

**Dear Customer,**

It is with great pleasure that the Fairbairn Irrigation Network (FIN) offer the following proposal for transitioning to local management. In this letter we have set out a brief summary of the Local Management Proposal. We encourage you to take the time to carefully read the full Offer Document before making your decision about whether to support the proposal. For your response to count we need you to return your response form by **1 March 2019**.

This summary should be read in conjunction with the Offer Document and it is noted that all terms used in this summary have the same meaning as defined in the Offer Document.

Thank you for taking the time to consider the Local Management Proposal and to have your say in the future of the Scheme. If you are in any doubt regarding the voting process, please consult your financial or legal adviser, or call the LMA Information Line on 0468 960 538 or email [admin@lmairrigation.com.au](mailto:admin@lmairrigation.com.au). You can also obtain more information about the details of the proposal by contacting me or any of the other Directors of the Company.

Yours sincerely,



Anne Marie O'Callaghan  
Chair  
Fairbairn Irrigation Network

**What is the Proposal?**

The Local Management Proposal is the proposed transfer of the Emerald Channel Irrigation Scheme from SunWater to a locally managed entity, Fairbairn Irrigation Network (FIN), together with a separation payment of \$2.5 million. The transfer is targeted for 30 June 2019. Holders of Water Allocations in the Scheme are being asked to decide whether they support the Local Management Proposal and agree to become Shareholders in FIN. For the Local Management Proposal to proceed, it requires support from customers representing at least 70% of Water Allocations by volume.

**Does the proposal have the support of the FIN Board?**

Yes. The current Board of FIN has carefully considered the option of moving to local management over the last few years of investigation, and the Directors **unanimously recommend** that you **SUPPORT** the Local Management Proposal. In addition, the Directors on the Board who are eligible to vote and accept Shares in FIN intend to vote in favour of the Local Management Proposal.

**What type of entity will FIN be and who will own the Company?**

FIN will be a Not-For-Profit Public Company limited by shares. The company will be owned by the Water

Allocation holders who choose to become shareholders in the Company.

Shareholders will **not** be entitled to distributions from the Company, and they will not be entitled to a share of the assets of the Company.

**What is the Board's vision for FIN?**

The Board's vision is to work with irrigators to develop and grow a responsive, adaptive, and sustainable water distribution business, building capacity and delivering more water with high environmental standards. As a locally owned entity FINs core business principles are outlined below.



## What will be different under Local Management?

	Under SunWater	Under FIN
<b>Staff</b>	Current Staff	All current local SunWater staff working in the Irrigation Scheme will transfer and the SunWater enterprise agreement will continue to apply to their employment with FIN.
<b>Management</b>	Local manager reporting to senior management in Brisbane	Same local manager but reporting directly to the FIN Board
<b>Board</b>	Appointed by Government	FIN Board Appointed by Shareholders (Customers)
<b>Distribution Prices</b>	Set by Government, based on recommendations from QCA	Set by the FIN Board annually
<b>Capital expenditure</b>	Forecast \$7.9 million over 29 years	Forecast \$19.5 million over 29 years
<b>Operating expenses</b>	\$3.7 million in 2019/20 based on NSP	\$3.24 million in 2019/20 based on forecast budget
<b>Annual Price &amp; Cost increases</b>	Historic price increase: 4.9% per year (since 2007) Historic cost increase: 8.4% per year (since 2007)	Target cost and price increase: 3.7% per year (note 1)
<b>Opportunities</b>	Maintain current arrangements	Access to grants and funding that is only available to private entities
<b>Service standards</b>		As per current SunWater standards initially, with scope for adjustments in the future.
<b>Assets</b>		Selma & Weemah channels and pipeline systems and related drains transfer to FIN, including part of LN1 within the channel scheme. SunWater retains Selma pump station, remaining part of LN1 and the Fairbairn Dam.
<b>Cash Transfers</b>		FIN will receive a separation payment of \$2.5 million, exit fees of approximately \$81,000, funds set aside for bulk meter upgrades (approximately \$276,000), plus an agreed value of accrued leave for employees.
<b>Bulk Water</b>		SunWater will separately bill each customer for bulk water (Part A & B charges).

Note 1: Assuming forecast capital expenditure of \$19.5m over 29 years. If capital expenditure is reduced to SunWater's forecast of \$7.9m, target price increases are estimated at 2.4%

## Prices

After the Transfer Date, the Board will be responsible for setting distribution prices. The Board will be able to set distribution prices giving a minimum of six months before the end of the financial year. The Board has set a starting price for the 2019/20 year. The Board has also modelled target prices, based on assumptions regarding costs (including increases in costs) and revenue. Indicative prices are shown below and compared with the Board's projected prices for SunWater. These prices should be read in conjunction with the inputs and assumptions on which they are based. These details, as well as risks and uncertainties related to future costs and prices, are set out in the Offer Document.

Based on FIN's prices for 2019/20, Medium Priority prices will start \$2.44 lower than the forecast SunWater price.

For a customer holding a 2,000 ML Water Allocation, this would equate to a reduction of approximately \$4,880 per annum in water charges, assuming full water usage.

Based on the Board's modelling, by 2023/24 FIN's target price for Medium Priority water would be \$11.67/ML lower than the Board's forecast of the SunWater price. For a customer holding a 2,000 ML Water Allocation, this could equate to a possible reduction of approximately \$23,347 per annum in water charges, assuming full water usage.

The lower prices forecast under FIN reflect the Board's estimate of lower operating costs, approximately \$470,000 less than the Board's forecast of SunWater's costs in 2019/20. The savings will be used to keep distributions prices lower and invest in asset repairs, maintenance and renewals.

