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2016 Annual Network Service Plan

Burdekin Distribution

June 2015

Table of Contents

Introduction	4
Water Data.....	4
Revenue	5
Routine Expenditure	6
Operations	6
Preventive Maintenance.....	6
Corrective Maintenance	6
Electricity	6
Non-Routine Expenditure	7
Non-Routine Budget.....	7
Annuity Balance	9
Overview of Annuity Funded Non-Routine Projects 2013-41	10
Material Projects 2016-17	10
Material Projects 2018-22	10
Material Projects 2023-41	10
Appendix –Total Expenditure by Expense Type.....	12

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		550
Irrigation		318,894
Urban		10,000
Other		8
SunWater		206,737
Total	312	536,189
QCA Assumed Water Usage for Irrigation		77.6%
QCA Assumed Water Usage for Total		76.3%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue*	11,378	14,091	15,685	15,816
Drainage	638	660	638	669
Irrigation CSO	3,645	3,015	2,412	1,790
Industrial and Urban*	602	635	621	701
Other Revenue	12	99	9	9
Total Revenue	16,275	18,501	19,364	18,985

* 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.)	4,431	101%	4,718	105%	5,094	111%	5,048	109%
Preventative	2,724	82%	3,007	88%	3,435	98%	3,755	105%
Corrective	3,054	207%	2,322	153%	2,134	137%	1,844	117%
Electricity	4,299	94%	5,809	119%	5,809	111%	6,087	108%
Total Routine Expenses	14,508	105%	15,856	111%	16,472	111%	16,734	108%

The budget routine spend is 8% above the QCA's target for 2016 however the budget falls to 106% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2016 is 9% 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 105% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is 5% 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.

Corrective Maintenance

Corrective maintenance is budgeted 17% above the QCA's target for 2016. Based on the last three years, the corrective costs have increased substantially in Burdekin Distribution due to the aging of the assets and high utilisation of these assets.

Electricity

Electricity costs are budgeted 8% 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.

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. At this stage, it is expected that the renewals spend for 2013-17 will exceed the QCA's five-year target.

Table 5 – Non-Routine Expenditure

	2013 SunWater Actual	%of 2013-17 Target	2014 SunWater Actual	%of 2013-17 Target	2015 SunWater Budget	%of 2013-17 Target	2016 SunWater Budget	%of 2013-17 Target
	\$'000	%	\$'000	%	\$'000	%	\$'000	%
Annuity Funded								
R&E - Annuity Funded	1,216		802		2,607		1,163	
Corrective	0		0		0		0	
Other	0		4		0		0	
Non-direct	351		363		378		284	
Annuity Funded Total	1,568	22%	1,169	16%	2,985	41%	1,447	20%
Non-Annuity Funded								
R&E - Non-Annuity Funded	194		104		0		0	
Non-direct	63		40		0		0	
Total Non-Annuity Funded	257	n/a	144	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)
Refurbish PUN 1/1 (bearing replacement, seals, rings, sleeves, impeller wear, etc) - TOM FENWICK PUMP STATION 1	This project is for the overhaul of a 350ML/ day pump. This pump was last overhauled in 2001 & has since accrued very high run hours. Vibration analyses indicate excessive wear in the drive end bearing. Refurbishment will reduce the risk of a bearing failure. Availability of pump is essential to efficiently match irrigation water demand on Haughton & Barratta systems.	202
15BRI14 Replace Safety Screens (Stage 2) - HAUGHTON MC IRRIGATION DISTRIBUTION	This project is to replace safety screens which are damaged or have failed in service. Stage 1 was the design and drafting of the new screens. Stage 2 is the fabrication and installation of the screens.	141
Tom Fenwick PSTN3 - Refurbish PUN4 (refurbish seals, bearings etc) - TOM FENWICK PUMP STATION 4/5	The pump has not been overhauled since its installation in 1996. The purpose of this project is to refurbish or replace a leaking mechanical seal & carry out an inspection & refurbishment of the thrust & journal bearings.	128
Refurbish Regulating Gate, paint, bearings, seals, sensor tube etc - BARATTA IRRIGATION DISTRIBUTION	The project involves the removal and refurbishment of five channel float regulator gates. The gates have reached a condition where refurbishment is required to ensure their continuing efficient and reliable operation.	95
Tom Fenwick PSTN3 - Refurbish PUN 4 Motor (Class A overhaul - bearing replaced, clean, bake) - TOM FENWICK PUMP STATION 4/5	The motor has not been overhauled since installation in 1996. Total run hours are high and the bearings are likely to be worn. Overhaul is required to ensure ongoing reliability.	94
Other works	Various smaller repair and refurbishment projects	787
Total		1,447

