



**MGI
JULY 2020
WINTER NEWSLETTER**

Water Charges for Next Financial Year

We are pleased to inform shareholders that the water fees will not be increased from 1 August 2020. Even though our borrowing has increased, lower interest rates and disciplined expense management has enabled MGI to hold the water charges at current levels.

The existing water charges are based on the seasonal volume of water that is allocated to each irrigation type. All shareholders pay the same rate of \$8.87/ML irrespective of how much water they actually use for the year, as shown in Table 1.

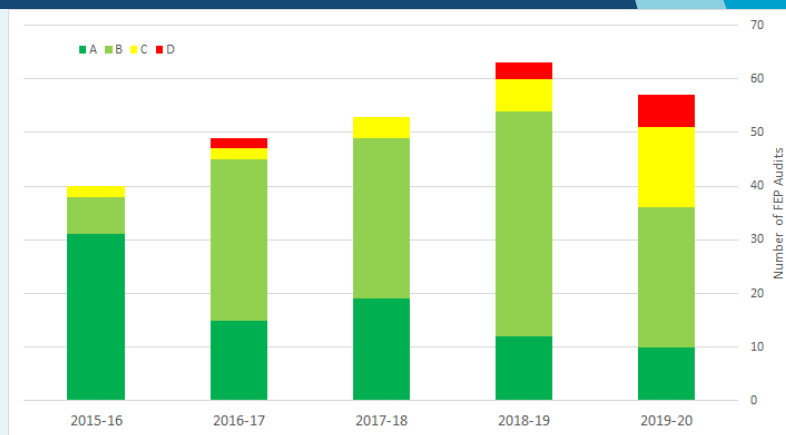
Farms in the pumped areas of the scheme, including Waihao Downs Irrigation, pay some additional fixed and variable charges to cover the costs of owning and operating pumping infrastructure, as shown in Table 2.

Farm Environment Plan Audits

Normally MGI farms perform very well in the independent FEP audits and we usually only have a couple of audit failures (C or D grades). However, in the March and April 2020 FEP audit round we experienced an unprecedented twenty-one failures.



“We are pleased to inform shareholders that there is no increase in water fees for this next year”



The FEP audit failures were due to a variety of reasons that can be classified as follows:

1. Dairy farm effluent management
2. Failure to prepare an Overseer budget
3. Farmer complacency

Audit failures are unacceptable, particularly when they are due to farmer complacency. They reduce the performance of the whole scheme in the eyes of the regulators and community.

Audit failures place extra burden on staff who have to assist those farms to address the problems so this increases the costs paid by all shareholders.

The Board have reviewed the Company policies and Environmental Management Strategy (EMS) and following changes are taking effect from July 2020:

- After one audit failure (C or D grade), the farmer shall pay the repeat auditor cost plus a \$1,500 fee to MGI to cover the extra staff time (at Board discretion); and,
- The farmer is required to attend a Board or Committee Meeting and outline their proposed response plan.
- If the farm fails its second audit, then the farmer shall pay the costs once again but the MGI fee shall increase to \$3,000 (at Board discretion); and,
- The farmer is required to attend a Board meeting and explain to Directors why they did not follow their response plan.
- If the matter continues for a third occasion, then it is likely that their water supply will be cut-off until further notice.

Farmers need to take their environmental responsibilities under the FEP seriously and not let the whole team down

It is MGI policy to aim for the higher environmental standards that are aligned with Good Management Practice. Shareholder's need to manage their farms accordingly if they want to continue to receive water operate under the MGI umbrella of resource consents and FEP's.



Nutrient Discharge Permit

We have been frustrated that Environment Canterbury have been slow to grant our discharge of nutrients to land consent (CRC184153). However, after a long and slow process the consent is expected to be granted by mid-August.

Most farms will need to meet their Baseline GMP Loss Rate, which MGI has calculated for you and the numbers compare favourably with the Overseer budgets that we have from some of our farmers. Farms in the PC3 area either need to meet the Baseline GMP Loss Rate or the Maximum Cap from the Regional Plan, whichever is lower.

