

# Business Proposal Summary for Consultation



*Caption: Tom Fenwick Pump Station (submersible)*

Burdekin-Haughton Investigation Board  
November 2017

Dear Irrigation Customer,

The Burdekin Haughton Investigation Board has continued the investigation and financial modelling required to prepare a revised business case for Local Management of the Burdekin Haughton Water Supply Scheme (BHWSS). This business case aims to demonstrate that a locally-managed scheme is both viable long-term and delivers benefits for all stakeholders.

During the last year, this Board has considered feedback from government on its 2014 business proposal and has worked closely with consultant engineers to finalise necessary due diligence that could not be completed during LMA stage 2.

The Board is now comfortable with the inclusion of the Val Bird and Giru Weirs subject to the timely repair of the Giru Weir crest.

We have re-evaluated the improvement projects that were considered during stage 2 investigations and reduced the number from eight to three to ensure that only financially viable projects were included.

Part of the feedback from government was to remove the rising groundwater issue that had been identified and included in the previous proposal. As you would be aware, government has decided to deal with rising groundwater through another process.

Whilst this issue has been removed from our investigations, it still remains a key risk factor for the scheme's future viability.

We have included wording on the voting paper stating that acceptance of local management is conditional on a resolution of the groundwater issue to the satisfaction of the Transition Board that will be put in place to negotiate with Government the final terms of the transfer, assuming government accepts the Business Proposal. That way, groundwater can be put to one side (similar to the way that the 185,000ML free water issue was quarantined during stage 2 and later resolved) and irrigators can concentrate on the Business Proposal and therefore Local Management can be assessed on its own merits and not on any other related but different issues.

Other unresolved matters, such as the current review being conducted by SunWater into Haughton Zone A pricing, should also be put to one side as this will be negotiated by SunWater in the near future (as directed by the QCA). Should the majority of irrigators support local management, the Investigation Board proposes that the starting point for pricing matches that set as part of the QCA process.

It is disappointing that, despite the recommendation of the 2012 QCA price review, this issue has not been progressed. However, we understand that SunWater has appointed a consultant to review pricing and is currently waiting for a report from a consultant hydrologist.

Notwithstanding these matters, the Investigation Board is confident that local management is the best option for a long-term sustainable future for the Burdekin-Haughton scheme and urges you to support this Business Proposal and move to the next stage.

Yours sincerely,

**The Burdekin-Haughton Investigation Board**

## Difference between our 2014 Business Case and this Business Proposal

Burdekin-Haughton lodged its original business case to Government in 2014. An Investigation Board, established at the end of 2016, was provided feedback in relation to this proposal and requested to re-examine local management for the scheme.

Further engineering due diligence was conducted and additional financial modelling was undertaken to establish the Business Proposal to be submitted to government by late 2017.

This has resulted in an updated Business Proposal that is different from the original proposal in the following ways:

- Fully evaluated all eight capital projects and proceeded with three.
- Included the Haughton River weirs
- Completed outstanding engineering due diligence.

## Outline of this Business Proposal

### 1 Corporate form

During the Stage 2 investigations it was identified that a company limited by guarantee would be the best corporate structure for an entity formed to locally manage the Burdekin Haughton irrigation distribution assets. This will be further evaluated during the transition stage if customers and Government accept this Business Proposal.

### 2 Key factors influencing the Board's Capex scenario

1. A locally managed entity (LME) will have a more conservative approach to asset maintenance and renewal to reduce the risk of catastrophic failures
2. Trade-off between planned Capex and reactive maintenance
3. Ability to deliver on the strategic goals of LME to improve the performance of the scheme.

### 3 Capital expenditure

The Board's preferred scenario includes the addition of the following three business improvement projects:

1. Accelerated concrete lining of the oldest channels
2. Total Channel Control automation (TCC) with government contribution
3. Accelerated replacement of Propeller Actuated (PA) meters.

