

Ruataniwha Water Storage Scheme (RWSS)

There has been a lot of coverage about the proposed RWSS and we believe that providing some pertinent facts may help you to make the very important decision about whether the availability and use of water, in and on your farming operation, would be advantageous or not.

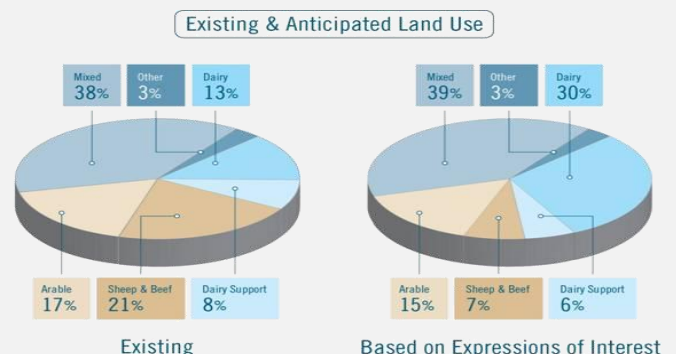
The following is a collection of information from various sources available which is listed respectively at the end of this document.



- Storage volume of upwards of 96 million cubic metres to provide 104 million cubic metres of water for irrigation.
- Height of 83 metres.
- Length of 7 kilometres.
- Surface area of 372 hectares.
- Available consenting for 58,000 hectares but only enough water for 25,000 to 30,000 hectares.
- Productivity increase for approximately 42,000 hectares.
- Potential electricity generation of 6.5 megawatts.
- If this dam is constructed it will be the largest irrigation reservoir in New Zealand.
- Primary distribution system consisting of approximately 16 kilometres of canal and 17 kilometres of pipeline length.
- Secondary distribution network consisting of approximately 200 kilometres of pipeline length, 180 property off-takes and pump stations to provide fully pressurized system at 35 metres of head pressure (3.5 bar) at the farm gate.
- Cost has been estimated at \$275 million – if you include on farm costs i.e. costs of irrigation infrastructure etc. the total cost of the project is approximated to be \$650 million.
- Price of 23 cents per cubic metre fixed charge and an additional variable charge of 3 cents per cubic metre for pressured water delivery (2014 dollars – this price will be inflation adjusted over time).
- Construction is to commence in the 2014/2015 calendar year and water is expected to be available for the 2017/2018 irrigation season. Delays in decision making i.e. outside of the next few months, may affect the construction price and water price.
- The design and construct contract is a fixed time, fixed price contract and the contractor OHL/Hawkins a 50/50 joint venture. OHL is a listed Spanish construction company with international operations and Hawkins Infrastructure Ltd is New Zealand's largest privately owned construction company.

Targeted minimum uptake of 40 million cubic metres of water committed by 30 June 2014.

Currently 111 expressions of interest accounting for 42% of available water or 44 million cubic metres and of those expressions of interest current and proposed land use can be seen in this chart.



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HASTINGS Cnr Eastbourne & Market Streets

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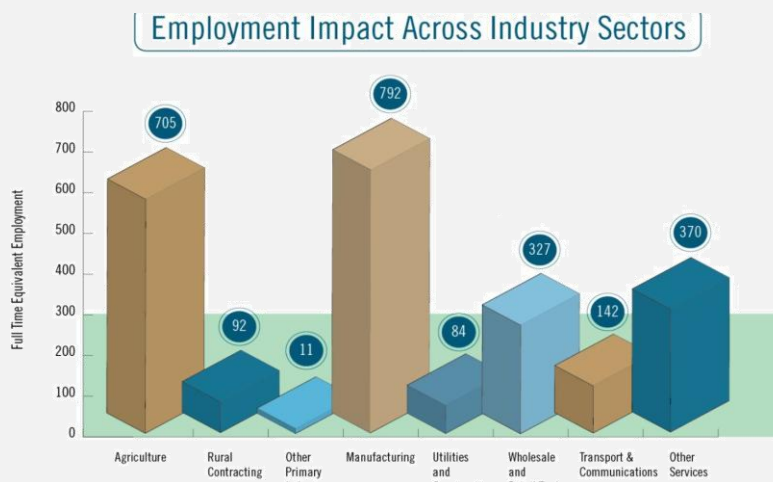
WAIPAWA 52 High Street

PO Box 132, Waipawa 4240 (06) 857 8901

Economic / Environmental Effects

Estimated that 30% of Hawke's Bay's GDP is derived from land-based industries and approximately one quarter of total regional employment is derived from our primary and processing sectors. Droughts in Hawkes Bay during the period 2007 to 2009 resulted in a GDP loss of \$125 million.

