

A word from the CEO



I hope the winter is going well for you all on-farm. Only eight weeks until the next irrigation season!

The 2019/20 season and financial year has officially wound up. It's been a very busy year, with several large challenges.

The two key challenges we faced, and continue to actively work on, are Plan Change 7 and the internal erosion issue at the Opuha Dam. Julia will go through where we are at in relation to Plan Change 7 (Page 2) so I won't go into that other than to say it has been great to see the level of engagement from our shareholders for such a critical change. Please stay informed and involved about what is occurring.

On the Opuha Dam, we continue to manage workstreams aimed at enhancing the structure. I have mentioned before that we engaged an international expert, Dr Chi Fai Wan, of GHD Australia, to conduct a Special Dam Safety Review of the Opuha Dam in relation to the internal erosion. The deliverables from this work were twofold.

First we got immediate feedback on the risk status of the dam to ensure we had this correct. The feedback confirmed our view that there is no immediate danger to the structure; that it continues to operate in a safe manner; but we do have an issue that needs to be better understood and addressed.

The second part of the review was a much more in-depth report on the internal erosion - what caused it and what action we need to consider to manage this issue as a responsible dam owner. To our frustration the second report has been delayed, but its delivery is now imminent. This report will help us shape up the necessary workstreams we need to set up.

To help us understand and consider all the dam safety advice we are receiving we have also established an Opuha Dam Advisory Panel. This group is made up of four independent individuals who will assist OWL interpret and understand the reports we receive, with a view to ensuring we are making the best possible decisions about the Opuha Dam for its long-term future.

Andrew Mockford
Chief Executive

ANNUAL GENERAL MEETING (AGM)

Please pencil in your diaries the AGM of Opuha Water Ltd on **Wednesday 4 November**. Further details relating to the meeting will be advised in the formal notice to be sent out in October.

CURRENT SHARES AVAILABLE

FOR SALE

There are two parcels of shares available for purchase:

- 3 Opuha Water shares with 3 Levels Infrastructure shares
- 5 Opuha Water shares with 5 Levels Infrastructure shares

Please contact Christine Walker at the OWL office for more information: 03 614 7801

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Plan Change 7

OWL experts continue to develop their evidence in preparation for the Plan Change 7 (PC7) hearing. The hearing panel has issued the revised hearing timeframe as follows:

19 June 2020

S42A reporting officers to lodge responses to the hearing panel

26 June 2020

S42A reporting officers to lodge additional supplementary reports requested by Commissioners

17 July 2020

Submitters evidence to be lodged

**31 July -
4 Sept 2020**

Expert caucusing

18 Sept 2020

Statements of rebuttal evidence to be lodged

**End Sept/
Start Oct 2020**

PC7 hearing commences (dates and venues to be confirmed)

The lodgement of evidence on the 17 July marks the culmination of a significant piece of work by OWL, our shareholders and our technical advisors. OWL appreciates the time and effort shareholders have put into this process over the last few years to reach this point.

The provision of time for the expert caucusing is a very positive addition to the schedule that was not there in the original timeframe pre-COVID. We hope that this will allow us to get agreement on technical matters with ECan and other submitters, so we don't have to spend time on these in the hearing.

As always, OWL appreciates the time and energy that shareholders have put into the process to date and appreciate your continued support through the hearing process.

WINTER MAINTENANCE AND IRRIGATION SEASON PREPARATIONS

We are progressing well with our winter maintenance programme and beginning to think about season start-up. Race maintenance is currently underway and we expect to start the weed control programme very soon. We will soon be in touch with all adjoining landowners to ensure we understand any sensitivities concerning race weed spraying around your properties. Taylor Ag Contracting will do this work for us.

Fish screens, will also receive maintenance. The Totara Valley and Kakahu Scheme screens caused some issues last season so we will be doing all we can to make sure we don't have a repeat occurrence.