**Project 1 Accelerated replacement of the concrete channel lining** in the older sections of the scheme, focusing first on the sections in the worst condition. We are assuming a replacement of 10% per year, leading to a full replacement over 10 years. This replacement approach is broadly consistent with the recommendations of the independent engineering consultant (Jacobs), albeit accelerated, as Jacobs based its modelling on the condition of the channel lining as assessed by SunWater. We consider the channel to be in worse condition than is reflected in the SunWater system. In recent years, there has been failure (complete collapse) of the channel resulting in emergency shutdown for repair.

## **Project 2 Modernisation - Total Channel Control (TCC)**

This project will be implemented in two stages:

- Stage 1, or the analysis stage, will involve the installation of 11 monitoring devices to accurately assess the level of losses within the Barratta operating system. This will confirm the viability of Stage 2.
- Stage 2, or the implementation stage, will involve the replacement of 59 regulator gates with a 20-year life, to achieve greater total channel controls within the Barratta operating system.

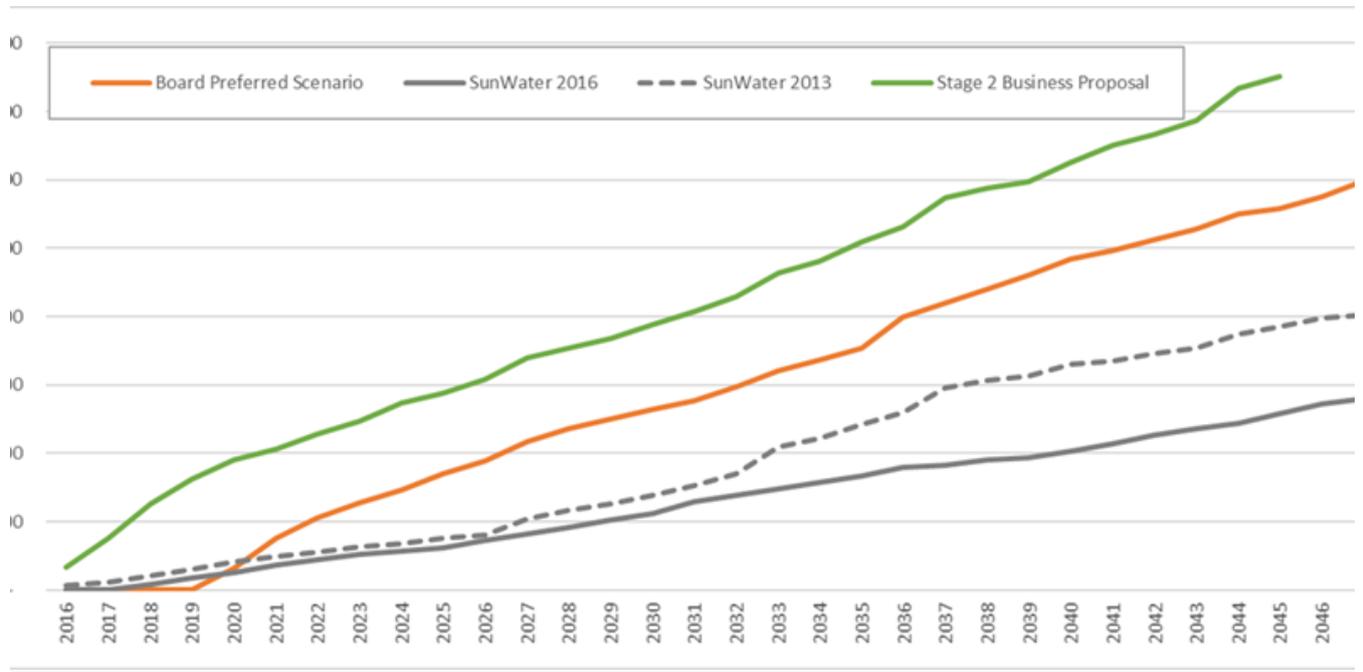
Modernisation projects (TCC) have a proven record of transforming the operation of open channel systems in other irrigation areas in Australia by:

- Saving water by reducing spills from the system
- Improving customer service by:
  - a) Reducing lead times for orders, and
  - b) Providing more consistent flows onto farm
- Improved productivity
- Reducing occupational health and safety risks.