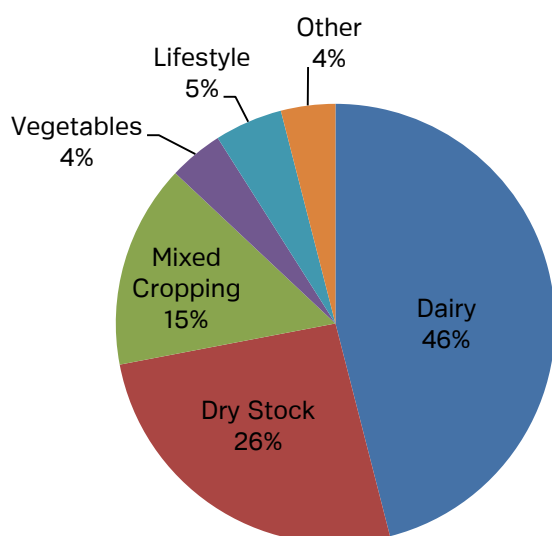
Net Present Value (NPV) of the regional economic impacts attributable to the scheme is estimated to be \$4 billion and the creation of 2,520 full time jobs. Additional ancillary benefits are estimated at being between \$51 million and \$78 million.



The Timaru district had 4.4% growth in 2013 and the East Coast is predicted to be from 0.73% to 1.81% for the next 20 years.

Some interesting facts as per Central Bawkes Bay Mayor Peter Butler on the comparison made between Ashburton (water users) and Whakatane on the commercial benefits of water:

	Population	Number of Accountants (approx.)	Number of Lawyers (approx.)	# of BNZ Agri Managers (approx.)
Ashburton	17,000	200	Over 100	11 that cover mid & south Canterbury
Whakatane	17,000	12 - 14	10 - 12	2



Opuha Dam Current Land Use by Area

The impact of the Opuha Dam on the Opuha River from flushing at 3 monitored sites (February 2014) removed 76%, 85% and 89% respectively of didymo and 100% of periphyton at 2 of the 3 sites.

Opuha Dam economic impacts:

Output	\$124,000,000
Value Added	\$ 41,000,000
Household Income	\$ 20,000,000
Full time employment	480

Hyslop Family Farm (South Canterbury) – Sheep/Beef/Arable

	Pre-Irrigation	Post-Irrigation	% increase
Farm Area	227ha	227ha	
	26ha Borderdyke Irrigation	208ha Spray Irrigation	
Productivity			
Meat & Wool	280cw/ha	740cw/ha	264%
Tonne Grain	280	400	143%
Financial			
Farm Income	\$1,683/ha	\$3,976/ha	236%
Farm Working Expenses	\$875/ha	\$2,028/ha	232%
EBIT	\$808/ha	\$1,948/ha	241%
Tax	\$0-\$15k p.a.	\$60k-\$100k p.a.	

Dairy Conversion (South Canterbury) – 2/3rd Farm Converted

	Pre-Irrigation	Post-Irrigation	% Increase
Farm Area	494ha Sheep/Arable	348ha Dairy Support 146ha Dairy Support	
Productivity			
Product	150,000kg	540,000kg	360%
m/s (current \$8.60m/s)	\$4.25	\$6.75	159%
Full time employment	2.5	6	
Farm Working Expenses	\$400,000	\$1,850,000	463%
Financial			
Farm Income	\$1,290/ha	\$7,378/ha	572%
Farm Working Expenses	\$809/ha	\$3,745/ha	463%
EBIT	\$481/ha	\$3,411/ha	709%
Tax	\$0-\$50k p.a.	\$200k-\$300k p.a.	

Temuka Transport

	Year 2000 – Pre Irrigation	Year 2013 – Post Irrigation	% Increase
Trucks on the road	21	78	371%
Livestock Carted			
Sheep	113,000	350,000	310%
Beef	64,300	1,200,000	1866%
Dairy	950,000	7,500,000	790%
Community Sponsorship	\$25,000	\$90,000	360%

Note – The increase in farm working expenses directly correlate with extra money in the community.

Investment Structure

Capital Structure – limited partnership called Ruataniwha Water LP. A limited partnership is a separate legal entity, distinct from owners and liability is restricted to investors' capital in the limited partnership.



Financing sources:

- *Equity*
 - Hawkes Bay Regional Investment Company Ltd (HBRIC) – up to \$80 million
 - Institutional investors - \$50 to \$90 million
 - Tukituki Investments LP – uncapped but no less than \$10 million
 - He Toa Takitini – to be decided
- *Debt*
 - Crown Irrigation Investment Ltd

Preliminary Information Memorandum (PIM) for eligible investors in the Tukituki Investments LP released and expressions of interest are currently being accepted.