Right: The Totara Valley fish screen

NON-COMPLIANT AUDITS

Unfortunately, there have been some non-compliant audits during the last four months. In some cases, non-compliance was due to exceeding the consented N loss, which cannot be rectified until the following year due to the retrospective nature of the nutrient budget. In this situation OWL requires that a Scenario budget is provided to demonstrate future compliance can be achieved. However, the tolerance for N loss exceedance from both OWL and ECan will rapidly reduce over time. Repeated noncompliance against consented N loss could lead to enforcement action by ECan and cessation of water supply by OWL – a situation no one (including OWL) wants to find themselves in.

The best advice OWL can give you is to plan ahead and be confident that what you propose to do on-farm (in terms of stocking, supplementary feed, crops etc) will not result in N loss exceedances. With GMP targets approaching for some consents, which may require further reductions in N loss, the use of Scenario budgets is likely to become a key consideration in your farm planning. Waiting for the results of the year-end Overseer budget will be too late if you have already exceeded your consented N loss. Planning ahead is as important as record keeping for an audit.

OWL plans to run some 'Introduction to Overseer' courses this financial year, which will give shareholders the understanding necessary to run a Scenario budget, based on an existing Overseer file. We will let you know dates for these courses.



Review of water charges

The Board of Directors met early in June to consider and approve the 2020/21 year budget.

OWL is a co-operative and charges are not levied for profit; we provision to operate and run as efficiently as possible while managing the assets and environmental water flows in a sustainable way. Water charges have been constant since July 2012 (eight years).

As advised in an email distributed on 16 June, this year we need to raise the water charge by 5% to meet increased business costs and support work over the next few years, particularly in relation to the integrity of the dam.

Dam safety management has been a significant contributor to operating expenditure in the 2019/20 year and this will continue in the 2020/21 year. A Dam Advisory Panel was established recently to assist OWL with independent technical and commercial review and advice on the scope, priority and appropriateness of various workstreams that will ensure the Opuha Dam continues to operate safely and commercially.



Above: Gardner's Pond Feeder Race

Last month the Board approved a significant capex project (~\$3m) to enhance the auxiliary spillway. This work is to protect the main embankment if a fusible plug is activated. A fusible plug is constructed like an embankment dam, but the downstream structural fill is finer - to ensure it will breach when overtopped by water. It can be designed to breach at a pre-determined water level and at a rate sufficient to protect the main embankment dam from overtopping. It is only activated in an emergency, such as during a very high flood. This project includes remediation to address issues with the D-18 drain. We are working with OWL's bankers for full funding of the project. Construction is expected to start in March 2021.

During the 2020/21 year we will begin to capture interest rate benefits as fixed hedges expire. We believe these benefits will compensate for some of the increased business costs and hope to allocate these savings against further increases to the water charge.

The Levels Plain Infrastructure charge has also increased (by 10%) to re-establish appropriate scheme reserve funds. Other sub-scheme's infrastructure charges (Kakahu, Totara Valley, Sutherlands) will remain at the current level for the forthcoming year.

Charges are invoiced in arrears, so the changes outlined above will be reflected in invoices dated 31 July, which will be distributed in early August (and payable 20 August).

With effect from 1 July 2020:

- The annual water charge will be increased by 5% (\$197.04 to \$206.90 share/annum)
- The Levels Plain Infrastructure charge will be increased by 10% (\$40.92 to \$45.01 share/annum)

Example of increased cost on farm: 5% increase to cost of water on a 200ha property = additional \$164 p/month, \$1,970 p.a. (plus an additional \$68 p/month (\$818 p.a.) to a Levels Plain Infrastructure user).

If you have any concerns or questions, please do not hesitate to contact Andrew directly.

ANNUAL SCHEME (INFRASTRUCTURE GROUP) MEETINGS

We are in the early stages of planning the scheme meetings for 2020. Last year these were in early to mid-August, so we will likely target this time frame. Historically these haven't been well attended, which is a shame as these are a great opportunity to engage with the Opuha team directly, to understand what has occurred in the year just prior and get an understanding of what is planned for the year ahead.

We will get the dates locked in and emailed out ASAP.