**Project 3 Early replacement of the PA meters** - accelerated scheme-wide replacement of PA meters with electronic meters to achieve greater accuracy of measurement, greater efficiencies, decreased losses and provide greater equity across growers.

The Board's preferred capital profile is less than that proposed in Stage 2 (with the removal of five projects) but higher than the SunWater capital profiles projected in 2013 and more recently in 2016. The Board's preferred scenario reflects a lower overall risk (more conservative approach) or more proactive asset strategy. We believe that SunWater is under-estimating the capital required to keep the assets in a fully-functional condition which will result in lower reliability / lower standard of service.

Based on the modelling, the Board’s preferred scenario incorporates relatively higher Capex to SunWater’s approach as shown below.



#### 4 Comparison of LMA and SunWater costs

After calculating costs for salaries, allowances, electricity, insurance and all other operating costs, including eight new staff positions in Clare to replace the current functions carried out by the Brisbane office, our financial modelling shows that under LMA operating costs are estimated to be 4.5% lower than SunWater’s as per the Network Service Plan.

#### 5 Self-insurance

The Board is proposing a self-insurance fund which will be based on an annual contribution (recovered through prices) of \$450,000 to cover non-insurable events or insurance excess. The Board’s intent is to build this fund to \$5,000,000. Currently, SunWater covers these events by drawing from a renewals annuity fund when required.

#### 6 Comparison of price paths going forward

The Board has calculated the prices that would be required under local management, and the modelling suggests that the local management entity would require annual price increases that average 3.3% over the 30 year period (reflective of the inflation factors projected by Jacobs). This price path is based on the following assumptions:

- Operating costs as noted above, which are less than SunWater’s current costs as per the network service plan
- Capital costs as described above, which include allowing for around twice the expenditure on capital over the next 30 years than is currently planned under SunWater (\$127m under local management verses \$63m under SunWater)

- Setting prices at a sufficient level to allow the business to build up an annuity (double the separation payment in today's dollars) by year 30 to allow for long-term asset renewal and refurbishment. SunWater prices do not provide for revenue for such a purpose
- A one-off separation payment. At this time, the Board is not able to disclose the proposed separation payment to be requested of Government, but that information will be public prior to a final decision by customers on whether to move to local management. The Board's proposed separation payment is less than the Stage 2 calculations of the projected cost of Government continuing to own the scheme.

Government has not indicated what "Plan B" would look like under continued SunWater management, however SunWater pricing has traditionally included a Community Service Obligation (CSO) to help provide a smoother transition to full cost recovery.

Currently, distribution prices are increasing at CPI plus \$2 per ML until we reach full cost recovery. Since 2006, prices have increased annually by an average of 6.5% from previous price reviews. Currently government policy is prices are set to achieve full cost recovery and there is no indication that this policy will change.

SunWater has provided its current estimate of the cost-reflective price, and based on that and the current policy of capping prices at \$2+CPI, the BHWSS should be at full cost recovery by 2020. As the 6.5% historic price increases suggest, SunWater's projection of when full cost recovery will occur has typically been understated, with actual costs exceeding those used to forecast the breakeven date.

## 7 Price path "points of difference" and overall 30-year comparison

### **The Board's Business Proposal provides for:**

- Lower operational costs (4.5% saving)
- More capital spend (\$64.6 million) to improve scheme performance
- Prices that are reflective of inflation factors
- Under the Board's projected price path, build up a fund to ensure long term sustainability of the scheme.

