

NEWSLETTER

We've just passed mid-year and this newsletter provides an update on our water storage situation which has had a real shot-in-the-arm from the nor' west rain into the top of the catchment earlier this month. We're now looking for some decent snowfall to provide us with the reserve and confidence we need to start the next season.

The newsletter also contains some advice on meetings with various shareholder groups over the next few weeks, an update on the budget and water charges for this year and there are a number of water share parcels that are being put up for sale and lease.

Work on the upgrade of the Downstream Weir has continued to move along and there is a brief update on this project included.

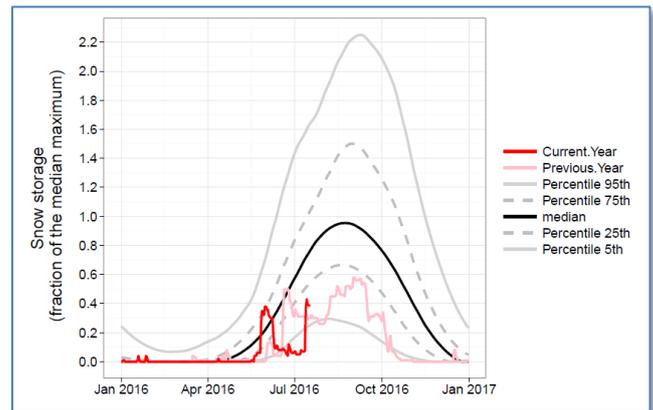
WATER STORAGE SITUATION

Earlier this month, just two days after I had sent an update to the OEFRAG group with a suggestion that we may need to meet to discuss some possible river flow reductions, a strong nor' west system delivered over 50mm of rain into the top of our catchment. This gave a tremendous kick to the lake inflows (see the chart below) and has moved our lake storage position to a much more comfortable position for this time of the year. The storage currently at 82% (compared with 59% last year).

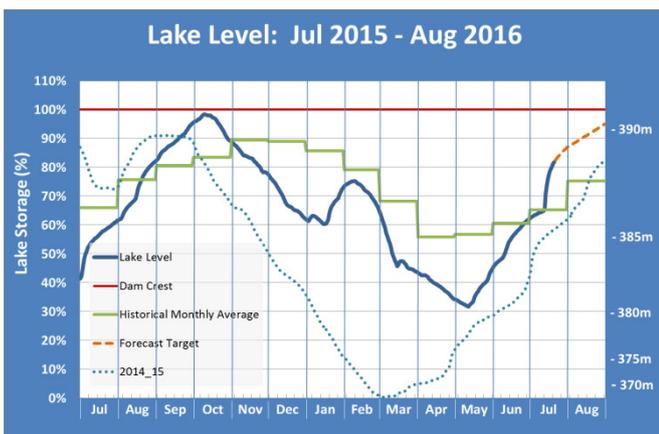
I think it is reasonable to expect we will get the lake full for the start of the irrigation season and with the downstream weir upgrade scheduled for completion in September, we may consider 'overfilling' the lake – i.e. taking the water level up above our normal 'full' position at the sill of the main spillway.

One determining factor in how high we push the lake storage will be the snow storage level which we are monitoring again this year. There has been some snow following the nor' west rain but we are still well behind 'normal'. As the last two seasons have demonstrated, the amount of snowpack that is present mid-Spring has a significant impact on our ability to deliver 100% supply through to mid-season.

benefit from a contract we have with Transpower to provide some grid support services when called upon. This is the second year we have had a contract and this time we have secured a three year duration. Even when we have little water available for generation, the flexibility provided by the downstream weir means that we are generally able to respond to requests from Transpower to generate for a short period during high system demand periods, without actually releasing any more water over the day. It provides some welcome extra revenue from the power station facility.



Snow Storage Estimate



OPERATIONS

Craig, Chris and Richard have been busy around the schemes and at the dam with winter maintenance work.

The main work around the schemes has been on the intake screens and race cleaning.

We have been able to operate the dam at minimum release since mid-May which has assisted with building the lake storage but does mean our power station generation and revenue is a lot lower than average. We have been able to

SCHEME SHAREHOLDER MEETINGS

We issued an email earlier in the month advising of some planned shareholder meetings over the next few weeks.

