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# 2016 Annual Network Service Plan

## Eton 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**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Conversion Factor	1.051	1.077	1.104	1.131	1.160

## Disclaimer

This report has been produced by SunWater, to provide information for client use only. The information contained in this report is limited by the scope and the purpose of the study, and should not be regarded as completely exhaustive. Permission to use or quote information from this report in studies external to the Corporation must first be obtained from the Chief Executive, SunWater.

## 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](mailto: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		52,265
Urban		175
Other		128
SunWater		9,384
<b>Total</b>	<b>317</b>	<b>61,952</b>
QCA Assumed Water Usage for Irrigation		41.3%
QCA Assumed Water Usage for Total		55.1%

**Table 3 – Revenue<sup>1</sup>**

	<b>2013 SunWater Actual \$'000</b>	<b>2014 SunWater Actual \$'000</b>	<b>2015 SunWater Budget \$'000</b>	<b>2016 SunWater Budget \$'000</b>
Irrigation Revenue*	2,802	3,125	3,579	3,779
Irrigation CSO	1,497	1,433	1,357	1,277
Industrial and Urban*	0	14	0	0
Other Revenue	29	0	4	4
<b>Total Revenue</b>	<b>4,327</b>	<b>4,573</b>	<b>4,940</b>	<b>5,060</b>

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

<sup>1</sup> 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 Expenditure<sup>2</sup>**

	<b>2013 SunWater Actual</b>	<b>%of 2013 Target</b>	<b>2014 SunWater Actual</b>	<b>%of 2014 Target</b>	<b>2015 SunWater Budget</b>	<b>%of 2015 Target</b>	<b>2016 SunWater Budget</b>	<b>%of 2016 Target</b>
	\$'000	%	\$'000	%	\$'000	%	\$'000	%
Operations (Excl. Elect.)	675	91%	848	112%	1,046	135%	911	116%
Preventative	443	70%	644	99%	692	104%	709	105%
Corrective	510	115%	534	117%	484	103%	525	110%
Electricity	255	55%	381	76%	624	117%	655	113%
<b>Total Routine Expenses</b>	<b>1,883</b>	<b>82%</b>	<b>2,407</b>	<b>102%</b>	<b>2,846</b>	<b>116%</b>	<b>2,800</b>	<b>111%</b>

The budget routine spend is 11% above the QCA's target for 2015, 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 16% 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

Preventive maintenance is budgeted 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 10% above the QCA's target for 2016.

### Electricity

Electricity costs are budgeted 13% above 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 more than 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.

<sup>2</sup> 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	%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	%
<b>Annuity Funded</b>								
R&E - Annuity Funded	528		185		272		528	
Corrective	0		0		0		0	
Other	0		0		0		0	
Non-direct	49		74		85		176	
<b>Annuity Funded Total</b>	<b>577</b>	<b>23%</b>	<b>259</b>	<b>10%</b>	<b>357</b>	<b>14%</b>	<b>704</b>	<b>28%</b>
<b>Non-Annuity Funded</b>								
R&E - Non-Annuity Funded	16		6		0		0	
Non-direct	10		4		0		0	
<b>Total Non-Annuity Funded</b>	<b>26</b>	<b>n/a</b>	<b>10</b>	<b>n/a</b>	<b>0</b>	<b>n/a</b>	<b>0</b>	<b>n/a</b>

