

**BEFORE THE CANTERBURY REGIONAL COUNCIL**

**IN THE MATTER OF**

the Resource Management Act 1991

**AND**

**IN THE MATTER OF**

Water permit applications by Simons Pass Station Limited and Simons Hill Station Limited

**STATEMENT OF REBUTAL EVIDENCE OF MICHAEL CAMPBELL COPELAND  
DATED 27 APRIL 2010**

**1. INTRODUCTION**

- 1.1 My full name is Michael Campbell Copeland. In November 2009 I presented evidence on behalf of Simons Hill Station Limited and Simons Pass Station Limited. This evidence covered the economic effects of their proposals to increase the irrigated areas of their land using water sourced from the Tekapo Canal, Lake Pukaki, or the Pukaki Canal.
- 1.2 My qualifications and experience are set out in my previous evidence dated 11 November 2009.
- 1.3 I confirm that I have read and am familiar with the Code of Conduct for Expert Witnesses in the Environment Court Consolidated Practice Note (2006). I agree to comply with that Code. Other than where I state that I am relying on the evidence of another person, my evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions that I express.

**2. SCOPE OF THIS EVIDENCE**

- 2.1 In this brief of evidence I respond to the comments made on my previous evidence by Mr Simon Harris in his evidence dated 26 November 2009 on behalf of Meridian Energy Limited.

**3. THE COMMENTS OF MR HARRIS**

**Lack of Evidence on Commercial Viability, Affordability and Efficiency**

- 3.1 Mr Harris in paragraph 8 of his evidence says that my previous evidence lacked evidence on commercial viability, affordability and efficiency. To this criticism I would respond as follows:

- Commercial viability, affordability and efficiency are all concepts closely related to measures of profitability. The increases in on-farm profitability for Simons Hill Station and Simons Pass Station with the additional irrigation proposed are detailed in paragraphs 4.8 to 4.11 of my previous evidence. These measures of increased profitability incorporate increased depreciation costs which will account for much of the additional capital costs incurred including those for the pipeline, pivot irrigation, milking sheds and other capital costs. If upon consents being granted the applicants proceed with their proposed additional irrigation investments it can be presumed that the increased profitability is sufficient to meet their assessed costs of equity and debt capital for additional capital costs. In my opinion the measures of increased profitability shown here indicate that if the applicants proceed with their proposed additional irrigation their investment will be consistent with the efficient use and development of natural and physical resources as required under Part II, section 7(b) of the Resource Management Act (RMA);
- Commercial viability and affordability are matters for individual farm investors (and their financiers) to assess and are of limited relevance under the RMA. Whilst the wider community does not benefit from commercial returns, they also do not incur the investment and other costs nor face the risks involved;
- Increases in levels of economic activity lead to improvements in community economic wellbeing and improved resource use efficiency in a number of different ways (see paragraph 4.20 and 4.21 of my previous evidence). The proposed additional irrigation on Simons Hill Station and Simons Pass Station will lead to significant increases in expenditure, incomes and employment in the Mackenzie Basin area and wider Mackenzie and Waitaki Districts as set out in detail in paragraphs 4.1 to 4.7 and 4.13 to 4.17 of my previous evidence;
- As stated in my previous evidence (paragraph 4.18) increases in land values are indicative of increases in potential land use efficiency. I doubt that there is any debate that irrigating additional areas of Simons Hill Station and Simons Pass Station will lead to increases in the value of the land.

### **Absence of a Full Cost Benefit Framework**

3.2 Mr Harris, also in paragraph 8 of his evidence, is critical of my evidence because it does not include a full cost benefit analysis incorporating such quantifiable components as lost electricity generation, increased generation costs and lost recreational revenue and non quantifiable components such as water quality, landscape values and community strengthening. It is my understanding that the Waitaki Water Allocation Board of Inquiry essentially undertook such an exercise and as a consequence allocated a certain amount of water for irrigation purposes. It is under this allocation that applications have been made for additional irrigation of land on Simons Hill Station and Simons Pass Station. It is for this reason that I have not considered the implications of alternative water uses. With respect to non-quantifiable (in monetary terms) costs and benefits arising from additional irrigation of Simons Hill Station and Simons Pass Station, other witnesses for the applicants have addressed these in their evidence. I am not qualified to express opinions on such matters and therefore in my view there is no benefit in including them within a cost benefit framework in the evidence of an economist.

