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2016 Annual Network Service Plan

Bundaberg Distribution

June 2015

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Notes

All financial figures in this NSP are presented in nominal dollars.

Most of the financial figures in the QCA's final report on SunWater's irrigation pricing were presented in real dollars (\$2011). To allow comparison to this NSP, convert the QCA final report real dollar figures to nominal dollars by, multiplying the QCA \$real figures by the following factors, which are based on the QCA's assumed inflation rate of 2.5% p.a.

Table 1 – Conversion Factors for real \$2011 to Nominal Dollars

	2013	2014	2015	2016	2017
Conversion Factor	1.051	1.077	1.104	1.131	1.160

Disclaimer

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Introduction

A recommendation from the 2013-17 review of SunWater's irrigation pricing was for SunWater to produce annual Network Service Plans (NSPs) to help keep customers informed throughout the pricing period. These annual NSPs will focus on both routine expenditure (opex) and non-routine expenditure. In particular, the NSPs will cover:

- past performance for routine opex and non-routine expenditure,
- forecast opex and non-routine for the approaching year, and
- the long-term outlook for material non-routine spend.

SunWater published draft 2016 NSPs for each of thirty Service Contracts during March 2015. This was followed by consultation meetings held throughout regional Queensland over March and April. These discussions involved many customers and other stakeholders at Irrigation Advisory Committee meetings and other forums. Valuable feedback was received from customers that can be found, along with SunWater's responses, at <http://www.sunwater.com.au/schemes/nsp/annual-nsp-and-performance-reports>

SunWater values customer feedback and will publish all submissions and SunWater's responses on our website. Customers can provide their feedback via email or post using one of the following addresses:

Email: nspfeedback@sunwater.com.au

Post: NSP Feedback
PO Box 15536 City East
Brisbane Qld 4002

Water Data

Table 2 – Water Data

	No. of Customers	Water Entitlements ML
Industrial		386
Irrigation		152,337
Urban		1,809
Other		46
SunWater		41,520
Total	880	196,098
QCA Assumed Water Usage for Irrigation		41.1%
QCA Assumed Water Usage for Total		48.0%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue*	8,723	11,921	10,079	10,481
Irrigation CSO	1,074	761	466	157
Industrial and Urban*	783	682	684	698
Other Revenue	284	120	123	123
Total Revenue	10,864	13,483	11,352	11,460

* Bulk water charges have not been unbundled from Distribution charges therefore a portion of the Distribution revenue is attributable to the Bulk service contract.

¹ The budget figures form the basis for SunWater's SCl submission, which is yet to be agreed with SunWater's shareholding Ministers. While the budgets are not expected to change from here, there is always the possibility of further directions from Government and these may have budget implications.

Routine Expenditure

Table 4 – Routine Operating Expenditure²

	2013 SunWater Actual	%of 2013 Target	2014 SunWater Actual	%of 2014 Target	2015 SunWater Budget	%of 2015 Target	2016 SunWater Budget	%of 2016 Target
	\$'000	%	\$'000	%	\$'000	%	\$'000	%
Operations (Excl. Elect.)	2,550	106%	3,483	141%	3,456	137%	2,983	118%
Preventative	1,540	89%	2,203	124%	2,003	110%	2,013	110%
Corrective	1,392	140%	1,418	138%	1,108	106%	1,146	108%
Electricity	2,425	82%	5,678	179%	3,500	103%	3,775	103%
Total Routine Expenses	7,907	98%	12,782	152%	10,067	115%	9,919	109%

The budget routine spend is 9% above the QCA's target for 2016 however the budget falls to 105% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2016 is 18% above the QCA target, however this is largely due to the increases in insurance costs being much greater than allowed for by the QCA. Increased premiums followed flood events that have occurred in the past few years in Queensland. This cost over-run is beyond SunWater's control. The budget for operations drops to 110% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventative maintenance is budgeted above the QCA's target for 2016. This is due to additional quantities and increase unit cost for Acrolein used to treat aquatic weeds in channels. SunWater will continue to refine budgets with the aim of bringing the overall expenditure into line with target.

Corrective Maintenance

Corrective maintenance is budgeted above the QCA's target for 2016. SunWater will continue to refine budgets with the aim of bringing the overall expenditure into line with target.

Electricity

Electricity costs are budgeted 3% higher than the QCA target in 2016 due to announced increases in electricity prices being much higher than the increases allowed for by the QCA. The QCA had allowed for tariff increases of around 35% over the first four years of the price path whereas actual increases have been around 50%. Resultant cost over-runs are beyond SunWater's control. SunWater will continue to review tariffs each year to identify the best tariff for the expected future operations.