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

**Table 6 – Non-Routine Projects 2016**

<b>Project Title</b>	<b>Project Scope</b>	<b>2016 Budget (\$'000)</b>
Replace Ultrasonic Flow Meter - OAKENDEN MAIN CHANNEL DISTRIBUTION	Currently there is no operational flow metering on the Oakenden Main Channel. This project is to investigate options for, and implement, prudent and efficient flow metering on the Oakenden Main Channel. The channel is the main source of water for the distribution system and it is necessary to be able to accurately meter flows into the system from Kinchant Dam.	101
Replace meter - MARWOOD DISTRIBUTION	This project is to upgrade the metering technology to current standards at eight sites where the existing meter has failed in service.	90
Refurbish OMC Reg Gate RG05 and AVIS RG03 – Blast & Paint Bearings and Seals, & Refurbish AVIS RG03 - OAKENDEN MAIN CHANNEL DISTRIBUTION	The gates have reached a condition where refurbishment is required to ensure their continuing efficient and reliable operation. The project involves the removal and refurbishment of two channel float regulator gates.	80
Overhaul Pump 2 including bearings, seals and impellor - VICTORIA PLAINS PUMP STATION	The pump at Victoria Plains Pump Station has reached an operational age where refurbishment is required to restore it to efficient and reliable operation.	41
Supply and Install two new Embankment Subsurface Seepage Drains near MO12 - OAKENDEN MAIN CHANNEL DISTRIBUTION	Seepage has been identified adjacent to the channel at this location and has the potential to impact a neighbouring property. This purpose of this project is to install sub-surface drains to intercept any potential flows from the channel before they impact the property.	38
Other works	Various smaller replacement and refurbishment projects.	354
Total		704



## 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 year is completed.

**Table 7 – Annuity Balances**

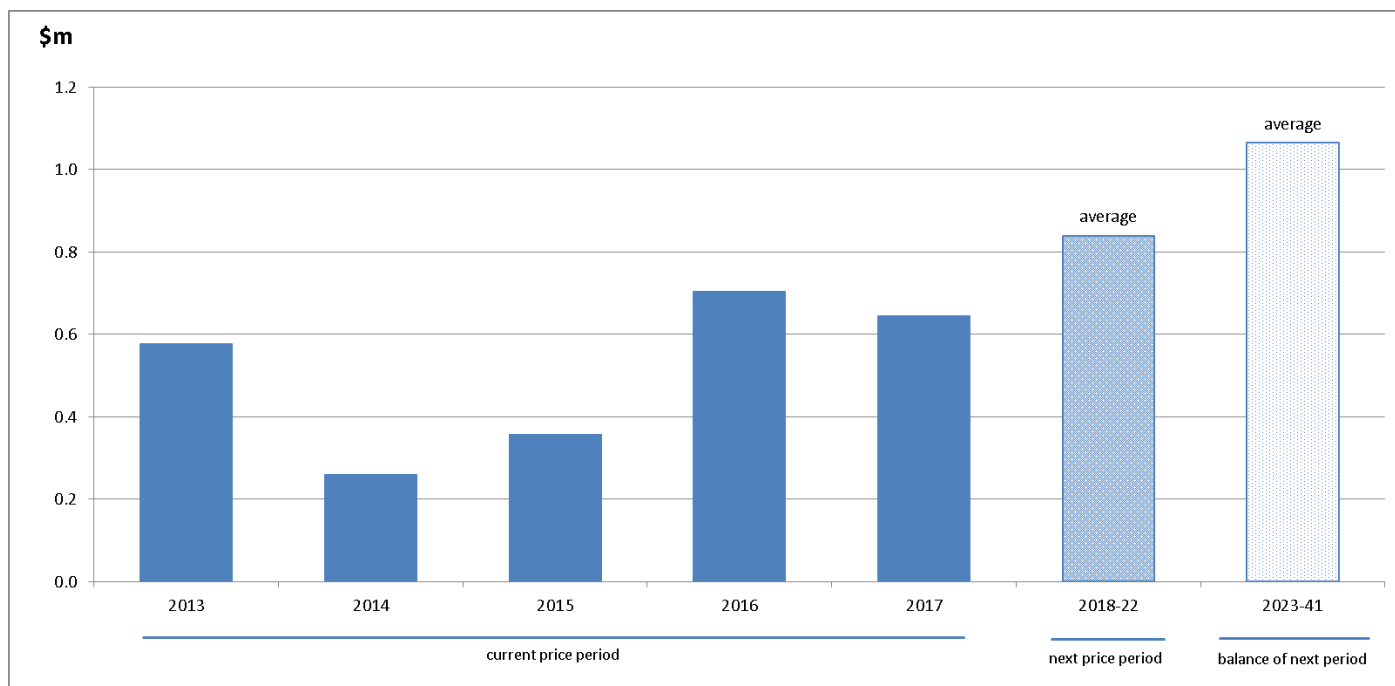
<b>ANNUITY</b>	<b>2013</b>	<b>2014</b>	<b>2015*</b>	<b>2016</b>
	\$'000	\$'000	\$'000	\$'000
<b>Opening Balance</b>	(223)	(300)	(42)	183
<b>Annuity Income</b>	517	539	585	596
<b>Spend</b>	(577)	(259)	(357)	(704)
<b>Interest</b>	(17)	(22)	(3)	14
<b>Closing Balance</b>	(300)	(42)	183	88