### **No Sensitivity Testing of Assumptions**

3.3 I agree with Mr Harris's comment that my previous evidence would benefit from sensitivity testing of key parameters, particularly product prices and farm costs (paragraph 9 of Mr Harris' evidence). However as I stated at paragraph 4.12 of my previous evidence the potential to

substantially increase the productivity of the land with increased irrigation means that my conclusions about community economic wellbeing and efficiency benefits are not sensitive to changes in assumptions about product prices and farm costs. Increased irrigation will bring substantial increases in the level of economic activity within the local community even if movements in product prices and farm costs negatively impact on commercial returns.

- 3.4 Therefore, I consider that a sensitivity analysis is of very limited value when considering the overall positive economic effects of irrigation of these two Stations.

### **No Information on Proposed Mitigation Costs**

- 3.5 I am unaware of any mitigation costs (paragraph 10 of Mr Harris' evidence) which are not internalised within the cost structures of the applicants. In other words to my knowledge there are no mitigation cost externalities which must be met by the wider community. It is my understanding that whilst Meridian have argued that discharging an increased nutrient load to the rivers and lakes causing algal blooms will require the flushing of rivers at a cost, it is the applicant's position that the level of nutrient discharges will be within the assimilative capacity of the environment and therefore no flushing will be required.

### **Capital Cost Scenarios**

- 3.6 In paragraph 12 of his evidence Mr Harris says that while my previous evidence referred to two scenarios of development only one level of capital costs is included. In fact many of the capital costs are common to both development scenarios. The capital costs for the pipeline and associated facilities (paragraphs 4.1 to 4.3 of my previous evidence), the additional pivot irrigation (paragraph 4.4 of my previous evidence) and stock water systems, initial fertiliser and lime application, weed removal and re-grassing (paragraph 4.5 of my previous evidence) will be the same under the irrigated intensive sheep and beef and irrigated dairy scenarios. Only the milking sheds, cow lanes and some of the housing, plant and machinery, and vehicle capital costs would be additional for the irrigated dairy scenario. It is now proposed by the applicant that a staged approach to development on the Pukaki Flats land will be adopted. This will involve the staged construction and operation of a total of 4,022 hectares of irrigated land, with approximately 575 hectares of dairy conversion each year for seven years. Under this development scenario capital expenditure is again estimated at between \$66 million and \$73 million (see paragraph 5.2 of my previous evidence), with the capital expenditure spread over the seven years of development.

### **Off Farm Expenditure within the Mackenzie and Waitaki Districts**

- 3.7 In paragraph 15 of his evidence Mr Harris correctly states that my previous evidence at paragraph 4.14 estimated that 90% of the additional expenditure will take place within the Mackenzie and Waitaki Districts. Included within these two districts are the towns of Fairlie and Oamaru – larger towns and service centres. The Mackenzie Basin area defined by Mr Butcher is a smaller area and excludes these two towns. However as covered in my previous evidence (paragraphs 3.8 to 3.10) I believe that the Mackenzie Basin area, the Mackenzie and Waitaki Districts and the Canterbury and Otago regions are all relevant viewpoints from which to assess the economic effects of the proposed additional irrigation.

### **Additional Rates Income**

- 3.8 I agree with Mr Harris where he says in paragraph 17 of his evidence that to the extent additional rates income is offset by additional costs it is only the gain in net income that can be counted as a benefit for the community. Like Mr Harris I would expect that via economies of scale an increase

in the rating base is likely to generate net income and therefore community benefits. With respect to increased roading costs from milk tanker traffic I would note that with respect to Simons Hill Station and Simons Pass Station, both Stations directly access the State Highway (which is administered by Central Government), and there will be no additional milk tanker traffic on local roads. Additional milk tanker traffic on private roads and State Highways will not impose additional costs on local councils.

### **Staging of Development**

- 3.9 Subsequent to presenting my evidence at the hearing, I have been advised by the applicant that a seven year staging approach to development on the Pukaki Flats is to be adopted. This will involve the staged construction and operation of 4,022 hectares of irrigated land; i.e. approximately 575 hectares of dairy conversion each year for seven years.
- 3.10 The conclusions to my evidence in chief presented the economic impacts in terms of ranges depending upon whether the additional area of 4,800 hectares of irrigated land was used for intensive beef and sheep finishing (scenario 1) or for dairy farming (4,000 hectares) and intensive sheep and beef finishing (800 hectares) (scenario 2).
- 3.11 The proposed staging of development now proposed does not alter my conclusions. However it will mean that in the early years of development the economic impacts will be towards the lower end of the ranges shown in my evidence in chief conclusions, whilst in later years (year 7 onwards) they will be at the upper end of the ranges.

M C Copeland

27 April 2010.