² The budget figures form the basis for SunWater's SCI submission, which is yet to be agreed with SunWater's shareholding Ministers. While the budgets are not expected to change from here, there is always the possibility of further directions from Government and these may have budget implications.

Non-Routine Expenditure

SunWater has developed a whole of life strategy around the replacement and maintenance of its asset portfolio which is based on the concept of optimised life. The key drivers in this approach are the risk and condition of each asset. The current condition of an asset drives an estimate of the future work required to ensure an asset continues to be able to provide the required level of service into the future. SunWater maintains a program of asset inspections and condition assessments which continually updates our knowledge of asset condition. This information feeds into the annual review of the renewals program and items requiring immediate maintenance or replacement are included in the budget for the following year.

While the immediate program for the next year's budget is well defined; the further into the planning timeline, the more uncertain the estimates become. Consequently, the program of works is not a specific forecast of when individual projects are expected to be executed but rather it is portfolio level estimate of works based on the best-available risk and condition information for the service contract as a whole. This information feeds into calculation of the annuity to fund renewals. Having an annuity funding arrangement acknowledges that a long-term view of renewals spend is required to ensure adequate funding and to address issues such as inter-generational equity.

The QCA targets were set against a snapshot of the estimated program of works taken during the 2010-11 year. While this was the best estimate of expected work at the time, there has been significant project churn since this estimate was made. This can mean that, in some cases, the QCA's funding allowance for renewals work does not cover the total expenditure required to maintain asset condition to the required standard. In addition, there are unexpected events, such as floods, that are not allowed for in the QCA's annuity funding allowance. Notwithstanding these points, SunWater aims to limit renewals expenditure to the QCA's targets over the 2013-17 price path in order to manage the annuity balance to reasonable levels.

Non-Routine Budget

The budget non-routine spend for 2016 is shown in the table below, along with the actual spend for 2014 and the budget spend for 2015. There have been significant corrective works in this service contract to repair flood damage which means that the QCA's 5-year target for 2013-17 will be exceeded. Corrective works are unplanned and were not allowed for in the QCA's targets. The flood repairs to Don Beattie pump station originally planned for 2015 will flow over into 2016.

Table 5 – Non-Routine Expenditure

	2013 SunWater Actual \$'000	%of 2013-17 Target %	2014 SunWater Actual \$'000	%of 2013-17 Target %	2015 SunWater Budget \$'000	%of 2013-17 Target %	2016 SunWater Budget \$'000	%of 2013-17 Target %
Annuity Funded								
R&E - Annuity Funded	362		442		680		692	
Corrective	595		105		680		572	
Other	2		0		0		0	
Non-direct	554		264		364		382	
Annuity Funded Total	1,513	33%	811	18%	1,724	38%	1,645	36%
Non-Annuity Funded								
R&E - Non-Annuity Funded	176		43		0		0	
Non-direct	97		20		0		0	
Total Non-Annuity Funded	273	n/a	63	n/a	0	n/a	0	n/a

The details for the five major projects planned for 2016 are provided below:

Table 6 – Non-Routine Projects 2016

Project Title	Project Scope	2016 Budget (\$'000)
2013 Flood Damage Repairs - DON BEATTIE PUMP STATION	Don Beattie PSTN has bank instability issues that have been closely monitored by way of regular deformation surveys and analysis since 1988. Movement within the embankment and the structures themselves is observed to be continuing. Significant erosion to the point of exposing the rising main during recent flood events in conjunction with the latest deformation surveys analysis have raised concerns that replacing the eroded material as originally intended as part of these flood repairs will likely not be sufficient to ensure the continued structural integrity of the significant infrastructure at the site. The infrastructure comprises the dry pump well housing the pump station itself and intake, rising main and surge tank. Urgent works has been deemed necessary to reduce the current high risk at the site as it is considered highly probably that significant rectification works will be required. The nominal estimate includes establishing the actual level of risk, undertaking design to remedy, and construction of works required to stabilise the toe of the slope immediately above the dry well, and to provide protection of the rising main from future floods. This nominal budget will be revised when accurate estimates can be made following completion of the initial detailed design.	653
Supply, Install, Commission for PLC and SCADA system - QUART POT CREEK PUMP STATION	This project replaces the existing PLC and SCADA control panel system with new PLC / SCADA system in line with current SunWater equipment used for this purpose. The project has been deferred since 2013 to fund higher priority projects. The design phase of the project was completed in 2015.	109
Options Analysis Replace / Refurbish Existing Pump - PUN3 - WOONGARRA PUMP STATION	This project is for the overhaul of a 610 mm mixed flow pump. The estimated costs are based on those for the refurbishment of similar pumps at the same station. An options analysis will be the first phase of the project, & will define the scope of the refurbishment.	101
Spectrum Analysis/Electrical Testing/Refurbish Motor - PUN1 - QUART POT CREEK PUMP STATION	This project is for the refurbishment of the HV electric motor on Farnsfield pump #1 at Quart Pot Pump Station. The motor was previously overhauled in 2003. Pending the outcome of spectrum analysis/electrical testing, this project may be deferred beyond 2016.	65