\* 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 evenness in the spread of estimated project costs means there are no projects which exceed the materiality threshold for this service contract for the 2023-41 period.

## 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 %
<b>ROUTINE EXPENSES</b>								
<b>Operations</b>								
Labour	173		209		237		251	
Materials	4		4		2		1	
Contractors	1		2		1		1	
Other	203		280		389		211	
Non-direct	295		353		418		447	
<b>Operations Total</b>	<b>675</b>	<b>91%</b>	<b>848</b>	<b>112%</b>	<b>1,046</b>	<b>135%</b>	<b>911</b>	<b>116%</b>
<b>Preventative</b>								
Labour	103		137		163		154	
Materials	89		176		132		170	
Contractors	67		93		110		104	
Other	0		2		0		0	
Non-direct	184		237		287		281	
<b>Preventative Total</b>	<b>443</b>	<b>70%</b>	<b>644</b>	<b>99%</b>	<b>692</b>	<b>104%</b>	<b>709</b>	<b>105%</b>
<b>Corrective</b>								
Labour	108		116		98		110	
Materials	145		164		115		130	
Contractors	68		54		92		80	
Other	1		2		3		3	
Non-direct	187		198		176		202	
<b>Corrective Total</b>	<b>510</b>	<b>115%</b>	<b>534</b>	<b>117%</b>	<b>484</b>	<b>103%</b>	<b>525</b>	<b>110%</b>
<b>Electricity</b>	<b>255</b>	<b>55%</b>	<b>381</b>	<b>76%</b>	<b>624</b>	<b>117%</b>	<b>655</b>	<b>113%</b>
<b>Total Routine Expenses</b>	<b>1,883</b>	<b>82%</b>	<b>2,407</b>	<b>102%</b>	<b>2,846</b>	<b>116%</b>	<b>2,800</b>	<b>111%</b>
<b>NON-ROUTINE EXPENSES</b>								
<b>Annuity Funded</b>								
R&E - Annuity Funded	528		185		272		528	
Corrective	0		0		0		0	
Other	0		0		0		0	
Non-direct	49		74		85		176	
<b>Total Annuity Funded Non-Routine</b>	<b>577</b>	<b>23%</b>	<b>259</b>	<b>10%</b>	<b>357</b>	<b>14%</b>	<b>704</b>	<b>28%</b>
<b>TOTAL REGULATED EXPENSES</b>	<b>2,460</b>		<b>2,666</b>		<b>3,203</b>		<b>3,504</b>	
<b>Non-Annuity Funded</b>								
R&E - Non-Annuity Funded	16		6		0		0	
Non-direct	10		4		0		0	
<b>Total Non-Annuity Funded</b>	<b>26</b>	<b>n/a</b>	<b>10</b>	<b>n/a</b>	<b>0</b>	<b>n/a</b>	<b>0</b>	<b>n/a</b>
<b>TOTAL EXPENSES</b>	<b>2,486</b>		<b>2,676</b>		<b>3,203</b>		<b>3,504</b>	