DYNAMICS 365 FEP MODULE

The Environmental Team has been developing an FEP Module as part of the CRM platform, which holds shareholder details and water orders. Linking the FEPs reduces duplication and will provide one source of information going forward. The plan is for the FEP to be available at some point for shareholders to access via the Opuha Water portal.

Nutrient Management - the importance of planning ahead

By Nicole Phillips, CNMA and Environmental Consultant

Are you waiting until the end of the year to check if you are compliant with your consented N loss? Is this the best time to check compliance? These are questions I ask clients on a regular basis.

As farmers, you can no longer wait until the end of the season (or the next FEP audit) to check compliance with consented N loss, as non-compliance has huge implications for your farming business for the coming season. Regular reviewing of compliance with your consented N loss limit throughout the season is an absolute must.

Key drivers of N loss in the Overseer model include stock numbers, crop type and area, irrigation type, supplements, and fertiliser - to name a few.

Changes to any Overseer inputs can decrease or increase your N loss. Below are examples of some of the changes I see on a regular basis and the potential impacts on N loss:

- Crop area – increase the area to winter more cows at home or go from a high yielding crop to a low yielding crop – potential increase in N loss.
- Irrigation – a change to a more efficient type of irrigation can decrease N loss.
- Stock numbers – increasing stock numbers can lead to an increase in N loss. Culling cows early in the autumn can lead to a decrease in N loss.
- Fertiliser – this is primarily aimed at N applications - increase or decrease in the rate and frequency of N applications will likely have an impact on N loss.

Changing the same input on different farms will not result in the same outcome. The increase or decrease in N loss is specific to your property and farm system.

A common way to regularly review compliance with consented N loss throughout the season is with the use of Scenario nutrient budgets. Scenario budgets can be based on the previous season inputs, or an entirely new budget based on specific inputs. Then you need to regularly compare your actual inputs (e.g. fertiliser application rates and timing, stock numbers, crop area etc) with the Scenario budget for the coming season.

Another example of where a Scenario budget is useful is decision making throughout the season. These decisions could be based on issues such as:

- I want to plant an extra 5ha of fodder beet and winter some light cows at home
- I have got a heap of supplement on farm so have chosen to feed this out in the spring which allows me to reduce my N application rate in September and October
- I have decided to cull some cows early in the autumn

What you need to know is the impact these decisions have on N loss for the year and how this compares to consented N loss. This is where a specific Scenario budget is completed during the season.

Scenario budgets are reasonably low cost to set up with a consultant and will sit within your OverseerFM account. You can then check the Scenario budget inputs and keep a regular eye on how you are tracking. A quick phone call to your consultant during the season to set up additional Scenario models is a great idea prior to finalising decisions. Note, I said prior to making decisions and not after. This means before you sow the extra 5ha of fodder beet.

Once you start to gain an understanding of how the changes in farm systems impact your N loss, then the decision-making process during the season will be much easier.



Share Allocation and Trading Policy

A reminder of the Share Allocation and Trading Policy, which became operative in September 2019. The policy outlines the conditions for transfer and licensing of shares within OWL's scheme areas.

All share transfer and licensing approvals are at the discretion of the OWL Board (or the Board's delegated authority) and are not legally transacted until approved. Share trading between parties must not occur without OWL's final approval of the relevant transaction, or must be conditional on that approval. If a party enters into a transaction that involves share trading without OWL's prior approval and without complying with the policy then OWL:

- cannot guarantee that the relevant share transfer/license will be approved; and
- has no liability whatsoever if the relevant share transfer/license is delayed and/or refused.

Most share trades result from property sale and purchases, and sometimes we receive applications after settlement has taken place.

As set out in the policy, shareholders should liaise with OWL on proposed share/land transactions before they are entered into (or at least make them conditional on OWL's approval). Shareholders should not put themselves in a situation where they have an absolute obligation to transfer OWL shares without first having the transfer approved by OWL.

The Policy is available on our website, along with share trading forms which gather information to assist Board/management when assessing a transfer application.