Key terms are:

- Investment will be by way of an intermediate Limited Partnership.
- Minimum subscription of \$50,000 and thereafter increments of \$10,000 (\$1 per unit payable in 3 annual instalments with initial payment being \$0.33 per unit payable upon application).
- Cash paid of 5% per annum until uptake target is reached. Post uptake target returns will be proportional based on your investment and determined by the market.
- Second ranking in cashflow and security behind debt.
- Proportional ownership of the RWSS assets, beyond end of concession period.
- Voting rights.
- Exclusive rights to nominate one of the Ruataniwha Water LP Board's independent directors if subscriptions exceed \$25 million in aggregate.

There will be a full information memorandum providing further detail and seeking actual investment post the EPA decision.

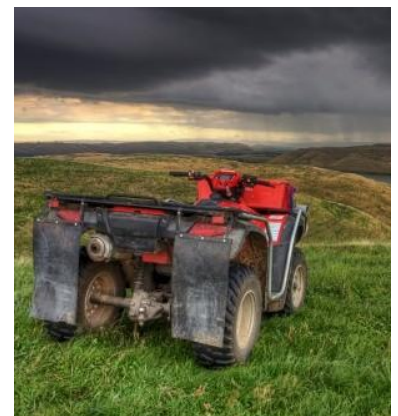
Eligible investors have the opportunity to invest in the scheme and can but do not have to be water users.

- Eligible person must be certified as being either 'wealthy' i.e. having net assets of at least \$2 million or a gross income or revenue of at least \$200,000 for each of the last two financial years or is experienced in the industry or investing money (Securities Act).

It is proposed the investment provides a natural hedge against water price escalation.

Units are expected to be treated for tax as an interest in a partnership so income and expenses will be allocated proportionate to units held. It is anticipated that the partnership will be in a tax loss position until approximately 2022 however the main driver for this is uptake and the more people that uptake investment, the quicker the losses will be used.

No cash returns prior to practical completion but it is expected that tax credits will be distributed during this period resulting in an approximate return of between 3.75% and 4.00% per annum before tax and between 4.50% and 5.00% per annum post tax from financial close. A post tax return of 4.50% would equate to a gross return of 6.71% (tax rate of 33%) and a post tax return of 5.00% would equate to a gross return of 7.46% (tax rate of 33%).



A summation of the investment opportunity has been provided by *Tobias Taylor* our resident Authorised Financial Adviser (Managing Principle of Spicers Portfolio Management) as follows:

SPICERS

specialist investment planning

To Dam or not to Dam

While going about my business of advising clients, I am often asked about my opinion on the Ruataniwha Water Storage (RWS) proposal and whether I think it would be a good investment. What I personally think of the RWS as a proposal and, whether I would consider such an investment appropriate for a client, are potentially very different questions.

Duncan MacLeod and the HBRIC team are doing their best to attract the appropriate level of investment into this project. While we have seen the Preliminary Information Memorandum (PIM), a final Information Memorandum (IM) is due out in the next month or so. This is where HBRIC will look for “Eligible Investors” to invest into the scheme. By this definition, HBRIC are focused on a sector that potentially have other interests in this moving forward, namely; the rural land owner.



In the IM, key details such as risk, opportunity and core investment information requirements will need to be detailed in order to meet the Financial Markets Authority (FMA) requirements. This document is in lieu of an investment statement that would otherwise be required by the FMA for “retail investors”.

During due diligence, one must consider their goals or the goals for the entity in which they wish to invest. All too often people focus on yield in silo. Other key aspects that should be addressed are; capital protection, long-term growth, income/drawings if and when required and what sort of liquidity is need should your plans change.

I am not saying yield is not important. It is certainly important if you are borrowing against the family farm to invest. But, I hope that people consider the other factors because the RWS investment proposal is unique.

The proposed community and macro-economic benefits to Central and greater Hawkes Bay are maybe the real attraction here. So the positive return may not be just in the investment yield, it may be what the investment actually returns to the community. Then that needs to be a community investment, not just an investment choice that relies on the rural sector alone.



Plan Change 6

Plan Change 6 (PC6) is a water and land management plan for the Tukituki catchment that seeks to manage the catchment, and set water quantity and quality limits in response to the Government's National Policy Statement for Freshwater Management.



PC6 could affect all farmers in the Tukituki catchment and lead to additional costs to farmers. These costs are expected to be offset via the provision of a more reliable supply of water negating increased minimum flow restrictions

PC6 also requires certain nitrate-nitrogen and phosphorus limits and management of those will include exclusion of stock from waterways and the preparation of farm environmental managements plans. As per the draft decision, it is likely that there will be a requirement for consents in some cases.