Replace Control Equipment (Options Analysis 2016) & Design - WOONGARRA PUMP STATION	This project will investigate options for the replacement of the obsolete PLC/SCADA control system. Design and costing of the chosen option is included in the scope of this phase of the project.	65
Other works	Other various works including regulator, valve, and gate refurbishments.	652
Total		1,645

Annuity Balance

The estimated 2015 and 2016 annuity balances are shown below; the annuity income shown has been set by the QCA until the end of the current price path in 2017. SunWater aims to limit the annuity spend to the QCA's targets over the 5-year price path in order to manage the annuity balance to reasonable levels.

The impact of the budget non-routine spend on the annuity balance for 2016 is shown in the following table. The balances for 2015 and 2016 are estimates only at this stage because the final actual spends for 2015 and 2016 will not be known until after each of these years is completed.

Table 7 – Annuity Balances

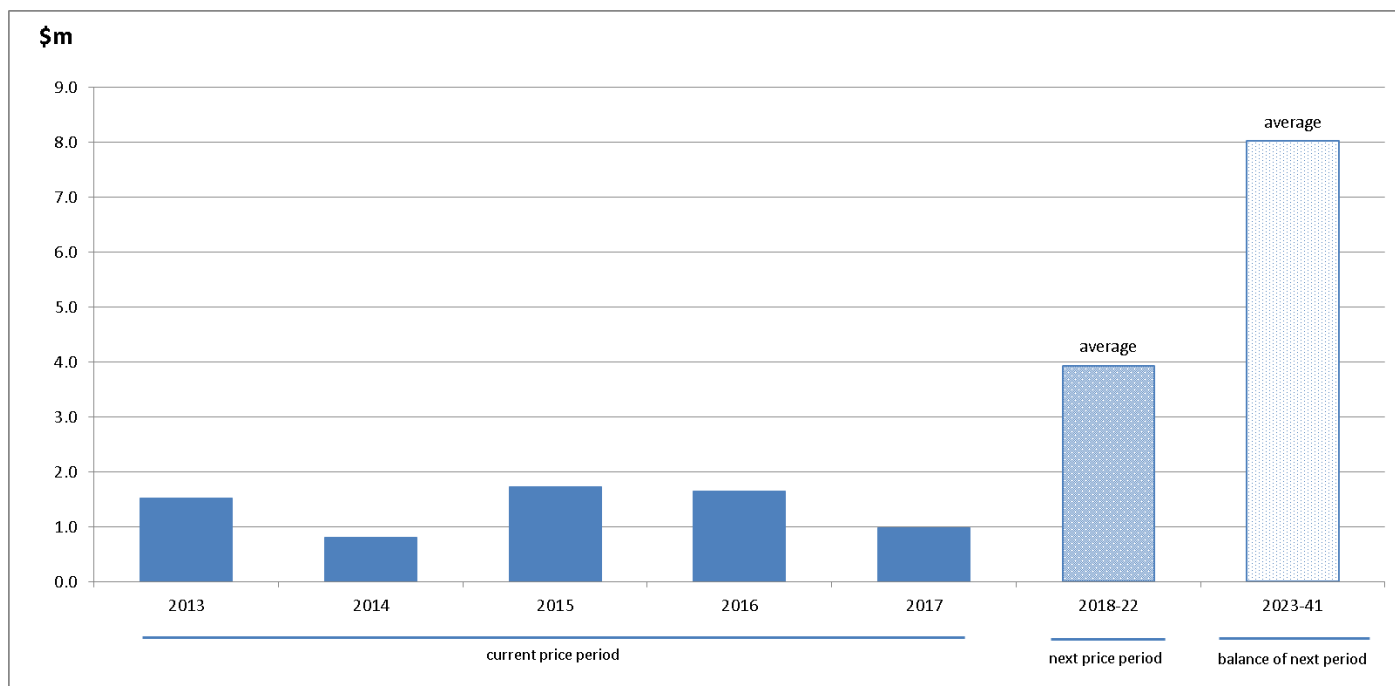
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	2,485	2,605	3,601	3,829
Annuity Income	1,446	1,613	1,683	1,789
Spend	(1,513)	(811)	(1,724)	(1,645)
Interest	186	195	270	287
Closing Balance	2,605	3,601	3,829	4,260

* All 2015 and 2016 figures are subject to change once actual spend is known.