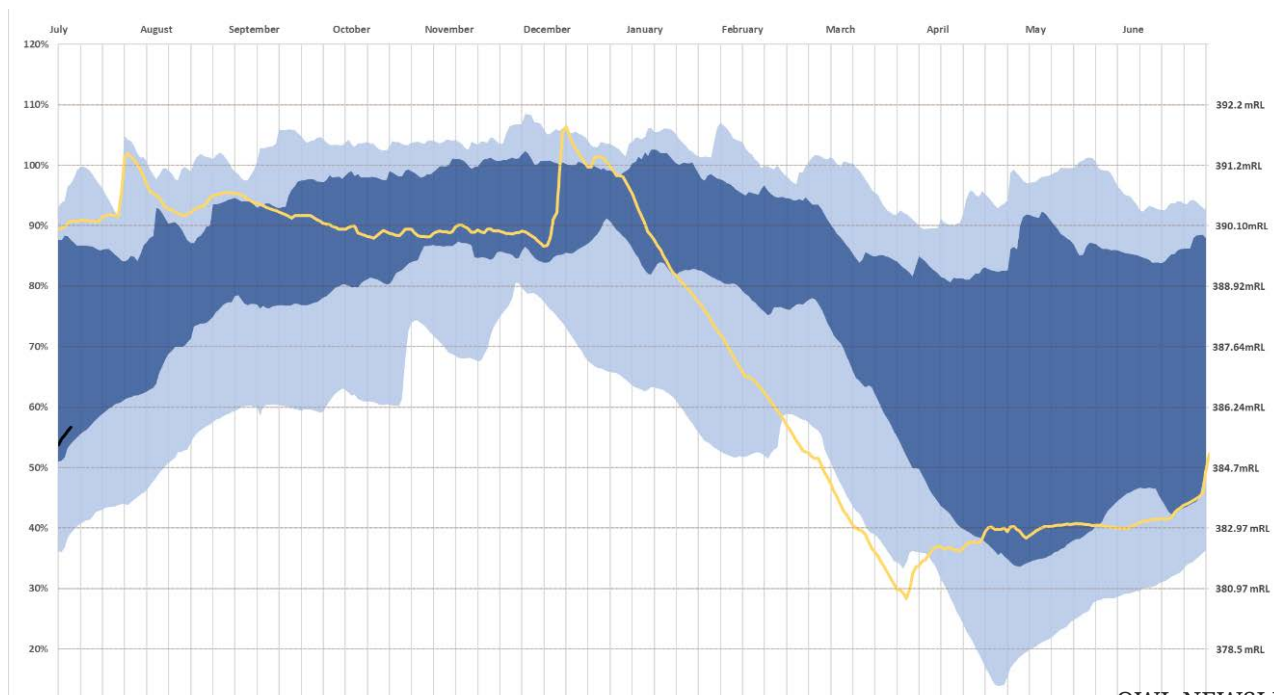


Above: water flowing from Lake Opuha

<http://opuhawater.co.nz/company-information/shares>

Lake Levels

The lake is finally starting to creep up after a very long period at a low level and, at time of writing, it is sitting just above the 25th percentile for this time of the year. We are hoping for a bit more winter rain and snow to give the lake level a good boost. The yellow line on the chart below shows last year's levels and the short black line indicates this year so far (with only a week of data so far).



Boraman Hydrological sale to Watermetrics

By Andrew Mockford

Some of you have been affected by the sale of Hydrological Ltd from Boraman Consultants Ltd to Watermetrics, a trading division of Arthur D Riley & Co on 2 June.

My understanding of this situation is that Watermetrics proposes replacing your existing Aquacom product with a new Internet of Things (IoT) device at no charge if you subsequently sign up to them for a three-year period.