We are relatively comfortable that the cumulative nitrogen load that we have calculated and all but agreed with ECan is adequate to protect the businesses of our farms. MGI intends to communicate the nitrogen target to each farm as soon as it is formally approved by ECan. Farmers will be required to produce an actual Overseer budget¹ for the previous 12-months prior to each FEP audit and MGI reminds farmers to give us admin access to your Overseer FM account please.

Most borderdyke farms will not be able to meet the targets, but they still need to be phased out by 2025. Any shareholder may still opt out of the MGI consent by obtaining their own Farming Land Use consent, but we urge you to get expert professional advice before making any decisions.

Insurance

The MGI and WDI insurance policies have just been renewed and the terms and premiums have remained pretty much unchanged. It is worth reminding shareholders though, that the MGI insurance cover is only for Company-owned assets. In the event of a catastrophic event like an earthquake, MGI would get the agreed payout under the policy to repair the Company assets but not much else. The Company would still have to charge the ongoing water fees to farmers even when the water supply is disrupted. Shareholders need to consider this risk when preparing your own material damage and business interruption insurance cover.

Capital Upgrades

The MGI upgrades are progressing well and one pipeline (for BP Lateral 3a) had to be postponed until next year due to the procurement and construction delays caused by COVID-19 but the other work is ahead of schedule. Kirk Irrigation is currently building the Archibald Road pipeline and pump station and Rooney Earthmoving Limited recently completed the lining of the Bells Pond Mainrace and the construction of a new flow control weir below the gates.

Information and Technology

There are a few upgrades occurring to the MGI Shareholder Database. Farmers can already obtain and export their water usage and the associated climate data direct from the Property page, which is important before an FEP Audit. Soon there will be additional information presented on the page including previous FEP audit information, document downloads and the nitrogen target for the farm.

The phone app used by borderdyke farms has been upgraded to a new version that should work on all smartphones without timing out. Press the button when you start watering, and then again when you finish.

Soil moisture monitoring has become more accessible with the new LoRa network (in addition to 2G/3G/4G). Loncel and Water Metrics have both updated their technologies and it is now much cheaper and easier to consider putting more monitoring on farms to keep water usage to a minimum and save on electricity.

¹ Except for small properties if they fall within the permitted activity limits in the LWRP.

Table 1 – Water Fees for FY21 (based on volume allocated, excluding GST)

	Borderdyke 17d	Borderdyke 14d	Spray 4mm	Spray 4.5mm	Spray 5mm
<u>Water Use</u>					
Seasonal Depth (mm)	810	1000	610	700	770
Seasonal Volume (m ³ /hectare)	8,100	10,000	6,100	7,000	7,700
MGI Water Fee (\$/ML)	\$8.87	\$8.87	\$8.87	\$8.87	\$8.87
Water Fee, FY21 (\$/ha/year)	\$71.39	\$88.13	\$55.76	\$63.69	\$69.86

Note – no change from previous year (FY20).

Table 2 – Additional Fixed and Variable Charges (estimated) for Pumped Areas

	Morris Road	Archibald Road	Green Shed	Waihao Downs
Sub-total Fixed Additional Costs	\$0.00	\$0.00	\$2.13	\$34.50
<u>Variable Pump Scheme Costs</u>				
Electricity Distribution & Transmission	\$5.99	\$6.64	\$66.60	\$15.68
Interest	\$9.06	\$8.67	\$0.00	\$319.87
Loan Repayment	\$0.00	\$0.00	\$0.00	\$138.41
Electricity Usage (Forecast)	\$46.90	\$49.45	\$53.40	\$113.41
Sub-total Variable Charges	\$61.94	\$64.76	\$120.00	\$587.37
<u>Summary of Total Annual Charges for Pump Areas (\$/ha), excl. GST</u>				
Bdyke 17d	\$86.44	\$86.70		
Bdyke 14d	\$103.18	\$103.44		
Spray 4mm	\$117.70	\$120.52	\$177.89	\$677.62
Spray 4.5mm	\$125.63	\$128.45		
Spray 5mm	\$131.80	\$134.62		

Note - Electricity usage is for typical season, but dependent on weather