Board of Inquiry Decision (BOI)

BOI has rejected the Regional Council's proposal and introduced tighter controls of nitrogen. Dissolved inorganic nitrogen (DIN) levels have been set at 0.8mg/l with an exception being the zone in the headwaters of the catchment where the limit has been set at 0.15mg/l.

Leaching rates for nitrogen based on the land use capability classification system have also been adopted and incorporated into PC6. Additionally all farms within the Tukituki catchment that exceed 4ha (or 10ha where land use is non-intensive) are to prepare a Farm Environmental Management Plan. There are also stock management requirements in respect of waterways.



BOI has increased the volume of water from the Ruataniwha aquifer that may be consented for irrigation purposes from a proposed 28.50 million cubic metres per annum (current extraction pursuant to consents) to 43.50 million cubic metres per annum, provided that any reduction in surface water flows is compensated from deep groundwater. How practical it would be to seek consent for this is still to be determined.

BOI amendments to PC6

- Instream DIN limits to maintain and enhance ecosystem health
- Introducing Land Use Capability (LUC) based natural capital leaching rates (implementation by 31 May 2020)
- Requirements for Farm Environmental Management Plans (FEMPS) throughout the catchment.

The timeframe has been extended for the BOI final decision on PC6 and consents for the RWSS to 28 June 2014.

If you have any queries relating to the content of this document or require any accounting advice, please contact us.

Links/Websites of Interest

Reports commissioned by the Hawkes Bay Regional Council:

- Steve Goodman report – Sheep & Beef Case Study
<http://www.hbrc.govt.nz/HBRC-Documents/HBRC%20Document%20Library/Case%20Study%20-%20Sheep%20and%20Beef%202014.pdf>
- Baker & Associates report – Dairy Conversion Feasibility Study
<http://www.hbrc.govt.nz/HBRC-documents/HBRC%20Document%20Library/Anderson%20Case%20Study%20231013.pdf>

Fertiliser & Nutrient budgets:

- <http://www.overseer.org.nz/Home.aspx>
- Fertiliser representatives
- Farm consultants

Irrigation specialists:

- <http://www.irrigationnz.co.nz/irrigators/cost-of-irrigation-scheme-water-supply/>
- www.smartirrigation.co.nz
- <http://www.waterforce.co.nz/>
- <http://www.bayirrigation.co.nz/>
- <http://www.thinkwater.co.nz/Hawkes-Bay>
- <http://www.waterdynamics.co.nz/default.asp>

HBRC Contacts:

- Duncan MacLeod – duncan@hbrc.govt.nz
Phone – 027 706 5529

Other:

- Farm Environmental Management Plan example
<http://ecan.govt.nz/publications/Consent%20Notifications/upper-waitaki-decision-crc082269b-haldon-femp-opt.pdf>
- Preliminary Information Memorandum
<http://www.hbrc.govt.nz/HBRC-Documents/HBRC%20Document%20Library/PIM%20Final%20March%202014.pdf>
- Opuha Water Limited Presentation
<http://www.hbrc.govt.nz/HBRC-documents/HBRC%20Document%20Library/Opuha%20Water%20Ltd%20email.pdf>

Information sources:

- Ruataniwha Water Storage Scheme Business Case Report to Hawkes Bay Regional Council | March 2014
- Draft Report and Decision of the Board of Inquiry into the Tukituki Catchment Proposal Volume 1 of 3: Report and Decisions
- Draft Report and Decision of the Board of Inquiry into the Tukituki Catchment Proposal Volume 2 of 3: Appendices
- Preliminary Information Memorandum (PIM)
- Hawkes Bay Today 26 April 2014
- 'Ruataniwha – "The Value"' written by Phil King

A COPY OF THIS DOCUMENT IS ON OUR WEBSITE – www.bm.co.nz

Pub Seminar

Employment Issues Specific to Farmers

Patangata Pub

3 July 2014 at 6.30pm

Special Guest - Digby Livingston

Digby Livingston trained as a Mediator & Arbitrator, graduating from Massey University's Dispute Resolution Centre in 2005. Digby specialises in rural employment disputes and has wide experience in defending Personal Grievances raised before the Employment Relations Authority and the Employment Court. His clients include Maori Incorporations operating in the sheep & beef industry and large-scale dairy farms in Canterbury, Taranaki and Hawke's Bay.

Digby states unequivocally that many employment problems stem from a poorly constructed Employment Agreement and a lack of agreed protocols which must be agreed before employment commences.

Please register your interest

email-susie@bm.co.nz

phone 06 857 8901

or call in at 52 High Street, Waipawa