I am no expert on water metering and telemetry, but I want to ensure that our shareholders are making informed decisions about this change. Some questions that you could be asking around the change to give you confidence you are making the right decision are:

- My sites are remote and hard to get to, there isn't cell service in the area and the block is very hilly with no houses or networks - can your gear get my data out?
- How many sensors (flow meters) can be managed off the one free device?
- Can the new equipment do any form of control? I have remote valves and gates etc that I would like to control with the telemetry.
- What are the costs for maintenance and parts, and how reliable is the gear?
- Can the free gear plug into other hardware in my shed like VSD etc and provide me with pump data that could really benefit my farming system?
- Who is the contact for any questions I have regarding new gear or changes to my sites once installed?
- Who owns the networks?
- I own the currently installed Aquacom unit; will I own the new IoT device once installed?
- How will the local service of these new devices be supported?
- If I am part of an irrigation scheme will they have accurate up to date data provided to them at no charge?



STAFF CHANGES

We have recently had a few staff movements. Operator Maintainer Richard Orsulich resigned and his final day was 30 June. We have also had Michael Walker, Asset and Operations Manager, resign and his final day was 10 July.

We have a new Operator Maintainer, Neil Partridge, who will start with us on 1 August. We also are mid-way through the recruitment process for a new Asset and Maintenance Manager and aim to have the new person on deck ASAP.

DIRECTOR NOMINATIONS

Do you have governance experience; working understanding of the Resource Management Act and the regional planning process; farming environmental excellence; commercial aptitude, and community leadership?

Nominations for Shareholder Directors will be sought in September for the vacant position/s.

Candidates must meet the Director qualification of holding 'Water' shares and their nomination must be supported and signed by two other shareholders who also hold 'Water' shares.

ACTION FOR HEALTHY WATERWAYS

On Thursday 28 May, the Government released a package of information on its decisions in relation to the Action for Healthy Waterways (formally Essential Freshwater) package, and indicated that new regulations and a new National Policy Statement for Freshwater Management will be released soon.

The objective of the Freshwater Package is to stop further degradation of New Zealand's freshwater resources and start making immediate improvements, so that water quality materially improves within five years. See the supplementary paper attached to this newsletter (page 7) for detail on the Freshwater Package.

Action for Healthy Waterways

NATIONAL ENVIRONMENTAL STANDARD FOR FRESHWATER 2020

The National Environmental Standard (NES) for Freshwater 2020 will regulate activities that pose risks to the health of freshwater and freshwater ecosystems. In many cases, people will need a resource consent from the regional council before carrying out the regulated activities.

The implications of the NES are far reaching, and include:

- Restrictions any activities leading to the loss of streams and natural wetlands. Activities such as clearing vegetation, earthworks and changes in water levels in wetlands will generally not be allowed.
- Design criteria for weirs and culverts, and requiring information relating to the structures ability to provide for fish passage is provided to the council.
- Minimum standards for feedlots and other stockholding areas (which hold cattle >4 months old and weigh >120kg), and resource consents if standards not met. Regulation to take effect winter 2021.
- New consenting thresholds for intensive winter grazing of forage crops. Consents required if over 50ha or 10% or property, and if it occurs on slopes >10°. Regulation to take effect winter 2021.
- Interim restrictions on major agriculture intensification until freshwater plans are operative (or by end of 2024).
- Resource consents required for:
 - Land use change to dairy of >10ha
 - Irrigation expansion on dairy farms of >10ha
 - Land use changes of >10ha from woody vegetation/forestry to pastoral farming
 - Expansion of intensive winter grazing or dairy support beyond historical levels.
- A national synthetic nitrogen fertiliser cap of 190kgN/ha/year for pastoral farms, with dairy farmers being required to report weight applied to councils annually. Note, OVERSEER files indicate there are a number of shareholders who currently use more than 190kgN/ha/year, whose production will be directly impacted by this cap.

The NES is currently being drafted and is expected to be published later this year. Some parts will take effect 28 days after it is published. Other parts won't come into effect until the dates outlined above.

NATIONAL POLICY STATEMENT FOR FRESHWATER

A new National Policy Statement 2020 (NPS) for Freshwater Management is also being introduced and will come into force later this year.

