



Statement of Proposal

Nelson City Council's proposed contribution to the Waimea Dam project



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1. Introduction

Council is considering making a contribution to the proposed project to construct the Waimea Dam by providing a grant of \$5 million in 2018/19 and 2019/20.

Water rights are currently over-allocated in the Waimea Plains. The Waimea River can run dry over summer months and during these times, salt water from Tasman Bay can migrate through the aquifer and threaten the water supply. New provisions in the Tasman Resource Management Plan, which will apply if the Dam does not proceed, require a reduction in water allocations and stricter rules for urban supplies, including commercial and industrial users.

A number of options to solve the water supply issues were considered by Tasman District Council and stakeholders and it was concluded that construction of a water storage dam on the upper reaches of the Lee River is the preferred option.

Tasman District Council, in partnership with Waimea Irrigators Ltd (WIL) and Central Government, is proposing to build a dam in the Lee Valley (Waimea Dam) and to form a company as a Council Controlled Organisation to fund, own and operate the Dam (Dam Company). The overall objective of the project is to meet the water supply needs of irrigators on the Waimea Plains, existing urban areas and businesses and future growth.

Funding is sought from Nelson City Council and given the significance of the project to the region, Council has decided to consult on the proposal to provide for the contribution to the Waimea Dam project.

This Statement of Proposal sets out Council's views on the project and invites comment from Nelson residents and ratepayers on the proposal. You can make a submission online at nelson.govt.nz or in writing by using the submission form at the end of this document. Submissions must be received by 5pm on Monday, 27 November 2017

2. Cost of the project and funding

The final design, construction and commissioning cost of the Dam is estimated to cost \$75.9 million (\$82.5 million, if expenditure to date of \$6.58 million is included).



Funding for the project is expected to come from the following sources:

Description	Amount \$ million	Share of Dam
Tasman District Council	\$16.78	51.1%
Loan to TDC from Crown Irrigation Investments Ltd	\$10	
Grant to TDC from Ministry of Environment	\$7	
Nelson City Council (if the proposal is adopted)*	\$5	
Waimea Irrigators Ltd (WIL) subscription from irrigators	\$15	48.9%
Loan to WIL from Crown Irrigation Investments Ltd	\$22.12	
Total	\$75.9	100%

*If the proposal is adopted, Nelson's grant will contribute to Tasman District Council's shareholding in the Dam Company.

Crown Irrigation Investment Ltd is the irrigation investment arm of Central Government. Crown Irrigation Investment Ltd provides funding to and invests in irrigation schemes that have the potential to generate long-term economic benefits for New Zealand.

Waimea Irrigators Ltd represents irrigators on the Waimea Plains and will raise funding from irrigators through the sale of shares in the Dam Company.

3. The Proposal

The proposal is that Council make a contribution of \$5 million to the proposed project to construct the Waimea Dam by providing a grant to Tasman District Council.

A grant limits the risk to Council and ratepayers in relation to additional costs in future such as project cost overruns, refinancing of loans by other shareholders and directors appointment fees. Also, Council would not be required to contribute directly to the ongoing operational costs of the Dam. However, a grant would result in a rates and debt increase, Council would not be represented on the Board of the Dam Company and the cost of any water supplied to Council by TDC would include a portion of the ongoing Dam operational costs.

While this is Council's preferred option, it may instead decide to approve an alternative option (as outlined in section 6) after receiving public feedback. Should the option of purchasing shares be ultimately approved this document fulfils Council's consultation requirements under section 56 of the Local Government Act 2002.



The contribution is proposed to be funded by borrowing, so the Council's level of debt would increase by \$5 million. As noted below, if the proposal is adopted, it will not have any significant effect on the Council's financial strategy, and will not put the Council in breach of any financial prudence benchmarks.

4. Consequences for Nelson of the Waimea Dam

Council has assessed the potential benefits of the Waimea Dam for Nelson ratepayers. While Nelson has sufficient water for its own needs, there are resilience benefits for the region from the Dam. There are also economic benefits that support a Nelson contribution. However, the future potential benefits and cost to Nelson cannot be exactly quantified. The following sections examine the issues in more detail.

Economic impact

The Waimea Dam is intended to allow current levels of primary production on the Plains to continue and to expand. There are expected to be economic benefits for Nelson from an increase in spending, jobs and incomes. This will stem from business that crosses the border into Nelson (for example, to Nelson Airport and the Port) and Nelson residents who supply labour and goods to related activities in the Tasman District. Without the Waimea Dam there would be more frequent and severe water restrictions across the Waimea Plains, with resulting negative impacts for the regional economy.

A 2017 report by the New Zealand Institute of Economic Research (NZIER) estimated a net benefit of \$295 - \$374 million (in today's terms) to the region over 25 years depending on the water restrictions that could be imposed if the Dam does not proceed.

Water supply resilience

Nelson City Council supplies water to Nelson households and businesses from three sources, the Maitai (Mahitahi) River (North and South branch) and the Roding River. Nelson does not have any shortage of water from these sources for the foreseeable future.

Nelson has the opportunity to improve resilience of supply by contributing to the Dam which is proposed to provide water for the Waimea Plains and nearby residential and commercial areas for the next 100 years. By contributing to the Waimea Dam project, Nelson will gain access to an additional water source of up to 22,000 m³/day, should it be required.

