

# **Eton Distribution Scheme (EDS)**

## **Summary of Business Proposal** **for Consultation**

## **Eton Distribution Scheme Business Proposal**

The Interim Board has examined the proposal to transition the Eton Distribution Scheme to local ownership and management and believes that it can be successful. However considerable effort will be required from customers and the new entity to introduce operational efficiencies and cost savings to maintain irrigation water costs at affordable levels. Further, initial financial support will be required from Government while the new entity is establishing its long term structure and identifying and introducing efficiencies throughout the scheme.

The Interim Board is grateful for the input provided by customers during the process and has included in its considerations the firm messages it received in regard to affordability, sustainability and reliability for both their businesses and the irrigation scheme.

## **Corporate Form**

A number of different corporate forms were examined for local management for Eton and it was determined that a co-operative would provide the best model. This would ensure that ownership of the scheme always remained with members of the co-operative and it provided for equal representation for members regardless of the size of their holding.

As you would be aware the Eton scheme is currently receiving substantial financial support from Government through a community service obligation payment. The major focus for the Interim Board has been in detailed reviews of the day to day operating costs and the long term program for renewal or refurbishment of the many individual assets within the scheme. We have looked closely at the present costs under SunWater and developed our own budgets from this and what we consider to be an appropriate level of resourcing for the scheme at this time. We have adopted a “bottom up cost” approach to the budget which differs vastly from the methodology used in developing price paths for SunWater.

## **Savings**

Our investigations have indicated that savings of 20% to 40% in the asset renewal program and of some 20% in operations could be implemented in the short term under local management. However those savings are not sufficient and do not bring Eton to full cost recovery and increases to water charges are required.

The Interim Board considers that additional savings are achievable at Eton but cautions against proceeding with further cuts until the scheme is under full local management and some experience has been gained by a new entity in its operations. Financial support from Government will be required to cover the initial shortfalls. This support should not only be designed to transition to local management but to also give the new entity time and experience in managing the scheme to start building more cost savings to ensure water users and the scheme have a future.

## **Financial Modelling**

We have undertaken an enormous amount of financial modelling for local management and considered a number of scenarios involving financial support from Government through separation payments. The modelling has compared our proposed costs to those if SunWater continues to own and operate the scheme. With the savings we have identified so far, the revenue requirement from customers in 2016 would fall from some \$4.3 million under SunWater to \$3.5 million under local management – a fall of almost 20%.

The financial modelling we have undertaken has also provided an indication of the impact on water charges for Eton under our proposed local management. The table over the page shows the expected charges in 2016 compared to those if the scheme remains with SunWater.

	Bulk Water Charge (\$/ML)		Distribution Charge (\$/ML)		Total Charge (\$/ML)
	Part A	Part B	Part C	Part D	
SunWater Base Case – No Separation Payment	28.41	3.67	75.02	24.56	131.66
LOCAL MANAGEMENT ENTITY Base Case –No Separation Payment	28.41	3.67	58.08	23.63	113.79
LOCAL MANAGEMENT ENTITY Recommended – With Separation Payment*	28.41	3.67	28.64	23.63	84.35
QCA Recommended Price Path - With Community Service Obligation Payment	28.41	3.67	26.22	30.46	88.76

[Note: \*Reduction from QCA Price Path due to a proposed change in split between fixed (Part C) and variable (Part D) under local management]

As mentioned, we also believe that further efficiencies are possible in the scheme but we cannot recommend any further cost savings until local management is in place. We have modelled some additional savings in areas including reduced insurance coverage and reduction in High Priority A Distribution losses. Further savings are also possible through reducing water losses with improved customer water ordering and adherence to operational rules for the scheme.

### Service Standard

The Interim Board considers that the current standard of service should be continued initially under local management. During the initial years following transition, service levels and targets should be reviewed in full consultation with customers and with a better understanding of the key drivers for costs of service delivery in the scheme. This review should include the setting up of realistic performance measures for reporting by the local management entity to its customers.

