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2016 Annual Network Service Plan

Cunnamulla Bulk

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

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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		0
Irrigation		2,412
Urban		80
Other		0
SunWater		120
Total	24	2,612
QCA Assumed Water Usage for Irrigation		62.3%
QCA Assumed Water Usage for Total		73.7%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue	67	73	74	68
Industrial and Urban	2	2	2	2
Other Revenue	1	0	2	2
Total Revenue	70	75	78	73

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.)	30	75%	50	120%	55	131%	49	117%
Preventative	2	25%	2	35%	7	113%	6	94%
Corrective	0	0%	0	0%	7	79%	5	56%
Electricity	0	n/a	0	n/a	0	n/a	0	n/a
Total Routine Expenses	32	58%	52	92%	69	121%	60	105%

The budget routine spend is just 5% above the QCA's target for 2016.

Operations

The operations budget in 2016 is 17% above the QCA target. This is mostly due to insurance cost over runs which account for over half the variance from QCA target. Operations costs in Cunnamulla have also seen large % variations around target from year-to-year because a small \$ variance has a large % impact due to the starting cost being low. However, operations are tracking to target over the first four years of the price path after adjusting for insurance costs which have increased outside of SunWater's control.

Preventive Maintenance

Preventive maintenance is budgeted 6% below the QCA's target for 2016.

Corrective Maintenance

Corrective maintenance is budgeted 44% below the QCA's target for 2016. Corrective maintenance is utilised to repair structural damage. This is under budget as no corrective maintenance has been identified at the moment and it is unlikely work will be required in 2016.

Electricity

No electricity costs planned for this service contract in 2016.

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. Overall, it is expected that the 2013-17 spend for non-routine can be controlled to meet the five-year QCA target within the framework of SunWater's Reliability Centred Maintenance (RCM) approach and risk based prioritisation.

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	0		8		0		0	
Corrective	0		0		0		0	
Other	0		0		0		0	
Non-direct	0		8		0		0	
Annuity Funded Total	0	0%	16	36%	0	0%	0	0%
Non-Annuity Funded								
R&E - Non-Annuity Funded	0		0		0		0	
Non-direct	0		0		0		0	
Total Non-Annuity Funded	0	n/a	0	n/a	0	n/a	0	n/a

There are no projects planned for Cunnamulla Weir in 2016.

Table 6 – Non-Routine Projects 2016

Project Title	Project Scope	2016 Budget (\$'000)
No projects planned for 2016.		0
Total		0

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

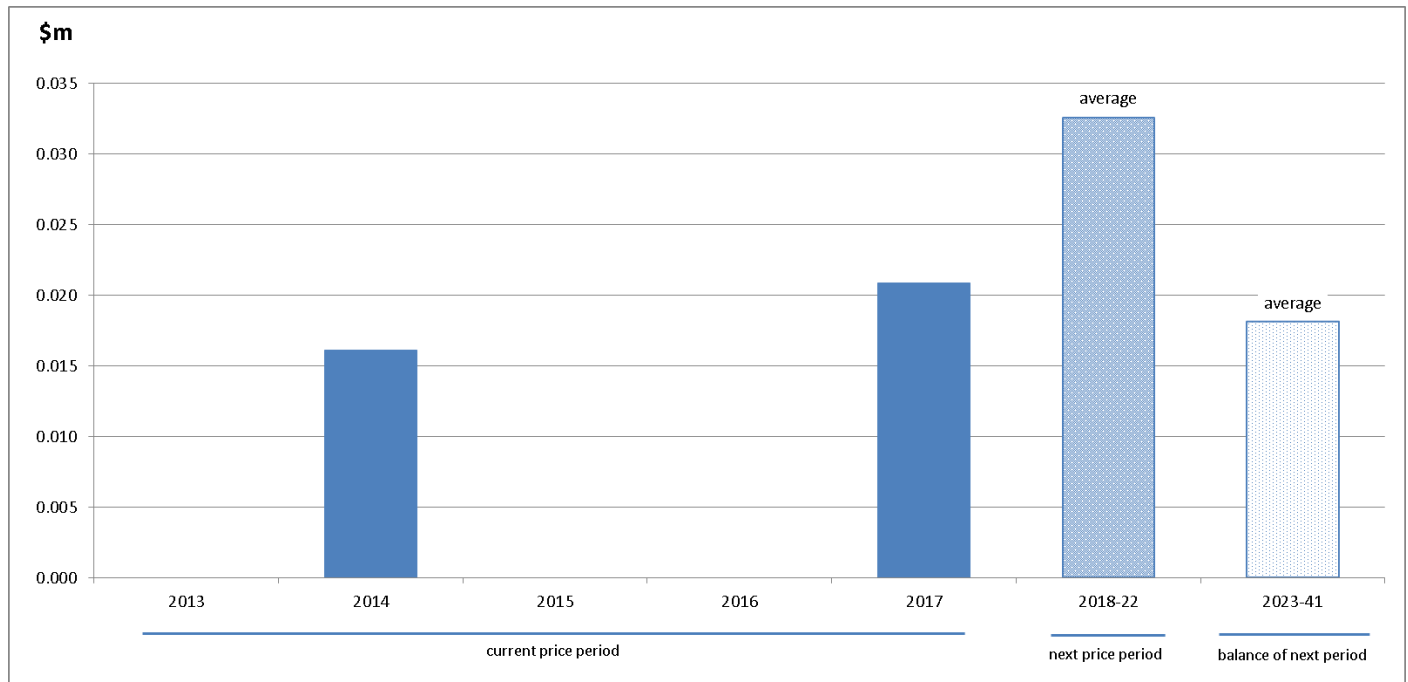
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(19)	(15)	(25)	(20)
Annuity Income	6	7	7	7
Spend	0	(16)	0	0
Interest	(1)	(1)	(2)	(2)
Closing Balance	(15)	(25)	(20)	(15)

