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2016 Annual Network Service Plan

Lower Fitzroy 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		24,006
Irrigation		3,101
Urban		0
Other		41
SunWater		1,475
Total	24	28,623
QCA Assumed Water Usage for Irrigation		2.7%
QCA Assumed Water Usage for Total		69.9%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue	41	36	37	41
Industrial and Urban	0	0	0	0
Other Revenue	0	0	(0)	0
Total Revenue	41	36	37	41

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.)	144	95%	163	104%	170	109%	176	115%
Preventative	24	26%	33	35%	79	85%	86	93%
Corrective	2	5%	11	23%	47	102%	44	98%
Electricity	1	97%	1	45%	1	73%	1	68%
Total Routine Expenses	171	60%	207	69%	298	100%	307	105%

The budget routine spend is 5% above QCA's target for 2016, however the budget falls to 98% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2016 is 15% above the QCA target, however this is mainly 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 103% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is budgeted 7% below the QCA's target for 2016.

Corrective Maintenance

Corrective maintenance is budgeted 2% below the QCA's target for 2016.

Electricity

Lower Fitzroy electricity costs can vary by +/- \$0.5k from year-to-year and in total represent less than 1% of total routine costs.

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, the 2013-17 non-routine spend will exceed the five-year QCA target. There has been significant corrective works in this service contract to repair flood damage; corrective works are unplanned and were not allowed for in the QCA's targets.

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		9		137		0	
Corrective	2		106		640		0	
Other	0		0		0		0	
Non-direct	3		46		87		0	
Annuity Funded Total	5	3%	161	106%	864	570%	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 2016 in the Lower Fitzroy.

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

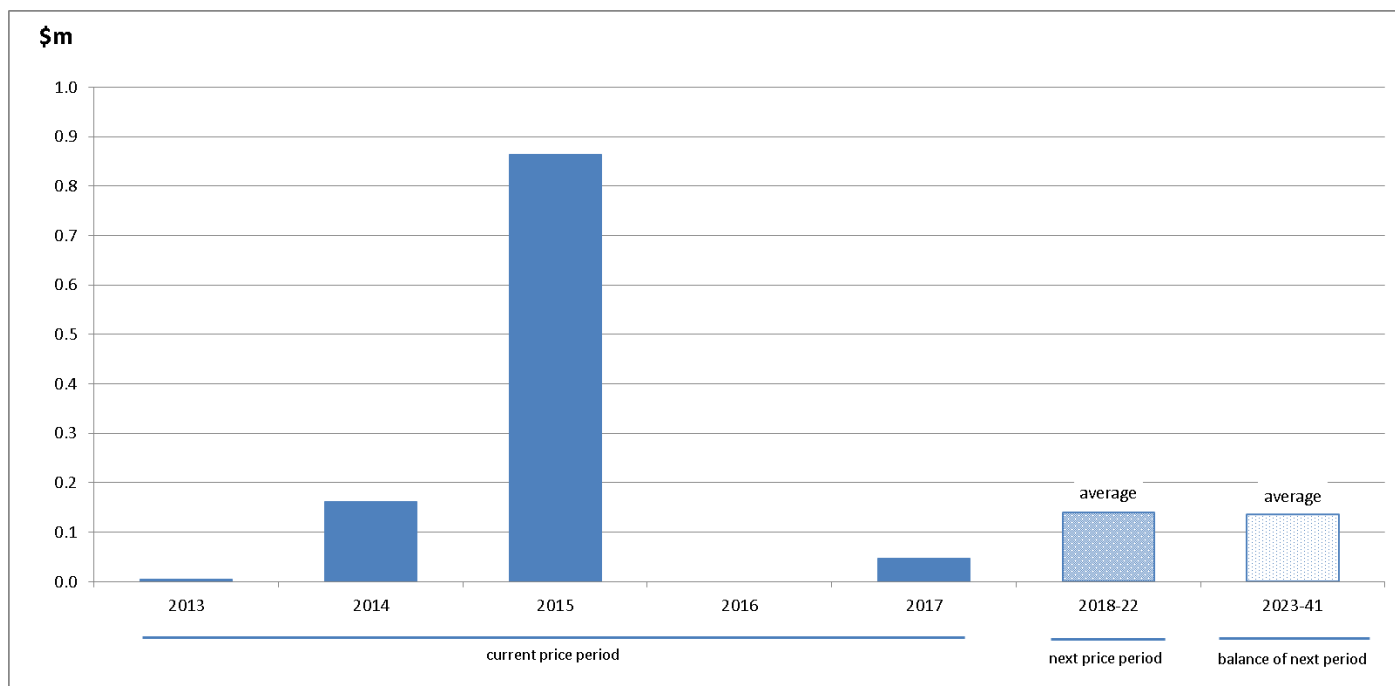
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	362	393	270	(563)
Annuity Income	9	9	11	11
Spend	(5)	(161)	(864)	0
Interest	27	29	20	(42)
Closing Balance	393	270	(563)	(594)

