

## Wairapa Community Water Storage Scheme – development phase

### Project overview

<b>Name of the project</b>	Wairarapa Community Water Storage Scheme - Development Phase
<b>Region</b>	Wairarapa
<b>Tier and type</b>	Tier 3: Infrastructure
<b>Applicant</b>	Wairarapa Water Limited (WWL)
<b>Estimated total project cost</b>	\$ <sup>Commercial Information</sup> (pre-construction)
<b>Amount of funding sought from the PGF</b>	\$7 million
<b>Financial instrument requested</b>	<sup>Commercial Information</sup> loan
<b>PDU recommendation</b>	<b>Approve</b>

2. WWL is requesting PGF funding towards the pre-construction development of water storage (and associated distribution) infrastructure at the Wakamoeakau Site in the Wairarapa.
3. The Wakamoeakau water storage project aims to provide resilience of freshwater supply to the Wairarapa through the construction of water storage and distribution infrastructure. This will enable better environmental outcomes, and provide security of supply to industry and primary sector, in order to support the development of, and transition to more sustainable primary sector activity.
4. On 1 May 2019 Senior Regional Officials approved WWL's application for an \$800,000 grant from the Provincial Growth Fund to review the earlier Greater Wellington Regional Council (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. WWL has worked with GWRC and the three local District Councils to undertake this work.
5. The first phase of work under this Funding Agreement has now been completed successfully, and WWL is seeking further PGF funding to continue the project once work under this current Funding Agreement is completed.
6. There is expected to be a range of benefits including improved environment/social/cultural outcomes. 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 :
  - 1000 ha in apples generates Commercial In more jobs and \$81 million per annum GDP
  - 2400 ha in outdoor vegetables generates Commercial In more jobs and \$88 million per annum GDP”

## Background

7. Prior to the establishment of WWL, Greater Wellington Regional Council (GWRC) led activities culminating in a prefeasibility study 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.
8. Work led by GWRC included an initial scoping study, options identification and analysis phase, an options refinement phase, a prefeasibility phase. The investigations started with 243 potential water storage sites which were progressively and logically refined to the Wakamoekau site – the preferred site for a community water storage project in the Wairarapa. This investigation work was completed in the year ended 30 June 2018.
9. Following this, WWL was established and worked with GWRC and the three local District Councils to prepare the PGF application for an \$800,000 grant, which was approved by Senior Regional Officials on 01 May 2019.

## *PDU recommendation*

10. The PDU recommends that you approve WWL’s application for further PGF funding as a \$7 million Commercial Information loan, subject to the following conditions:
  - a. A maximum fair value write down of \$ Commercial Information
  - b. PDU approval of the scope and contractors for the first phase;
  - c. the project must continue to comply with the PGF investment principles for water storage as it develops
  - d. funding will be released in tranches as milestones are achieved
  - e. co-funding of at least Comm% over the life of the project is contributed
  - f. letters of support from local authorities; and
  - g. completion of consultation with other government agencies and relevant iwi.
11. The proposal aligns with the PGF’s investment principles for water storage projects. 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 resilience and growth (primary sector and industrial).
12. The PDU acknowledges that access to a reliable and manageable source of water is a key enabler of jobs and sustainable growth in the Wairarapa and is a driver of regional prosperity. The importance of helping address disparities in Māori access to water for land development is also acknowledged by WWL and will be a focus of the development phase.

## Costs and funding

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13. The PDU’s financial analysis has focused 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.

14. The applicant Wairarapa Water Limited is a **Commercial Information** with minimal capitalisation that has been established solely to develop this project. It was established **Commercial I**
15. 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:

*Cost breakdown*

Project stage	PGF	Other	Total
<b>DEVELOPMENT</b>			
Feasibility	\$ <b>Commercial Inform</b>	\$ <b>Commercial Inform</b>	\$ <b>Commercial Inform</b>
Consenting / procurement	\$ <b>Commercial Inform</b>	\$ <b>Commercial Inform</b>	\$ <b>Commercial Inform</b>
<b>TOTAL</b>	<b>\$7.00m</b>	\$ <b>Commercial Inform</b>	\$ <b>Commercial Informat</b>

**PGF funding**

16. The proposed funding approach is a **Commercial Information** loan. **Commercial Information**
17. **Commercial Information**
18. PGF funding will be available in tranches, with each subsequent tranche only available once milestones reached. A funding condition will be ongoing compliance with the PGF investment principles for water storage.