The final date for consultation on this proposal ends on 10<sup>th</sup> April 2014 and the Interim Board welcomes your feedback. **Meetings with water users will be held on 3<sup>rd</sup> April at 10am at Keilbach’s Shed and at 6.30pm at the North Eton CWA Hall.** We strongly recommend that you come to one of these meeting as your input is vital in considering the future for the Eton Irrigation Scheme.

In the meantime if you would like to discuss any aspect of the local management process please contact me or one of the Interim Board members directly.

Yours sincerely



**Geoffrey Kavanagh**  
**Chairman**  
**Eton Local Management Arrangements Interim Board**

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## Sample Questions & Answers from the Interim Board

**Why should we take over the scheme?** A: Irrigators are losing the race on capacity to pay under SunWater management and ownership.

**What are the benefits of local management?** A: Sustainable ownership and management controls with decisions by people in your area directly accountable to the members impacted by the decisions.

**What will be better than SunWater?** A: Be reactive to requirements, promote water use and services, and manage costs with local hands on decision making.

**Who sets distribution prices if local management proceeds?** A: The local management entity will be responsible for setting prices.

**What are the biggest costs?** A: Electricity, wages, insurance, chemicals, asset renewals and distribution loss allocation.

**Will my water delivery costs change under local management?** A: Yes, through a different tariff structure.

**Will my water be cheaper?** A: Not in the short term.

**Will I get two bills or one?** A: One bill which will include bulk and distribution charges.

**What is the proposed strategy for pricing?** A: Make pricing more reflective of the service provided by introducing an access charge. Look for efficiency to get to cost reflective as soon as possible and continuing to limit the yearly price increases to \$2.00/ML + CPI until cost reflective prices are achieved.

**What scenarios have you modelled and why have you selected your preferred option?** A: (1) Base case to demonstrate to Government and irrigators the outcome of doing nothing. (2) Low risk option with a standalone local management structure with the ability to deliver better outcomes with low risk efficiencies. (3) Higher risk option with a standalone local management structure highlighting different bulk losses requirements and reducing overheads on future Capex with exchange of assets for transitional payments.

**Will the government still oversee the pricing of channel water?** A: No

**How will government decide if local management goes ahead?** A: The State Government will consider the business proposal demonstrating support of irrigators, long term benefits to the economy, capacity to deliver efficient water services, asset management and refurbishment capacity, financial planning showing the viability over the long term with ability to deal with uninsurable risks and still meeting the agreed service levels.

**What will government do if the scheme local management goes bust?** A: Government requires complete separation with no recourse to Government. The local management entity will become responsible for its future.

**Will my service standards change?** Not in the short term but could if the members voted for change.

**How will the interests of small users be safeguarded?** A: By the local management entity adopting the water supply arrangements and service targets from SunWater and one vote per Member for any changes to be made to the service standards.

**What are my rights now and what will they be in the future?** You are currently receiving and being charged for your access to water under a Channel and pipeline contract with SunWater. The terms of the contract will stay the same, but it will be transferred across so it will be between you and the local management entity.

**Who will operate the scheme?** A: The local management entity for Eton.

**Who will make sure that the irrigators don't take more than their allocation?** A: The local management entity

**Who will decide when maintenance will be conducted?** A: The local management entity.

**Will I still have farm access via SunWater bridges and roads?** A: Yes, if it is your current right of access.

**How can we be sure that maintenance will not be scheduled to favour one crop type or customer group over another?** A: By representation through the member advisory group with direct linkages to the Board plus your voting power in selecting the Board.

**What protections will be provided for business interruption on farm due to scheme failure (flood, pump breakdown etc)?** A: There will be the same protections as there is currently under the contract process but you will have the added benefit of all decisions being made for your area by people in your area.

**When will the new entity be established?** A: If supported by Government implementation will proceed targeting 1 July 2015 as the establishment date for the new entity.