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

Overview of Annuity Funded Non-Routine Projects 2013-42

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. The expenditures in 2014 and 2015 include the flood damage repairs that were previously flagged.

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.

Refurbish Outlet Channel - EDEN BANN WEIR

Year: 2020

Current estimate: \$448k

Options analysis completed: No

The Outlet Channel will be due for refurbishment in 2020, based theoretical asset life plans. An options analysis will be carried out prior to the refurbishment, considering both time-based replacement/renewal strategies and the condition of the outlet channel.

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 Hydraulic System - EDEN BANN WEIR

Year: 2023

Current estimate: \$345k

Options analysis completed: No

An option analysis will be carried out prior to the replacement of hydraulic system based on time based replacement/renewal strategy. The condition of the hydraulic system will be updated before carrying out the option analysis.

Replace Control Equipment - Procure, Install, Commissioning - EDEN BANN WEIR

Year: 2030

Current estimate: \$165k

Options analysis completed: No

The scheduled replacement of the control equipment at Eden Bann Weir is based on the standard asset life. However, the final timing will be determined via five-yearly inspections and/or based on potential operational problems reported by operators.

Replace Cables - EDEN BANN WEIR

Year: 2031

Current estimate: \$207k

Options analysis completed: No

The scheduled replacement of the cables at Eden Bann Weir is based on the standard asset life. However, the final timing will be determined via five-yearly inspections and/or based on potential operational problems reported by operators.

Refurbish Bulkhead Gate - Exit Channel, Holding Chamber & Outlet Works - EDEN BANN WEIR

Year: 2035

Current estimate: \$351k

Options analysis completed: No

The scheduled replacement of the Bulkhead Gate (Exit Channel, Holding Chamber and Outlet Works) at Eden Bann Weir is based on the standard asset life. However, the final timing will be determined via five-yearly inspections and/or based on potential operational problems reported by operators.

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	40		39		44		41	
Materials	1		1		1		1	
Contractors	0		3		7		10	
Other	25		47		35		31	
Non-direct	77		72		84		94	
Operations Total	144	95%	163	104%	170	109%	176	115%
Preventative								
Labour	7		11		23		19	
Materials	3		1		1		1	
Contractors	1		0		13		22	
Other	0		1		0		0	
Non-direct	13		20		43		43	
Preventative Total	24	26%	33	35%	79	85%	86	93%
Corrective								
Labour	1		3		13		8	
Materials	1		2		2		2	
Contractors	0		0		8		16	
Other	0		1		0		0	
Non-direct	1		5		24		19	
Corrective Total	2	5%	11	23%	47	102%	44	98%
Electricity	1	97%	1	45%	1	73%	1	68%
Total Routine Expenses	171	60%	207	69%	298	100%	307	105%
	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	0		9		137		0	
Corrective	2		106		640		0	
Other	0		0		0		0	
Non-direct	3		46		87		0	
Total Annuity Funded Non-Routine	5	3%	161	106%	864	570%	0	0%
TOTAL REGULATED EXPENSES	176		368		1,162		307	
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	176		368		1,162		307	