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2016 Annual Network Service Plan

Eton 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

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		100
Irrigation		52,265
Urban		176
Other		129
SunWater		9,389
Total	331	62,059
QCA Assumed Water Usage for Irrigation		41.3%
QCA Assumed Water Usage for Total		53.5%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue*	7	29	(42)	21
Industrial and Urban*	41	3	1	1
Other Revenue	44	16,866	751	1
Total Revenue	92	16,899	711	24

* Bulk water charges have not been unbundled from Distribution charges therefore a portion of the Distribution revenue is attributable to the Bulk service contract. The irrigation revenue above shows the small amount that is generated purely from the bulk scheme and reflects the variation in annuity spending each year.

The \$16.9m 'Other Revenue' in 2014 relates to the grant from the Government for Kinchant Dam spillway upgrade.

¹ 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.

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.)	778	144%	808	144%	741	131%	781	139%
Preventative	310	71%	310	68%	458	100%	452	99%
Corrective	144	47%	98	31%	319	100%	239	75%
Electricity	261	113%	417	169%	248	94%	248	87%
Total Routine Expenses	1,492	99%	1,632	103%	1,766	110%	1,720	106%

The budget routine spend is 6% above the QCA's target for 2016 however the budget falls to 99% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2016 is 39% 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 121% of the QCA target when the insurance over-run is taken into account. This can be explained by higher surveillance and routine monitoring as opposed to corrective work. The surveillance activities have been identified as a critical component of dam safety risk mitigation and compliance.

Preventive Maintenance

Preventive maintenance is budgeted 1% below the QCA's target for 2016.

Corrective Maintenance

Corrective maintenance is budgeted 25% below with the QCA's target for 2016.

Electricity

Electricity costs are budgeted 13% below the QCA target in 2016 despite 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 over 50%. Eton Bulk electricity costs can vary by +/- \$50k from year-to-year due to normal variability.

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	161		23		159		452	
Corrective	(1)		3		0		0	
Other	0		0		0		0	
Non-direct	98		32		75		127	
Annuity Funded Total	259	14%	58	3%	234	13%	579	31%
Non-Annuity Funded								
R&E - Non-Annuity Funded	2,937		7,939		726		0	
Non-direct	1,118		1,667		24		0	
Total Non-Annuity Funded	4,055	n/a	9,606	n/a	750	n/a	0	n/a

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

Table 6 – Non-Routine Projects 2016

Project Title	Project Scope	2016 Budget (\$'000)
Design, prepare tender pack and replace switchboard, PLC, SCADA and common - MIRANI PUMP STATION 1	This project is to replace the PLC and SCADA at Mirani Pump Station 1. An options study is being completed in 2015 to determine if replacement is required or whether better options are available.	254
Carry out Cost Benefit Analysis and Re-profile Channel if feasible - MIRANI DISTRIBUTION	Irrigators have requested that the Mirani Distribution channel be re-profiled to optimise water distribution. This project is to conduct a study to determine if re-profiling will achieve this.	102
Prepare hazard maps for EAP and engage community - KINCHANT DAM	This project is to prepare dam break maps for Kinchant Dam to improve public safety during floods.	46
Decommission sewage treatment plant - KINCHANT DAM WASTE WATER	The sewage treatment plant is no longer used and is a public safety hazard. This project is to decommission it.	40
Asset Revaluation - KINCHANT DAM	In the last Queensland Competition Authority (QCA) Pricing Review, it was suggested that SunWater update its Bill of Materials (BOM) prior to the next price review. The next price review is due to commence in the 2015/16 Financial Year, therefore SunWater are endeavouring to have the BOM updated prior to this review.	25
Other works	Other smaller refurbishment and repair projects.	112
Total		579

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 2015 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