Distribution Prices (Prices for SunWater in 2019/20 assume current prices are increased by 2.5%. Prices beyond 2019/20 are indicative only.)

Medium Priority (Parts C & D) \$/ML	2019/20	2020/21	2021/22	2022/23	2023/24
FIN	\$ 31.71	\$ 32.88	\$ 34.13	\$ 35.42	\$ 36.77
SunWater	\$ 34.15	\$ 37.49	\$ 40.99	\$ 44.64	\$ 48.45

  

High Priority (Parts C & D) \$/ML	2019/20	2020/21	2021/22	2022/23	2023/24
FIN	\$ 42.98	\$ 44.52	\$ 46.15	\$ 47.85	\$ 49.61
SunWater	\$ 46.74	\$ 50.41	\$ 53.67	\$ 55.01	\$ 56.39

### What is the proposed timeframe?

#### Offer open for acceptance

**14 January 2019**

#### Voting date closes

**1 March 2019**

#### Customers advised of outcome

**15 March 2019**

#### Target transfer date

**30 June 2019**

### What you need to do now?

You should read this Offer Document carefully before deciding whether to support the Local Management Proposal.

If you support the Local Management Proposal you must complete and return the Support and Acceptance Form which must be received by no later than **5.00 pm (Brisbane time) on 1 March 2019**.

### Reasons to support the Local Management Proposal

- ✓ A more flexible and responsive business controlled by a customer-elected Board.
- ✓ Transparency and local accountability, with all revenue staying in the scheme.
- ✓ Greater control over distribution prices.
- ✓ More say over maintenance and replacement/refurbishment of key assets.
- ✓ Capacity to realise benefits from distribution loss allocations.
- ✓ Scheme assets transferred at no cost and money from the Government paid up front.

### Reasons not to support the Local Management Proposal

- ✗ Maintain the status quo and avoid risks associated with Local Management. The Offer Document sets out in detail a number of the risks associated with Local Management.
- ✗ Lost potential to access Government subsidies and support.

## Key Questions and Answers

Question	Answer	Section Reference
What about the Channel Lining Project?	<p>SunWater has been granted \$3.01 million from the National Water Infrastructure Development Fund towards lining channels within the Scheme to reduce water loss. The funding is subject to final agreements being concluded between the Federal Government, the State and SunWater.</p> <p>Under the Transfer Deed, SunWater and FIN must enter into a Channel Lining Project Agreement prior to the Transfer Date in line with principles set out in the Transfer Deed. Under those principles:</p> <ul style="list-style-type: none"> <li>generally, SunWater will fund the capital costs of the Channel Lining Project and carry out the works after the Transfer Date,</li> <li>SunWater will be able to recover the capital costs from the sale of any water saved by the project,</li> <li>interest will be payable with respect to the capital costs and that interest amount should be recovered from the sale of any water saved by the project,</li> <li>if there are surplus funds from the sale of water saved by the project after SunWater capital costs and interest have been paid, those funds would go to FIN.</li> </ul>	Sections 9.5
What about bulk water prices under Local Management?	Bulk water charges will continue to be paid to SunWater. Bulk water prices will continue to be set in accordance with legislative and regulatory processes, which currently includes reviews by the QCA with prices set by the Government based on the QCA recommendations.	Section 7.3(a) (ii)(C)
How do I have a say in the decisions of FIN?	<p>To have a say in the decisions of the Company you need to be a Shareholder. If you are a Shareholder:</p> <ul style="list-style-type: none"> <li>you or your nominee could seek election as a Shareholder Director;</li> <li>you will be able to attend general meetings of the Company; and</li> <li>you will be entitled to vote on the election of Directors and certain other decisions set out in the Constitution or where required by the Corporations Act.</li> </ul> <p>Reports on the Company's financial position will be publicly available.</p>	Section 9.7
What happens to my existing supply contracts with SunWater?	<p>On the Transfer Day, if you are a registered holder of a Water Allocation holder, your existing contracts with SunWater for bulk water and for the delivery of water through the Irrigation Scheme will be replaced by two new contracts:</p> <ul style="list-style-type: none"> <li>one with SunWater for your bulk water; and</li> <li>a new deemed Customer Contract with FIN for the water distribution and drainage services.</li> </ul> <p>The new deemed Customer Contract has been based on the existing SunWater channel and pipeline contract.</p> <p>You are the 'holder' of the relevant Water Allocation if you are registered as the person who holds the Water Allocation or if a lease of the Water Allocation is registered on the register, the lessee of the lease.</p>	Sections 9.3
Does this mean I will now receive two separate invoices for my water charges?	Yes, it is the Board's intention that FIN will issue customers with an invoice for the distribution (fixed and variable) and drainage charges and SunWater will continue to invoice customers for the bulk water charges.	
If I accept the Offer, how many Shares will I receive?	You will receive one Share for each megalitre of the nominal volume of your Allocation. However, no one person together with their Associates may hold more than 25% of Shares in the Company.	Sections 8.1 and 8.6
Does it cost anything to become a Shareholder?	No. There is no amount payable for an application for your Share Entitlement.	Section 8.1
Will becoming a Shareholder expose me to any tax risk?	An application for an Administrative Binding Advice has been made to the Australian Taxation Office with a response due in early 2019. In similar circumstances, advices have been issued providing that no material income tax liability would arise for customers electing to become shareholder of the similar entities. The Transfer Deed is conditional upon the Company and the State being satisfied no material tax liabilities will arise as a consequence of the Local Management Proposal. You should obtain your own tax advice in relation to your individual circumstances.	Section 9.1(a)