Overview of Annuity Funded Non-Routine Projects 2013-41

The renewals annuity is calculated over a 20-year planning period; given that the following pricing period ends in 2022, the estimated renewals spend out until 2041 will affect the next pricing review. The estimated renewals expenditure out to 2041 is shown in the chart following.

Figure 1 – Annuity Expenditure 2013-41



All material renewals items out until 2041 are discussed in the sections following. Materiality is defined as >10% of the present value of the period in question. SunWater will develop options analyses for all material items in the annuity calculation planning period. These reports will be tailored to suit project complexity and budget, with detailed options analyses being completed within the current and following 5-year pricing periods and high-level options analyses for the 20-year period beyond the next price path. The materiality tests will be applied each year as part of annual planning process. Given that there will be project churn, some items will no longer require options analysis in future years and new items may join the list.

Material Projects 2016-17

The evenness in the spread of estimated project costs and/or spend that has already occurred over 2013-15 means there are no projects which exceed the materiality threshold for this service contract for the 2016-17 period.

Material Projects 2018-22

The evenness in the spread of estimated project costs means there are no projects which exceed the materiality threshold for this service contract for the 2018-22 period.

Material Projects 2023-41

The program of works for 2023-41 should be viewed as indicative at this stage and will be refined as the next pricing review draws closer.

Replace Concrete Lining - ISIS DISTRIBUTION

Year: 2039

Current estimate: \$5.93m

Options analysis completed: No

The scheduled replacement of a 2,700m length of the concrete lining along Isis Main Channel is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed.

Replace Concrete Lining - ISIS DISTRIBUTION

Year: 2040

Current estimate: \$7.69m

Options analysis completed: No

The scheduled replacement of a 5,600m length of the concrete lining along Isis Main Channel is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed.

Appendix – Total Expenditure by Expense Type

Table 8 – Expenditure for Activity by Type

	2013 SunWater Actual \$'000	% of 2013 Target %	2014 SunWater Actual \$'000	% of 2014 Target %	2015 SunWater Budget \$'000	% of 2015 Target %	2016 SunWater Budget \$'000	% of 2016 Target %
ROUTINE EXPENSES								
Operations								
Labour	642		863		663		754	
Materials	17		19		8		7	
Contractors	4		13		4		2	
Other	803		1,136		1,586		866	
Non-direct	1,084		1,452		1,195		1,354	
Operations Total	2,550	106%	3,483	141%	3,456	137%	2,983	118%
Preventative								
Labour	417		547		588		530	
Materials	310		528		280		385	
Contractors	109		198		120		146	
Other	4		17		5		5	
Non-direct	700		914		1,010		948	
Preventative Total	1,540	89%	2,203	124%	2,003	110%	2,013	110%
Corrective								
Labour	397		379		309		322	
Materials	285		330		233		222	
Contractors	17		60		33		30	
Other	1		9		0		0	
Non-direct	692		639		533		572	
Corrective Total	1,392	140%	1,418	138%	1,108	106%	1,146	108%
Electricity	2,425	82%	5,678	179%	3,500	103%	3,775	103%
Total Routine Expenses	7,907	98%	12,782	152%	10,067	115%	9,919	109%
	2013 SunWater Actual \$'000	% of 2013-17 Target %	2014 SunWater Actual \$'000	% of 2013-17 Target %	2015 SW Budget \$'000	% of 2013-17 Target %	2016 SW Budget \$'000	% of 2013-17 Target %
NON-ROUTINE EXPENSES								
Annuity Funded								
R&E - Annuity Funded	362		442		680		692	
Corrective	595		105		680		572	
Other	2		0		0		0	
Non-direct	554		264		364		382	
Total Annuity Funded Non-Routine	1,513	33%	811	18%	1,724	38%	1,645	36%
TOTAL REGULATED EXPENSES	9,420		13,593		11,791		11,564	
Non-Annuity Funded								
R&E - Non-Annuity Funded	176		43		0		0	
Non-direct	97		20		0		0	
Total Non-Annuity Funded	273	n/a	63	n/a	0	n/a	0	n/a
TOTAL EXPENSES	9,693		13,656		11,791		11,564	