**PDU assessment of the project**

19. This section provides an overview of PDU's assessment against the PGF eligibility and assessment criteria.

*Assessment against PGF criteria*

Criteria	Rating (1✓ to 5✓)	Comment
<i>Link with fund and government outcomes</i>		
<b>Creates permanent jobs</b>	✓✓✓	Once constructed, the applicant states that the project is expected to (indirectly) support creation of a significant number of jobs, as well as future proofing existing roles. The applicant has noted that over the next <b>Commer</b> , an additional: a. 1000 ha in apples generates <b>Com</b> more jobs and \$81 million per annum GDP; b. 2400 ha in outdoor vegetables generates <b>Com</b> more jobs and \$88million per annum GDP.

Criteria	Rating (1✓ to 5✓)	Comment
<b>Delivers benefit to the community</b>	✓✓✓	<p>The applicant has stated that 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%.</p> <p>Increased water security would bring new investment in higher margin crops and their associated processing facilities and confidence to expand our towns.</p>
<b>Increased utilisation and returns of Māori asset base</b>	✓✓✓	<p>A focus of the project is ensuring local iwi, and Māori landowners more generally are given the opportunity to enjoy the benefits of water rights.</p> <p>The WWL Board Chair has met with the Rangitāne Settlement Trust Board to update them on the project and specifically seek their help on identifying opportunities 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 this will be a priority. This is a deliverable during the Feasibility Phase <span style="background-color: #cccccc;">Commercial Information</span>.</p> <p>The same request has been made to the chair of the Ngāti 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> <p>The IAP recommended that WWL also works with Te Puni Kōkiri and Te Tumu Paeroa in relation to developing opportunities for Māori land owners to participate in the project.</p> <p>Letters of support have been received from Rangitāne and Ngāti Kahungunu.</p>
<b>Enhanced sustainability of natural assets</b>	✓✓✓✓	<p>Allows more water to be left in the river without impacting the economic viability of existing businesses (farming and industry). This will provide resilience around current activities while improving environmental outcomes. Stored water is expected to become available at times of low river flows to enhance the health of our rivers and provide greater water security to the community and businesses.</p> <p>It is intended that the water is priced to incentivise innovation and the efficient and sustainable use of water.</p>
<b>Mitigation of climate change</b>	✓✓✓✓	<p>The project will relieve pressure on rivers for water supply at times of drought. Existing recreational facilities such as Henley Lake and Queen Elizabeth Park and sports grounds can be protected from drought conditions.</p> <p>It is expected to also provide flushing and environmental flows, and support integrated catchment management. This could see some inefficient water races made redundant, as well as increasing reliability of</p>

Criteria	Rating (1✓ to 5✓)	Comment
		water supply to urban, environmental, industrial and farming needs contributes significantly to this outcome.
<i>Additionality</i>		
<b>Adding value by building on what is already there</b>	✓✓✓✓✓	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).
<b>Acts as a catalyst for productivity potential in the region</b>		There are currently no investments in water storage in the Wairarapa. The PGF funding will encourage further investment.  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).
<i>Connected to regional stakeholders and framework</i>		
<b>Alignment with regional priorities</b>	✓✓✓	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.  The project is aligned with wider water planning activities (regulatory and economic), including the Whātua process (the Greater Wellington Regional Council water resource planning process) and the Margaret Bazley-led Water Resilience Committee and Wairarapa Economic Development Governance Group.
<b>Support from local governance groups</b>	✓✓✓✓	Relevant local authorities supportive of this project and view water security as one of the top issues for the region. Letters of Support received from the Ngāti Kahungunu, Rangitāne Tū Mai Rā, and the Water Resilience Committee and the Wairarapa Economic Development Strategy Group. All relevant local authorities are represented on this group.
<i>Governance, risk management and project execution</i>		
<b>Robust project management and governance systems</b>	✓✓✓	Appropriate management and governance structures are in place. WWL is currently recruiting a CEO. WWL will continue to need support and advice from PDU water development experts.



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## Risk assessment

24. Due diligence has been undertaken, no concerns have been identified.

25. The PDU has identified the following key risks and mitigations:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
<b>PGF strategic risk</b>	<p><b>Ensuring project development continues to align with PGF water storage investment principles</b></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
<b>Operational risk</b>	<p><b>Appropriate capability</b></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
<b>Operational risk</b>	<p><b>Stakeholder engagement and involvement (including demand)</b></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><b>Funding risk</b></p>	<p><b>Need for further funding and project viability</b>                  The project cost estimates are preliminary. A robust 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.</p>	<p>The funding agreement will include stop / go milestones at the end of each phase.                  Appropriate capability will be utilised / required to ensure an appropriate focus on viability.</p>	<p>M</p>