

3.1 Wairarapa Community Water Storage Scheme (Wakamoekau) (WCWSS) – Development Phase

PGF Application		For: Approval	
Applicant:	Wairarapa Water Limited (WWL)	Pipedrive ID #	Commercial Information
Entity Type:	Company	PGF Funding Sought:	\$ Commercial Information
Region	Wairarapa	Total Project Cost:	\$ Commercial Information
Tier:	3 - Infrastructure	Co-contribution rate:	Comm %
Sector:	Water Storage	Funding Structure:	Commercial Information loan/ and/or /conditional grant.

We recommend that the IAP support the recommendation to:

- a) **Approve** \$7,000,000 in PGF funding as a Commercial Information loan or conditional grant to Wairarapa Water Limited for the Development Phase of Wakamoekau Project, subject to the following conditions:
 - a. PDU approval of the scope and contractors for the first phase;
 - b. the Project must continue to conform with the PGF investment principles for water storage as it develops
 - c. funding will be released in tranches as milestones are achieved.
 - d. co-funding of at least Comm % over the life of the Project is contributed
 - e. letters of support from local authorities
 - f. completion of consultation with other government agencies and relevant iwi.
- b) **Note** that this project strongly aligns with the Wairarapa’s regional economic development plan (water has been identified as a key priority for the region).
- c) **Note** that the proposed funding approach is a Commercial Information loan or conditional grant Commercial Information

- d) _____ Commercial Information

Proposal

Pre-construction of water storage (and associated distribution) infrastructure at the Wakamoekau Site in the Wairarapa to achieve environmental objectives and provide security of supply to industry and primary sector water use, to support the development of, and transition to more sustainable primary sector activity.

Background

Prior to the establishment of WWL, Greater Wellington Regional Council (GWRC) led pre-Feasibility activities to investigate how water in the Wairarapa could be stored and distributed in a way that contributed to both economic growth and overall environmental sustainability.

Work in this Pre-Feasibility Phase included an initial Scoping Study, an Options Identification and Analysis Phase, an Options Refinement Phase, a Prefeasibility Phase, and early Feasibility investigations involving a geotechnical drilling programme, on-farm case studies and financial modelling work. The investigations started with 243 potential water storage sites and progressively and logically were refined to the Wakamoekau site – the preferred site for a community water storage project in the Wairarapa. This investigation work was wound up in the year ended 30 June 2018.

Following this, WWL was established and worked with GWRC and the three local District Councils to prepare an application for PGF Funding in order to review the earlier GWRC sponsored pre-Feasibility work and reframe a new sustainable water storage project for the Wairarapa that align with government's new approach to sustainable water storage, and then progress this new Project.

That application resulted in a Funding agreement for \$800,000 commencing on 1 May 2019. The SRO minutes approving this funding are attached as Appendix 2. The first phase of work under this Funding Agreement has now been completed successfully, and WWL is seeking further funding to continue the Project once work under this current Funding Agreement is completed. [Appendix 2 withheld - Commercial Information](#)

WWL continues to actively engage and work in collaboration with GWRC and the three Wairarapa Councils as key Local Government stakeholders in the project.

Assessment against the PGF criteria:

Eligibility Criteria

- This application is eligible for PGF funding.

Productivity Potential

- Water storage will enable both, better environmental outcomes, supporting existing economic activity that is reliant on water, as well as providing “growth water” to a water constrained region, allowing environmentally sustainable economic growth (primary sector and industrial).

Policy objectives and regional priorities

PGF principles in relation to investment in water storage

- In October 2018 Cabinet approved a set of investment principles for PGF water storage projects.
- Appendix 1 sets out an assessment of this Project against those principles.

Wairarapa region priorities.

- Water is a key aspect of the local economic development plan.
- The Project is aligned well with wider water planning activities (regulatory and economic), including the Whatua process (the Greater Wellington Regional Council water resource planning process) and the Margaret Bazley led Water Resilience Committee and Wairarapa Economic Development Governance Group.

PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
Link with fund and government outcomes		
<p>Creates permanent jobs</p> <p>Delivers benefit to the community</p>	<ul style="list-style-type: none"> • Once constructed, the project is expected to (indirectly) support creation of a significant number of jobs, as well as future proofing existing roles. • “Every \$20 million increase in GDP attributable to irrigated land production would mean a 5.9% increase in the primary sector compared to the current trend of -0.37%”. • “Over the next 25 years, an additional: <ul style="list-style-type: none"> ○ Commercial ha in apples generates Commercial more jobs and \$81million p.a GDP; ○ Commercial ha in outdoor vegetables generates more jobs and \$88million p.a GDP”. • Local Iwi are expected to be significant investors in primary industry. • Increased water security would bring new investment in higher margin crops and their associated processing facilities and confidence to expand our towns. 	✓✓✓
<p>Increased utilisation and returns of Maori asset base</p>	<ul style="list-style-type: none"> • The WWL Board Chair has met with the Rangitane settlement trust board to update them on the project and specifically seek their help on identifying opportunities for to benefit from the project. • They agreed to work with WWL on this objective but WWL have not been able to put the resources into it on their side as yet. Appointment of a WWL CEO will change this and will be a priority. This is a deliverable during the Feasibility Phase Commercial Information. • The same request has been made to the chair of the Ngati Kahungunu settlement trust in WWL’s first meeting with him late last year but not yet followed up for the same reasons as above. • Chairs of both Iwi settlement trusts sit at the table of Dame Margaret Bazley’s Water Resilience Committee that provides oversight to the development of a Wairarapa Water Resilience Strategy. 	✓✓✓
<p>Enhanced sustainability of natural assets</p>	<ul style="list-style-type: none"> • Allows more water to be left in the river without destroying the economic viability of existing businesses (farming and industry) provides resilience around current activities while improving environmental outcomes. • 18.8 MCM of stored water becomes available at times of low river flows to enhance the health of our rivers and provide greater water security to the 	✓✓✓✓

	<p>community and businesses.</p> <ul style="list-style-type: none"> Existing recreational facilities such as Henley Lake and Queen Elizabeth Park and sports grounds can be protected from drought conditions It is intended that the water is priced to incentivise innovation including the development of nature based solutions. 	
Mitigation of climate change effects	<ul style="list-style-type: none"> Relieves pressure on rivers for water supply at times of drought. Provides flushing and environmental flows. Supports integrated catchment management Could see some inefficient water races made redundant. Increased reliability of water supply to urban, environmental, industrial and farming needs contributes significantly to this outcome. 	✓✓✓✓
Additionality		
Adding value by building on what is already there	<ul style="list-style-type: none"> This project will build on an existing natural resource, water, acting as a catalyst. Water is a scarce resource in an area that otherwise has the key components required for a successful, high value sustainable primary sector industry (e.g. climate, downstream infrastructure, etc). The Wairarapa community does not currently have sufficient funding to continue this project without central government support. The time it would take (and risk) of raising this level of capital would materially delay the project (and the likelihood of it occurring at all). 	✓✓✓✓✓
Acts as a catalyst for productivity potential in the region		
Connected to regional stakeholders and frameworks		
Alignment with regional priorities	<ul style="list-style-type: none"> This project is aligned with the region's identified need for water supply resilience, and regional economic development including supporting the productive capacity of its primary sector. 	✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> Relevant local authorities supportive of this project and view water security as one of the top issues for the region. Letters of Support from the Water Resilience Committee and Wairarapa Economic Development Governance Group are expected imminently. All local authorities are represented on these groups, and the letter from the latter is expected to be signed by all relevant local authority mayors. 	✓✓✓✓✓

Governance, risk management and project execution

Robust project management and governance systems	<ul style="list-style-type: none"> Appropriate management and governance structures are in place. WWL are currently recruiting a CEO. WWL will continue to need support and advice from PDU water development experts. 	✓✓✓
Risk management approach		
Future ownership / operational management	<ul style="list-style-type: none"> To be considered as part of the development phase. 	✓✓✓

Analysis of the benefits

A range of benefits would be generated by this project, including direct and indirect:

- Environmental/cultural/social** – the project will need to generate improved environment / social / cultural outcomes. These will be better specified during the next phase of the project – expected to include improved minimum flows, with all the attendant social, environmental and cultural benefits that flow.
- Economic - earlier studies of the potential economic benefits for the Wairarapa include the following conclusions:
 - “Every \$20million increase in GDP attributable to irrigated land production would mean a 5.9% increase in the primary sector compared to the current trend of -0.37%”
 - “Over the next 25 years, an additional :
 - Commercial Information ha in apples generates Commercial Information more jobs and \$81million p.a GDP
 - Commercial Information ha in outdoor vegetables generates Commercial Information more jobs and \$88million p.a GDP”

At this stage there is no reason to consider that these conclusions no longer stand.