* 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

Comprehensive 5 year inspection of Weir - ALLAN TANNOCK WEIR

Year: 2017

Current estimate: \$21k

Options analysis completed: No

SunWater's policy is to undertake annual inspections on major weir with a comprehensive inspection every 5 years. For minor weirs such as this, we endeavour to only carry out the comprehensive inspection and rely on the operators reports to monitor this remote weir in the intervening period. The inspection costs are based on time, personnel and travel to the site. Given this inspection accords with SunWater policy and is required by the dam safety regulator, no specific options analysis will be completed.

Material Projects 2018-22

The program of works for 2018-22 should be viewed as indicative at this stage and will be refined as the next pricing review draws closer.

Knock in concrete on front face of weir & add imported rock to protect Zone 1 impervious fill - ALLAN TANNOCK WEIR

Year: 2018

Current estimate: \$38k

Options analysis completed: No

When the weir was constructed, the front zone 1 batter was finished off with a concrete cap. Over time, wave action has undermined all this concrete and the concrete is now suspended (attached to the weir) with large voids underneath. The repairs involve breaking off this concrete and capping with large imported rock. Senior engineer's advice suggests we don't need to do the repairs immediately however it is identified this project as being required in the future, therefore it has been scheduled to occur after the next 5 yearly inspection in 2017. Operations staff will continue to monitor in case we need to bring this project forward.

Replace intake structure walkway - ALLAN TANNOCK WEIR

Year: 2020

Current estimate: \$72k

Options analysis completed: No

There is a steel walkway to enable SunWater and Council operators to safely operate the outlet valve and enable releases. This walkway has corrosion issues and it is estimated that it may become unsafe to use by 2020. The next planned inspection in 2017 will allow a determination of the remaining life. Options analysis will be completed closer to the implementation.

Comprehensive 5 year inspection of Weir - ALLAN TANNOCK WEIR

Year: 2022

Current estimate: \$23k

Options analysis completed: No

See description for 2017

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 BUOY LINE - ALLAN TANNOCK WEIR

Year: 2025

Current estimate: \$53k

Options analysis completed: No

A buoy line was installed in 2010 for safety reasons as the weir is used for recreational pursuits. The buoy line has a nominal life of 15 years; however subsequent inspections will determine the actual replacement timing. From a SunWater risk perspective the buoy line requires replacement when it deteriorates. Replacement options analysis will be completed closer to the implementation.

Comprehensive 5 year inspection of Weir - ALLAN TANNOCK WEIR

Year: 2027

Current estimate: \$24k

Options analysis completed: No

See description for 2017

Comprehensive 5 year inspection of Weir - ALLAN TANNOCK WEIR

Year: 2032

Current estimate: \$27k

Options analysis completed: No

See description for 2017

REFURBISH/Repair: Protection works (Flood Damage 2007/08) - ALLAN TANNOCK WEIR

Year: 2033

Current estimate: \$55k

Options analysis completed: No

Life of protection works indicate replacement in 2033. Inspection closer to 2033 will determine timing which may be earlier or later depending on frequency of flooding and other factors. Options analysis will be completed closer to the implementation.

Replace BUOY LINE - ALLAN TANNOCK WEIR

Year: 2040

Current estimate: \$76k

Options analysis completed: No

See 2025 project description above.

Comprehensive 5 year inspection of Weir - ALLAN TANNOCK WEIR

Year: 2037

Current estimate: \$31k

Options analysis completed: No

See description for 2017

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	9		14		16		12	
Materials	0		0		0		0	
Contractors	1		0		2		2	
Other	5		9		8		8	
Non-direct	16		26		29		28	
Operations Total	30	75%	50	120%	55	131%	49	117%
Preventative								
Labour	1		1		2		2	
Materials	0		0		1		1	
Contractors	0		0		0		0	
Other	0		0		0		0	
Non-direct	1		1		4		3	
Preventative Total	2	25%	2	35%	7	113%	6	94%
Corrective								
Labour	0		0		2		2	
Materials	0		0		0		0	
Contractors	0		0		0		0	
Other	0		0		0		0	
Non-direct	0		0		5		3	
Corrective Total	0	0%	0	0%	7	79%	5	56%
Electricity	0	n/a	0	n/a	0	n/a	0	n/a
Total Routine Expenses	32	58%	52	92%	69	121%	60	105%
NON-ROUTINE EXPENSES								
Annuity Funded								
R&E - Annuity Funded	0		8		0		0	
Corrective	0		0		0		0	
Other	0		0		0		0	
Non-direct	0		8		0		0	
Total Annuity Funded Non-Routine	0	0%	16	36%	0	0%	0	0%
TOTAL REGULATED EXPENSES	32		68		69		60	
Non-Annuity Funded								
R&E - Non-Annuity Funded	0		0		0		0	
Non-direct	0		0		0		0	
Total Non-Annuity Funded	0	n/a	0	n/a	0	n/a	0	n/a
TOTAL EXPENSES	32		68		69		60	