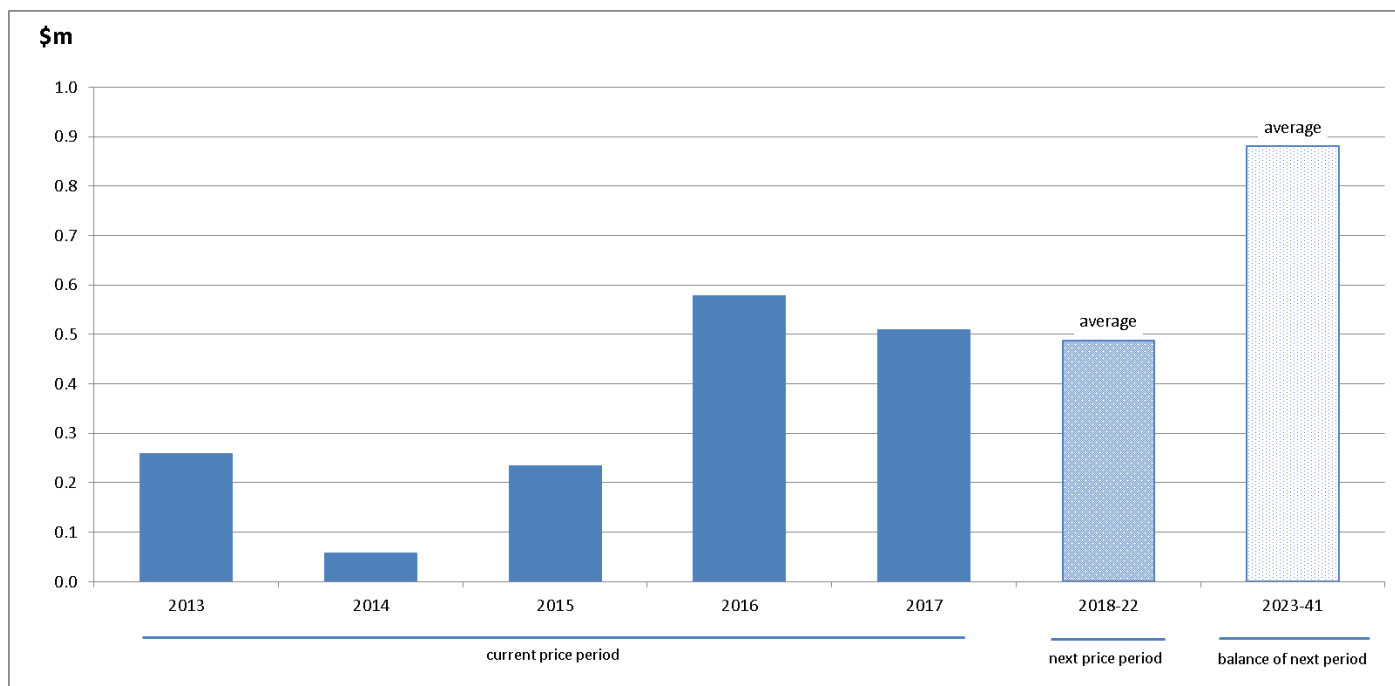
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(2,207)	(2,071)	(1,717)	(1,506)
Annuity Income	560	568	573	587
Spend	(259)	(58)	(234)	(579)
Interest	(165)	(155)	(129)	(113)
Closing Balance	(2,071)	(1,717)	(1,506)	(1,611)

* 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 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.

Replace switchboard, PLC, SCADA and common control - MIRANI PUMP STATION 3

Year: 2018

Current estimate: \$235k

Options analysis completed: No

This project is to replace the PLC and SCADA at Mirani Pump Station 3. An options study is planned for 2016 to determine if replacement is required or whether there are better options. The options analysis would consider replacement of wiring, motor starting and control wiring, and full replacement of switchboard, motor starter, control wiring, PLC and SCADA. It will also explore 'do nothing' option. The design and tender pack is planned for 2017 and site works is planned in 2018..

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 Cable - MIRANI PUMP STATION 3

Year: 2030

Current estimate: \$848k

Options analysis completed: No

The scheduled replacement of electrical cabling at Marian Pump Station No. 3 is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed.

20yr Dam Safety Review (by 1 Dec 2037) - KINCHANT DAM

Year: 2037

Current estimate: \$615k

Options analysis completed: No

Kinchant Dam is a category 1 referable structure and the 20 Year Dam Safety Review is required for Queensland Government Regulatory Compliance. The review is a procedure for systematically assessing the safety of a dam after its original construction. It is a fresh engineering assessment of the integrity of all elements of a dam. It usually incorporates a:

- current failure impact assessment,
- detailed review of structural, hydraulic, hydrologic and geotechnical design aspects,
- review of historical operational performance,
- review of surveillance reports,
- comprehensive inspection of the dam, and
- comparison of the standards used for building and upgrading the dam against current design standards.

Given this requirement is mandatory, an options analysis will not be completed.

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	174		148		98		115	
Materials	6		8		8		30	
Contractors	28		28		142		120	
Other	229		344		291		236	
Non-direct	341		281		202		280	
Operations Total	778	144%	808	144%	741	131%	781	139%
Preventative								
Labour	79		69		31		50	
Materials	10		22		26		26	
Contractors	64		87		325		245	
Other	2		1		0		4	
Non-direct	154		130		75		127	
Preventative Total	310	71%	310	68%	458	100%	452	99%
Corrective								
Labour	33		21		9		5	
Materials	26		18		30		30	
Contractors	18		18		249		180	
Other	2		1		0		2	
Non-direct	65		40		31		22	
Corrective Total	144	47%	98	31%	319	100%	239	75%
Electricity	261	113%	417	169%	248	94%	248	87%
Total Routine Expenses	1,492	99%	1,632	103%	1,766	110%	1,720	106%
	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	161		23		159		452	
Corrective	(1)		3		0		0	
Other	0		0		0		0	
Non-direct	98		32		75		127	
Total Annuity Funded Non-Routine	259	14%	58	3%	234	13%	579	31%
TOTAL REGULATED EXPENSES	1,751		1,691		2,001		2,299	
Non-Annuity Funded								
R&E - Non-Annuity Funded	2,937		7,939		726		0	
Non-direct	1,118		1,667		24		0	
Total Non-Annuity Funded	4,055	n/a	9,606	n/a	750	n/a	0	n/a
TOTAL EXPENSES	5,806		11,297		2,751		2,299	