Financial Analysis

- Financial analysis has focussed on understanding the proposed costing and funding for the development phase. Going forward, the development budget and economics of the project will be re-validated at the end of each of the development sub-phases.
- The current budget for the project is set out in the table below. More granular stop/go milestones will be put in place as part of documentation.
- Current estimates of construction cost are \$ Commercial Information to \$ Commercial Information (which is not the subject of this application).
- The applicant Wairarapa Water Limited is a special purpose vehicle with minimal capitalisation that has been established solely to develop this project. It was established after the Greater Wellington Regional Council decided it would no longer sponsor the project.

\$m	PGF	Other	Total
DEVELOPMENT			
Feasibility	\$ Commercial Information	\$ Commercial Info	\$ Commercial Info
Consenting / procurement	\$ Commercial Info	\$ Commercial Info	\$ Commercial Info
TOTAL	\$7.00m	\$ Commercial Info	\$ Commercial Informa

Funding Arrangements

- The proposed funding approach is a Commercial Information loan and/or a conditional grant. Repayment would be required if the project commences to construction. Otherwise the loan would be forgiven.
- Commercial Information

Commercial Information

Commercial Information

- A funding condition will be ongoing compliance with the PGF investment principles for water storage (as set out in Appendix 1).

Due Diligence and Ownership

- 'Know your customer' due diligence was carried out on the applicant when the prior application was considered in March 2019.
- Refreshed 'know your customer' due diligence has been requested.

Link to other projects

- Local councils are looking to support / improve municipal water supply and could partner with the PGF in investing in water infrastructure.
- Supporting programmes to assist in skills development will need to be initiated at the appropriate time to support this project.

Risk Assessment

DESCRIPTION	MITIGATION	RATING
<p>Ensuring project development continues to align with PGF water storage investment principles</p> <p>It will be critical that the project continues to develop in a manner consistent with the PGF's water storage investment principles, to ensure the environmental and sustainable economic benefits are achieved.</p>	This will be a condition of any PGF funding agreement.	M
<p>Appropriate capability</p> <p>Developing water storage projects is a complex and time consuming exercise, requiring high calibre technical, regulatory, environmental, financial and commercial capability</p>	This will also be a condition of the funding agreement	M
<p>Stakeholder engagement and involvement (including demand)</p> <p>Water storage projects usually have a large group of diverse stakeholders. Appropriate involvement is critical. For example, potential water users need to be engaged early and be actively involved, to mitigate the risk that the project does not meet their needs. Potential water users should also contribute some development capital in the later stages of the preconstruction phases. Specifically, co-funding from appropriate stakeholders / beneficiaries will be critical for project success.</p>	<p>A condition of the funding agreement will be active, on-going stakeholder engagement.</p> <p>Co-funding will also be a condition.</p>	M
<p>Need for further funding and project viability</p> <p>The project cost estimates are preliminary. A robust</p>	The funding agreement will include	M

investment assessment will be required at the end of each phase, to assess whether the project remains viable. Linked to this, further funding may be required.

stop / go milestones at the end of each phase. Appropriate capability will be utilised / required to ensure an appropriate focus on viability.

Consultation undertaken or implications:

Consultation with other relevant agencies is underway. Completion of consultation will be a condition of any approval. (The application was only submitted recently, and there was a desire for the application to be considered at the 12 September IAP meeting in Masterton).


Supporting proposal:

Yes – (Application form plus supporting Project Plan and Pre-feasibility review report) **Withheld - Commercial Information**

Appendices:

Yes – Applications and supporting letters are as annexes Water Storage principles **Withheld - Commercial Information**

Author of paper:

 , PDU Water Storage Lead

Appendix 1: PGF Investment Principles for Water Storage

Access to a reliable and manageable source of water is a key enabler of jobs and sustainable growth in the primary sector and is a driver of regional prosperity. Many regions have significant primary sector potential that could be enabled or enhanced through access to reliable water provided by small scale storage and distribution infrastructure.

As a government we have identified three objectives for freshwater (including establishing a new Crown-Māori relationship for freshwater):

- Stopping further degradation and loss
- Reversing past damage
- Addressing water allocation issues.

