

7 December, 2017

Dear Irrigation Customer,

Re: Bundaberg-Isis Distribution Scheme to remain with SunWater

I am writing as Chair of the Bundaberg-Isis Investigation Board to advise you of the outcome of the Board's further detailed investigation as to whether a proposal to transfer SunWater's channel irrigation scheme to local irrigators should proceed.

You will recall that at the end of last year the government appointed the Board to further investigate Local Management Arrangements (LMA) and update the Business Proposal, which was supported by customers, and submitted to government in 2014. The other investigation board members appointed were Peter Borrowes, Phil Miller, Dale Holliss, Lynn Smart and Mark Mammino.

This investigation phase allowed further scrutiny of the scheme assets and, in particular, consideration of the capital expenditure that will be required to renew the scheme's assets at the end of their useful lives.

The capital required to maintain the scheme over the long-term was a fundamental input of the financial modelling that produced an estimation of the distribution prices that irrigators would need to pay for the scheme to remain viable.

The 30-year modelling undertaken by the Board showed that with a government separation payment of \$123 million, a minimum 3.9 per cent increase in distribution prices would be required year-on-year for 30 years, to sustain the entire scheme under local management. The \$123 million separation payment we believe the scheme would need for LMA to work and to keep prices at manageable levels for customers, is significantly above the indicative separation payment range provided as feedback by government on the Bundaberg-Isis Interim Board's Stage 2 proposal. During Stage 3 investigations the Board has been advised by representatives of the Department of Energy and Water Supply (DEWS) and Treasury that the government was highly unlikely to approve a separation payment request of this magnitude as it would not meet the first principle governing the LMA project, namely that the long term benefits to the State of introducing LMA should outweigh the costs of implementation.

Whilst parts of the scheme were clearly identified as being more suitable to local management with a significantly reduced separation payment, the requirement to take the entire scheme meant that this was not an option.

The findings of the modelling down to a sub-scheme level and options for the scheme have been presented and discussed at several meetings with representatives of irrigators from all parts of the scheme, CANEGROWERS Isis Bundaberg Regional Irrigators Group and Bundaberg CANEGROWERS,

Bundaberg Fruit and Vegetable Growers, the Isis Central Sugar Mill Company Limited and Bundaberg Sugar Limited.

Other factors that the Board considered were the impact of existing and forecast increases in electricity prices, uncertainty in relation to future bulk water prices and the limitations that a local management entity was likely to have in accessing debt funding compared to a government-owned corporation like SunWater.

Feedback from our discussions with irrigators indicated that even if the State Government was to agree to a \$123 million separation payment, there remains serious doubt as to whether the proposal would achieve the strong majority support from customers necessary to obtain government approval to proceed.

The Board has worked within the required LMA framework and considers that it cannot meet the majority of the principles and assessment criteria set by government for local management to proceed (attached). As a result, the Board has advised government of its intention to withdraw from the local management process, meaning the scheme will continue to be owned and managed by SunWater.

During the local management process, the Board identified a number of initiatives to improve the long-term sustainability of the scheme and has agreed to share these with SunWater and the government so these initiatives can be further explored and implemented where possible.

I would like to take this opportunity to thank the Board, the support staff and SunWater for their input and dedicated work that has made this investigation possible. In particular, I would like to acknowledge the co-operation from the local management and staff in the Bundaberg SunWater office.

If you would like further information about the investigation undertaken or want to discuss the opportunities identified for the future sustainability of the scheme, please contact the Board by emailing admin@lmairrigation.com.au.

Yours sincerely,



Maurie Maughan

Chairman

Bundaberg-Isis Investigation Board

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