Key new requirements will include:

- Strengthening of Te mana o Te Wai, and clarification that giving effect to Te Mana o te Wai includes:
 - involving tangata whenua
 - working with tangata whenua and communities to set out long-term visions in the regional policy statement and by prioritising
 - the health and wellbeing of water bodies, then the essential needs of people, followed by other uses.
- Specific requirements to maintain or improve water quality from its current state (using baselines defined in the NPS), and for councils to assess and report on whether water quality has been maintained.
- Mandatory real-time reporting of water use.
- An expanded national objectives framework:
 - two additional values - threatened species and mahinga kai - join ecosystem health and human health for recreation, as compulsory values.
 - councils must develop plan objectives that describe the environmental outcome sought for all values.
 - new attributes, aimed specifically at providing for ecosystem health, include Fish (IBI), sediment, Macroinvertebrates (MCI and QMCI), and dissolved oxygen; councils will have to develop action plans and/or set limits on resource use to achieve these attributes.
 - a tougher national bottom line for the attribute Nitrate Toxicity to protect 95% of species from toxic effects (up from 80%). *Note, Greg Ryder is currently assessing the current state against this new bottomline and information will be provided to the Board at the meeting.*
 - no national bottom lines for dissolved inorganic nitrogen (DIN) or dissolved reactive phosphorus (DRP) (as consulted on) but there is a requirement to manage these attributes as they relate to periphyton and other ecosystem health attributes.

- Avoid any further loss or degradation of wetlands and streams, map existing wetlands and encourage their restoration.
- Identify and work towards target outcomes for fish abundance, diversity and passage and address in-stream barriers to fish passage over time.
- Set an aquatic life objective for fish and address in-stream barriers to fish passage over time.
- Monitor and report annually on freshwater (including the data used); publish a synthesis report every five years containing a single ecosystem health score and respond to any deterioration.

RMA CHANGES

The package includes a new planning process for freshwater will be added to the RMA to help councils expedite the plan making to implement the new NPS. Freshwater plans must be notified by 31 December 2024, with final decisions made within two years of notification.

Regional freshwater hearings panels will be established with enhanced hearings powers, made up of expert freshwater commissioners, council and tangata whenua nominees and a Chief Freshwater Commissioner (an Environment Court Judge or retired Environment Court Judge) will oversee the process. The freshwater hearing panels make recommendations and the council makes final decisions on those recommendations.

Submitter appeal rights to the Environment Court are available only where the council decision differs from the panel's recommendations. Otherwise an appeal to the High Court is available on points of law.

Mandatory and enforceable farm plans

The Government intends to amend the RMA to establish a regime for developing freshwater modules of farm plans. This would make the plans mandatory and enforceable for pastoral farms of 20 hectares or more, arable farms of 20 hectares or more and horticultural farms of 5 hectares for more. *Note. This is highly likely to capture more shareholders than the current LWRP/PC7 rules.*

STOCK EXCLUSION REGULATIONS

Dairy and beef cattle, deer and pigs farmed on low-slope are excluded from waterways more than 1m wide, and stock are restricted from grazing within 3m from the banks of these waterways, though existing permanent fences can remain in place (subject to freshwater farm plans). Hill country stock exclusion applies for all dairy and pigs. It also applies to deer and beef cattle for some wetlands and where intensive farming practices are undertaken. Regulations will be enforced between 1 July 2023 (dairy cattle and pigs) and 1 July 2025 (beef cattle, dairy support and deer).

STOCK EXCLUSION REGULATIONS

As part of the freshwater package, some additional funding was announced which includes direct investment in environmental projects:

- an additional \$10 million of Catchment Group funding has been established through Te Uru Rākau to provide support to existing catchment groups for projects not previously eligible for One Billion Trees funding. These include planting of non-tree species (e.g. grasses and shrubs), planting smaller areas and narrower riparian margins, and activities that underpin successful planting such as pest control and capability support
- \$55 million from July 2020 through the Freshwater Improvement Fund which supports projects that help communities manage freshwater within environmental limits
- \$100 million from the Provincial Growth Fund for waterway fencing, riparian planting and stock water reticulation

A \$433 million package to fund 4000 jobs over five years in regional environmental projects, which will include restoring mini wetlands, stabilising riverbanks, removing sediment, and providing for fish passage.