In addition, through cross-party discussions on the PGF investment in water storage and infrastructure, including managed aquifer recharge, we have identified a set of principles that are core to our values as a Government. The principles are reflected below (with an assessment of the Projects against these principles).

Principles for water storage investment

Principle	Assessment
<i>Economic</i>	
Water storage will strengthen regional economies by shifting land use to higher value, non-dairy, sustainable uses.	The focus of this Project is shifting from low productivity land to higher value non-ruminant uses, and improving environmental outcomes to allow existing high value (non-ruminant) land use to continue. The Wairarapa regional economic development plan has a strong focus on horticulture and viticulture growth. Historically, Wairarapa used to have many orchards.
Water storage will help address disparities in Māori access to water for land development.	The importance of this objective is acknowledged by WWL, and pursuing this will be of the Development process. The section Increased utilisation and returns of Maori asset base in the main body of the paper provides further colour in relation to this.

Community	
Small scale community level projects will be supported rather than mega irrigation schemes.	The estimated construction cost for the project is \$ ^{Commercial} to ^{Commercial Information} respectively. ^{Commercial Information} (^{Commercial Information}).
There must be public benefit from government funding of a project.	The project will deliver public benefit, through both improved environmental outcomes, as well as regional and community economic benefit.
Projects will involve stronger partnerships at the local level, including with regional councils.	The project is being sponsored by Wairarapa Water Limited, and is supported by the local authorities and Greater Wellington Regional Council. Also critical for this project is appropriate partnerships and involvement at the community level going forward. A strong platform has been built for these projects by the council driven processes carried out over the last couple of years.
The Crown Irrigation Investments Limited (CIIL)'s programme of work will not be progressed, although communities that were involved in CIIL initiatives can submit PGF proposals that align with our objectives.	Previously GWRC sponsored earlier work in relation to water storage in the Wairarapa was part of CIIL's programme of work. This project builds on earlier work, but has been reframed to align with the PGF's water storage investment principles.
Environment	
Water storage proposals should demonstrate that they will support land use that does not increase, and ideally reverses, negative impacts on water quality.	A key condition of funding will be compliance with this investment principle.
Proposals should maintain the health of waterways.	
Water storage proposals should incorporate activities that improve water quality – e.g. activities that improve E coli levels and ecological health, restoration and protection projects such as improvements in wetlands, fish and wildlife habitats, riverbanks, biodiversity activities, soil health and sediment control.	
Water storage will not be used to increase the intensity of ruminant agriculture or other land uses in a catchment where this puts greater cumulative pressure on water and risks compromising water quality.	The focus of this project is on non-ruminant agriculture.
Climate change	
Where practicable, proposals should demonstrate how they will contribute to mitigating or adapting to climate change effects and a just transition to a low emissions economy.	<ul style="list-style-type: none"> • Relieves pressure on rivers for water supply at times of drought • Provides flushing and environmental flows • Supports integrated catchment management • Could see some inefficient water races made
Proposals should consider the potential to contribute to	

<p>community resilience to climate change. Strengthening municipal water supply is not an objective of PGF funding. However, the PGF will work with councils to include municipal supply as a component of wider water initiatives, if it enables councils to contribute more to regional water management.</p>	<p>redundant</p> <ul style="list-style-type: none">• Increased reliability of water supply to urban, environmental, industrial and farming needs contributes significantly to this outcome
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SRO Minutes:

2.12 Wairarapa Community Water Storage (Wakamoekau), Kāpiti/Wairarapa Commercial Information	
Reference #	SRO 28/03/2019/13
Discussion	<ul style="list-style-type: none"> • SROs approved \$800,000 grant to the Wairarapa Community Water Storage Project subject to PDU approving the scope and consultants. • The PDU considers the project aligns with the Water Storage Principles and Wairarapa Water Limited (WWL) accept and agree with the PGF position that water storage projects should not



intensify ruminant agriculture, and that this will be a key requirement for the project as it develops.

- This funding is for the next phase of prefeasibility and it is expected that WWL will seek further support from the PGF should the outcomes from the prefeasibility phase be positive. The total amount of expected funding to be sought from the PGF is \$5 million to \$8 million.
- The IAP was consulted on this project at the IAP 14 February 2019 and the project received support from the IAP.
- This Project also aligns with the Wairarapa Regional Economic Plan, with water being one of the three key areas of focus and has strong regional support.