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

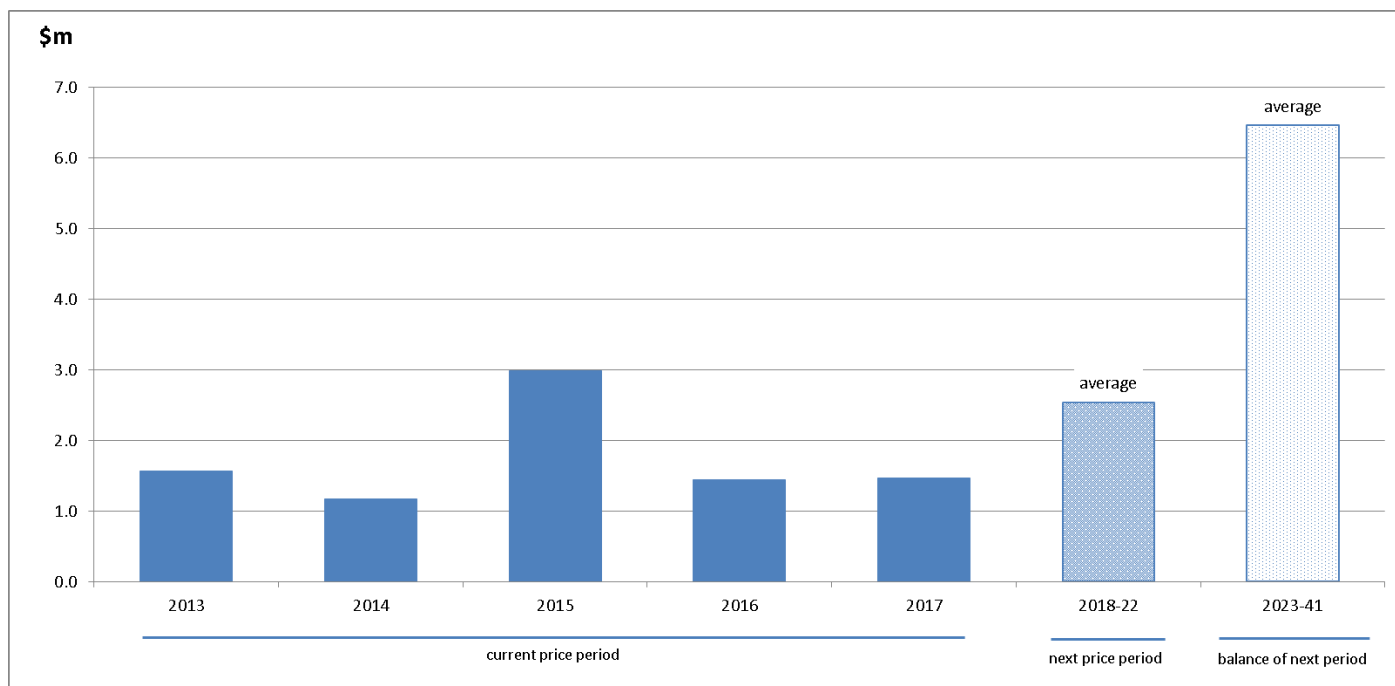
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(5,918)	(5,440)	(4,285)	(4,763)
Annuity Income	2,489	2,731	2,829	2,960
Spend	(1,568)	(1,169)	(2,985)	(1,447)
Interest	(443)	(407)	(321)	(357)
Closing Balance	(5,440)	(4,285)	(4,763)	(3,607)

* 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 - HAUGHTON MAIN CHANNEL IRRIGATION DISTRIBUTION

Year: 2037

Current estimate: \$4.01m

Options analysis completed: No

The scheduled replacement of a 1,600m length of the concrete lining along Haughton 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	1,192		1,173		1,163		1,339	
Materials	52		167		86		40	
Contractors	0		1		13		13	
Other	1,174		1,401		1,781		1,263	
Non-direct	2,014		1,977		2,051		2,393	
Operations Total	4,431	101%	4,718	105%	5,094	111%	5,048	109%
Preventative								
Labour	513		511		667		715	
Materials	694		756		680		874	
Contractors	612		829		886		837	
Other	2		4		0		0	
Non-direct	903		906		1,202		1,328	
Preventative Total	2,724	82%	3,007	88%	3,435	98%	3,755	105%
Corrective								
Labour	565		544		556		476	
Materials	762		452		409		312	
Contractors	713		394		200		200	
Other	11		12		3		3	
Non-direct	1,004		920		966		853	
Corrective Total	3,054	207%	2,322	153%	2,134	137%	1,844	117%
Electricity	4,299	94%	5,809	119%	5,809	111%	6,087	108%
Total Routine Expenses	14,508	105%	15,856	111%	16,472	111%	16,734	108%
NON-ROUTINE EXPENSES								
Annuity Funded								
R&E - Annuity Funded	1,216		802		2,607		1,163	
Corrective	0		0		0		0	
Other	0		4		0		0	
Non-direct	351		363		378		284	
Total Annuity Funded Non-Routine	1,568	22%	1,169	16%	2,985	41%	1,447	20%
TOTAL REGULATED EXPENSES	16,076		17,025		19,457		18,180	
Non-Annuity Funded								
R&E - Non-Annuity Funded	194		104		0		0	
Non-direct	63		40		0		0	
Total Non-Annuity Funded	257	n/a	144	n/a	0	n/a	0	n/a
TOTAL EXPENSES	16,333		17,169		19,457		18,180	