If Nelson requires this additional water in the future, a capital investment in Tasman District Council's network will be necessary. The amount would depend on the volume of water Nelson required at that time, but it is estimated that between \$15 million and \$22 million might be required.

Nelson South Supply

A further issue to consider is the water supply to Nelson South. While Nelson City Council supplies water to most of Nelson's residents, Tasman District Council supplies approximately 9% of the Nelson water supply for Nelson South residents and industrial users in the Wakatu Industrial Estate.



Without a dam, Tasman District Council would be unable to continue to supply the Nelson South area. It is expected that the Nelson South residential area will be connected to the Nelson reticulation in the near future as a result of planned development. However, in this scenario, to be able to supply industrial users in Nelson South from Nelson City's own water supplies would require construction of a large diameter water mains to the industrial areas at an estimated cost of \$3.2 million. In addition, greater reliance on the Maitai Dam may be needed to maintain supply which could require pre-treatment of water at a cost of \$15 to 20 million or more regular replacement of the water filters, estimated at \$6.5 million every 6 – 8 years.

Water Supply Agreement between Nelson City and Tasman District Council

The current water supply agreement between Nelson City and Tasman District Council will be amended depending on the outcome of Council's decision in relation to the proposal.

Should a decision be made to contribute to the Dam, Tasman District Council will continue to supply industrial users in Nelson South. This would allow Nelson City Council to defer construction of the large diameter water mains to the industrial areas currently programmed for 2025 – 2030.

An additional 1,000 m³ of water per day (on top of the 330 m³/day supplied currently) would be available to the residential areas immediately but it is expected that these areas will be connected to the Nelson reticulation in the near future.

Water supplied by Tasman District Council to Nelson City Council will continue to be charged at the Richmond Residential Rate. The water TDC supplies is more expensive than the rate at which NCC can supply water. The difference in price, is borne by all Nelson water users.

Environmental impact

The Waimea Dam will result in some environmental benefits as 30% of the Dam's capacity is allocated to environmental flows. This will enable the minimum flow on the Waimea River to be set at 1100 l/s (litres per second). Without the Dam, the minimum flow required under the Tasman Resource Management Plan would be 800 l/s. The higher proposed flow is expected to improve the health of the Waimea River.

The potential adverse effects of the Dam include changing the natural environment upstream of the Dam, disruption to fish passage, reduced water quality, potential impacts on aquatic ecology and increased contaminant levels eg. increased nutrients in Tasman Bay and nitrate in waterways resulting from either intensification or land converted from pastoral use to market gardening or horticulture.

The environmental effects of the Dam were considered as part of the consenting process. The resource consent for the Dam provides for establishing new habitats and an ongoing environmental fund. The Tasman Resource Management Plan also includes requirements for nutrient management plans.



5. Implications of the proposal

The proposed \$5 million contribution will be funded through a long-term loan over 25 years which will be repaid from general rates. This would increase general rates by 0.5%. The loan repayment and interest would be approximately \$355,000 per annum assuming a 5% interest rate.

The proposal will increase Council's debt levels by \$5 million. It will not result in Council exceeding any of the quantified limits on rates, rates increases or borrowing as set out in the financial strategy for any of the years included in the Long Term Plan. However, adding \$5 million to debt, may constrain future capital expenditure.

6. Alternatives considered by Council

a. Purchasing shares

Under this alternative, Council would purchase shares to the value of \$5 million in the Dam Company which would be a council-controlled organisation. The other shareholders would be Tasman District Council and Waimea Irrigators Ltd. An advantage of this option is that Council would be represented on the Board of the Dam Company through a director, jointly appointed with TDC. This would allow some degree of influence (for example on the Statement of Intent) and faster receipt of information.

The disadvantages of this option are that it would result in a rates and debt increase. Council would be required to contribute an estimated \$92,000 per year to the ongoing Dam operational costs and 50% of the director's appointment fee. Council would also be exposed to the risk of additional costs in the future such as project cost overruns and refinancing of loans by other shareholders.

b. Splitting the contribution between grant and equity

This option has the same advantages and disadvantages as a grant or a purchase of equity and does not confer any advantage over either.

c. No contribution

This option would result in no increase in rates or debt. However, it was determined that making no contribution would inhibit regional cooperation and that the economic benefits to Nelson from the Dam meant it was in the best interests of ratepayers to support the project.

d. Different levels of contribution

Different levels of contribution to the project were considered. However, having assessed the range of benefits expected to accrue to Nelson from the Dam, it was determined that \$5million (in addition to the \$413,000 already provided to the project) was an appropriate level of support.



7. Submission

Anyone may make a submission about any aspect of Council's proposed approach and the other options that have been considered. Council, in making its decision, will take account of all submissions made.

A submission form is included at the end of this document.

Submissions can be made:

- Online at nelson.govt.nz
- By post to Waimea Dam, PO Box 645, Nelson 7010
- By dropping off to Civic House, 110 Trafalgar Street, Nelson

Submissions must be received no later than 5pm on 27 November 2017.

Any person who wishes to speak to the Council in support of their submission will be given the opportunity to address the Council at a hearing on 7 December 2017.

