

SunWater Limited
Level 10, 179 Turbot Street
PO Box 15536 City East
Brisbane Queensland 4002
www.sunwater.com.au
ACN 131 034 985



2016 Annual Network Service Plan

Lower Mary 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	11
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

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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		20
Irrigation		9,952
Urban		0
Other		0
SunWater		4,892
Total	78	14,864
QCA Assumed Water Usage for Irrigation		42.3%
QCA Assumed Water Usage for Total		42.6%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue*	592	917	749	388
Irrigation CSO	753	753	751	749
Industrial and Urban*	2	2	2	2
Other Revenue	3	7	9	9
Total Revenue	1,350	1,680	1,512	1,148

* 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.)	221	88%	529	204%	308	117%	333	126%
Preventative	176	73%	159	64%	261	103%	272	107%
Corrective	146	98%	229	149%	135	86%	132	83%
Electricity	200	136%	504	320%	420	249%	295	162%
Total Routine Expenses	744	94%	1,422	174%	1,124	134%	1,032	120%

The budget routine spend is 20% above the QCA's target for 2016 however the budget falls to 105% of target when the above-QCA increases in electricity and the expected higher than assumed electricity consumption for 2016 are taken into account.

Operations

The operations budget is 26% above the QCA target in 2016, mainly due to insurance cost increases significantly above what the QCA allowed.

Preventive Maintenance

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

Corrective Maintenance

Corrective maintenance is budgeted 17% below the QCA's target for 2016.

Electricity

Electricity costs are budgeted 62% higher than the QCA target in 2016. This is in part 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 over 50%. Resultant cost over-runs are beyond SunWater's control. The other major factor for the increased electricity costs forecast is SunWater's assessment of likely transfers to Tinana Creek during the coming year. SunWater will continue to review tariffs each year to identify the best tariff for the expected future operations.

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 spend will exceed the five-year QCA target. There have 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. There are also planned repair works to the Walker Point balancing storage which have been brought forward from 2018. The cost of this project was not originally included in the 2013-2017 period because it was assumed that the lowering of the storage level would adequately address the embankment leakage problem and no further costs would be necessary. The operational impacts were not anticipated and resulted in unacceptable conditions if this option was to be pursued further.

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	73		17		36		92	
Corrective	63		(1)		0		0	
Other	0		0		0		0	
Non-direct	56		1		18		20	
Annuity Funded Total	191	82%	17	7%	53	23%	112	48%
Non-Annuity Funded								
R&E - Non-Annuity Funded	0		5		0		0	
Non-direct	0		2		0		0	
Total Non-Annuity Funded	0	n/a	7	n/a	0	n/a	0	n/a

The detail for the major project planned for 2016 is provided below:

Table 6 – Non-Routine Projects 2016

Project Title	Project Scope	2016 Budget (\$'000)
Refurbish Submersible Pumps - PUN1 & PUN3 - WALKER POINT PUMP STATION	During 2014, it was identified that the mating surfaces between the pump and the duck foot flanges were damaged. This project is to remove the pumps and work components, and refurbish them.	66
Replace safety screen - WALKER POINT DISTRIBUTION	The safety screens in the channel have reached a condition whereby failure is considered likely. The screens require replacing to ensure the functionality is not compromised.	24
Replace Safety Device on Lift - OWANYILLA PUMP STATION	This project is to replace the lift safety device. The replacement of the device is required every four years as per AS1735 and in order to maintain registration for the lift under registrable plant.	21
Other works	Various smaller replacement and refurbishment projects.	1
Total		112