Overall, the Investigation Board is proposing a separation payment that appears to meet the Government's value for money test. In addition, prices will be constrained to a reasonable level by finding savings in operating costs, while at the same time, factoring in greater capital spend than SunWater. The additional capital expenditure includes investment in scheme modernisation that will improve performance and further improve scheme costs.

## 8 Key benefits and risks of Local Management

### With or without Local Management

- Individual water entitlements will remain unchanged
- Bulk water assets will continue to be owned and managed by SunWater with pricing set by government
- Costs such as electricity are likely to continue to increase
- Distribution water prices will be based on cost recovery
- A solution to the rising groundwater issue is required.

### Benefits of Local Management

- Members own the assets and members elect a skilled-based Board to manage the company to deliver the agreed level of service to customers
- The company reports to members annually
- Local office based in Clare with direct access to decision makers
- Local Management will be more efficient and pricing decisions will reflect affordability and sustainability
- The Investigation Board will request that government provides a separation payment to cover initial costs and ensure a viable business into the long-term
- More focus on local maintenance needs with improvements in customer relationships
- Scheme modernisation can be actively considered with more timely delivery
- Local ownership provides protection against scheme takeover and provides planning certainty
- Transfer of all existing staff, with local ownership providing greater opportunities for local employment and regional growth over time
- Risk of uncontrolled future distribution price increases under SunWater is reduced

### Risks of Local Management

- Members elect a Board without the necessary skills to run the company effectively
- Members unable to find skilled people to join the Board
- Board does not have the resources to deal with natural disasters
- Separation payment is not sufficient which may flow onto price increases
- Assets could be run down if insufficient resources are provided.

The Investigation Board believes that the risks it has identified can be mitigated to an acceptable level and these have been addressed in detail in the Business Proposal.

## 9 Groundwater investigations

The investigation Board is not prepared to move to the final transition stage for Local Management until it has a full understanding of the strategies to be implemented under the State Government BRIA Rising Groundwater investigations, and how they would impact the viability of the proposed LMA business case. As previously stated in this summary, please vote for or against the proposal on its own merits as a satisfactory resolution of the groundwater will be a condition of moving forward should the vote be in favour.

## 10 Next steps

This Business Proposal, to be submitted to government by late 2017, will form the basis of the government's decision on whether the Burdekin-Haughton will be offered the opportunity to transition to local management.

If government decides to proceed with local management for the Burdekin-Haughton, it will establish a transition company and Board to negotiate the terms of that agreement on behalf of irrigators. If and when agreement is reached, the government will issue an offer to all parties with a water allocation in the scheme, asking if they support the proposal to move to local management and if they wish to become members of the new company. At that time, irrigators representing the majority of water allocations in the scheme will need to accept the offer for local management to proceed.

## 11 Consultation

To gauge irrigator support for this updated Business Proposal, a voting form and a reply paid envelope have been enclosed. For the purposes of presenting the business proposal to government, we will assume those that do not respond are supportive of local management proceeding to the next step. The Board, however, urges all to have their say at this time by completing the form and returning it **by 30 November 2017**, by either:

- Giving it to an Investigation Board member, or
- Dropping it into the BRIA office; or
- Scan and email to [admin@lmairrigation.com.au](mailto:admin@lmairrigation.com.au); or
- Posting it to the LMA support team c/o GPO Box 419, Brisbane QLD 4001.

**A meeting has been scheduled on Wednesday 22 November 2017 at 1.30pm at the Clare Club** to give irrigators the opportunity to examine the proposal in depth and ask questions about the future of their scheme. Queries can also be directed to any of the board members or the LMA support services team by emailing [admin@lmairrigation.com.au](mailto:admin@lmairrigation.com.au).

**Contact details** for the Investigation Board members are:

- Mario Barbagallo (Chair) – 0429 181 276
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- Ian Davies – 0429 725 038
- Mauro Garbuio – 4782 7557
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