February to ensure we have your support for any response given to the ZC.

One of the key aspects of the Draft ZIPA is the recommendations regarding the flow and allocation regimes of the tributary ('above dam') rivers. These have the potential to significantly impact the reliability of shareholders who abstract from these waterways. In response to this risk, OWL has established a Flow and Allocation Working Party made up of tributary shareholders, Fish & Game, TDC, DOC and technical advisers, who are working together to develop a set of recommendations to the Zone Committee which will (as much as possible) meet both the instream ecological requirements as well as the economic requirements of existing irrigators. This Working Party has been working quite intensively over the last two months and will continue to do so into the new year.

OWL Directors and management wish to thank those shareholders who have worked alongside us through the Healthy Catchments Project this year. It has been vitally important for us to have your input to ensure we are representing shareholders views to the best of our ability.

Regards

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