We ran a similar series last year and the main objective of the meetings is to update the sub-scheme shareholders on the operational and commercial performance of their scheme and plans for any major work in the coming period.

Current dates for Infrastructure Group Meetings are:

Kakahu Scheme

Wednesday 27th July at 7.30 pm, St Johns Hall, Geraldine

Levels Scheme

(two dates available)

Tuesday 26th July, 7.30pm, Opuha House (875 Arowhenua Rd)

Wednesday 3rd August, 7.30pm, Opuha House

Totara Valley Scheme

Tuesday 2nd August 7.30pm. Opuha House

For those who are not connected with any infrastructure groups we will hold another couple of meetings in August. Dates to be advised.

2016/17 BUDGET & WATER CHARGES

In between my rather sparse newsletters, the Board has approved the Budget for the new/current financial year.

From the outset of the budget preparation, we were very keen to avoid increasing water charges and have been able to complete a very lean budget based on water and infrastructure charges remaining the same. This is the fourth year that we have been able to hold water charges despite increases in many of our operational and overhead costs.

We are still seeing cost benefits from the merger of the different sub-scheme companies that was completed in 2014 (mainly through avoided or reduced overhead costs such as insurance, accounting and legal costs) and the falling interest charges have also had a positive impact on our costs through the reduced floating rates (we have about 23% of our debt on floating rates) as well as enabling us to capture the lower forward rates through some debt restructuring.

Countering these cost reductions, there is a continuing upward pressure in many of our cost areas although I would say that, overall, we have been able to contain costs reasonably well. Environmental compliance costs are an area affecting both the company and individuals and it is difficult to forecast just where these might level out at as we have the major planning process with the Zone Sub-Regional Plan ahead of us over the next few years. (refer to our recent Environmental Update).

On the revenue side of our budget, we have had two seasons now of very low generation which has significantly reduced our electricity income and this is in spite of the very good power purchase agreement we have in place. We have budgeted this year for a relatively low generation scenario again but are hopeful that there may be some upside if rain and snow levels return to a more normal pattern.

Part of our income associated with the power station comes from 'avoided cost of transmission' (ACOT) rebates we receive through Alpine Energy. These are based on our operation in the prior year and our ability to reduce the peak network demand by generating during high demand periods. Unfortunately most of the peak periods occurred in June last year when the power station was unavailable with the main transformer out for the repair. The consequence of missing these peaks last year is a reduction in the ACOT rebates this year to the tune of ~\$100k. As mentioned above, we have secured a three year contract with Transpower for grid support which has provided ~\$70k of additional income over the last 8 months but there is no guarantee of a similar level of on-going income from this contract – it all depends on electricity demand and timing.

In a slightly longer term context, the Electricity Authority has put forward some proposals to revise significant aspects of the transmission pricing framework. These proposed changes have the potential to have a major negative impact on our revenue and costs associated with the power station (I estimate potentially up to ~\$500k). We are actively involved in a coordinated industry response opposing these proposed

changes which I believe (to put a personal note to it) are a classic case of economic theorists meddling in a system that does not fit economic theory. *"If it ain't broke don't fix it!"*

So, to go back to where I started this section, no change to water or infrastructure charges for this year.

SHARES FOR SALE AND LEASE

We have a number of parcels of shares being offered up for sale and lease.

Please note OWL is simply offering a service in advertising and tendering these share parcels and we are not involved in the commercial aspects of the final sale or lease transactions – these remain confidential between vendor and buyer.

SHARES AVAILABLE

For Sale by Tender

Tender 1607A: 5 water shares and 5 L shares.
Tender 1607B: 5 water shares and 5 L shares
Tender 1607C: 4 water shares
Tender 1607D: 40 water shares and 40 K shares

Contact the Opuha Office for tender documents.
Documents will be available 27th July.

For Lease

27 water shares and 27 L shares
Contact David Oliver: david@orienz.com
Ph 021 02493920

DOWNSTREAM WEIR UPGRADE

With the relatively good weather conditions in recent months, the contractor has been able to make very good progress on the upgrade of the weir structure.

About 85% of the concrete work is complete and the new flap gates have arrived at site. They are noticeably bigger than the similar gates we have on the top of the main dam spillway and will make for quite an impressive looking installation when complete.

The project is still on schedule to be completed mid-September.



Regards

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