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

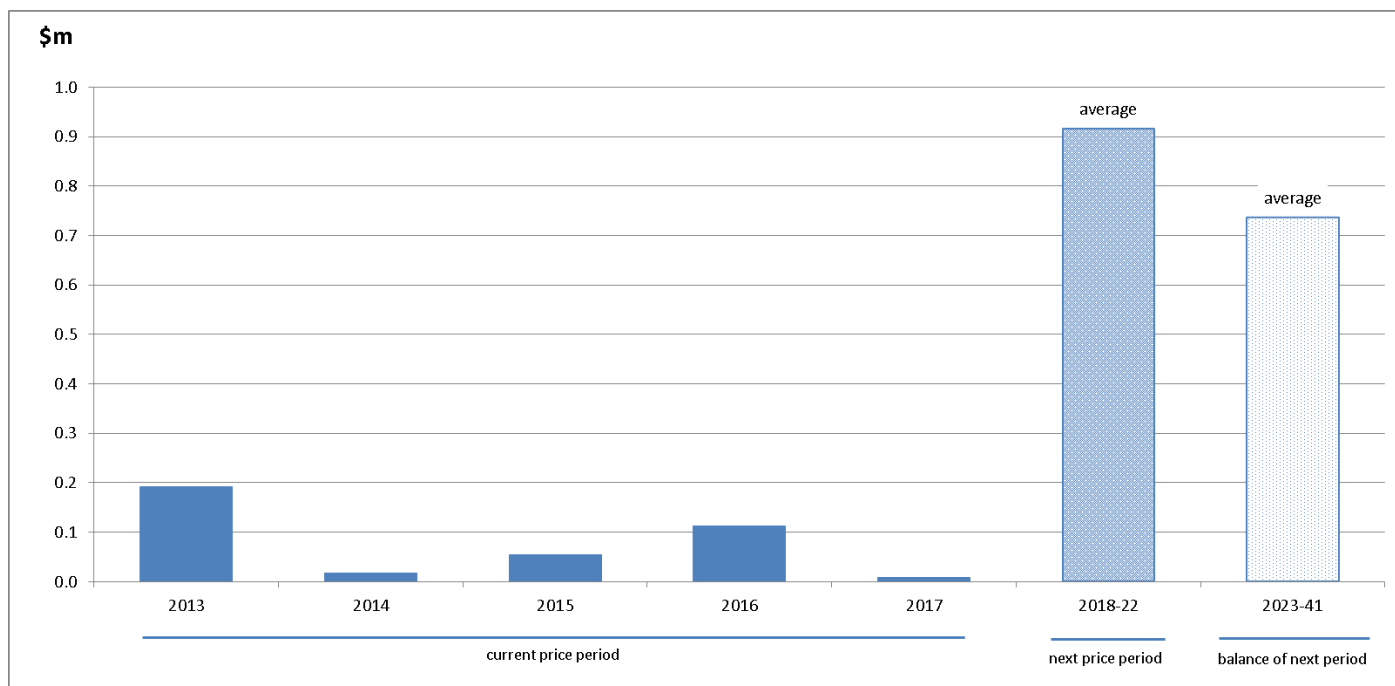
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(462)	(241)	177	595
Annuity Income	447	452	458	466
Spend	(191)	(17)	(53)	(112)
Interest	(35)	(18)	13	45
Closing Balance	(241)	177	595	993

* 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, High Voltage, Electrical Component Upgrade (Supply, Implement, Install, Commission) - OWANYILLA PUMP STATION

Year: 2021-22

Current estimate: \$1.64m

Options analysis completed: No

The control system components have exceeded their asset life. Failure of the high voltage switchboard at Owanyilla Pump Station will incur significant cost and lead to significant consequences downstream. The switchboard will be monitored and preventative maintenance will ensure a maximum service life.

This project is to procure, install and commission the replacement components. Multiple components are no longer available or serviceable and couple impact reliability of supply if they fail. The replacement of these components with a modern alternative is therefore required. An options analysis will be undertaken prior to the planned replacement to determine the most prudent and efficient option for replacement.

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 - WALKER POINT PUMP STATION

Year: 2023

Current estimate: \$1.14m

Options analysis completed: No

Failure of the cabling at Walker Point Pump Station will incur significant cost and lead to significant consequences downstream. The cables will be monitored and preventative maintenance will ensure a maximum service life. This project is to procure, install and commission the replacement cables and associated items. An options analysis will be completed closer to the project start date. A condition assessment and options analysis for the replacement of the cables will be completed prior to undertaking this project. Options are limited to maintaining assets in service for as long as possible and then replacing on a like for like basis or using alternative distribution methods such as overhead if this is possible or practical.

Electrical Component Upgrade - Supply, Implement, Install, Commission - OWANYILLA PUMP STATION

Year: 2036

Current estimate: \$734k

Options analysis completed: No

The scheduled replacement of the electrical control components within Owanyilla Pump Station is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed. The components are scheduled for replacement in 2021 and again in 2036 according to Whole of Life replacement strategies.

Appendix – Total Expenditure by Expense Type

Table 8 – Expenditure for Activity by Type

	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	%
ROUTINE EXPENSES								
Operations								
Labour	78		154		77		87	
Materials	2		19		2		2	
Contractors	0		0		0		0	
Other	13		102		95		89	
Non-direct	128		254		134		155	
Operations Total	221	88%	529	204%	308	117%	333	126%
Preventative								
Labour	57		52		88		88	
Materials	14		10		12		12	
Contractors	15		10		10		18	
Other	0		3		2		0	
Non-direct	90		85		149		154	
Preventative Total	176	73%	159	64%	261	103%	272	107%
Corrective								
Labour	46		64		35		35	
Materials	23		47		27		21	
Contractors	1		9		10		10	
Other	0		2		3		2	
Non-direct	76		107		60		63	
Corrective Total	146	98%	229	149%	135	86%	132	83%
Electricity	200	136%	504	320%	420	249%	295	162%
Total Routine Expenses	744	94%	1,422	174%	1,124	134%	1,032	120%
	2013 SunWater Actual	%of 2013-17 Target	2014 SunWater Actual	%of 2013-17 Target	2015 SW Budget	%of 2013-17 Target	2016 SW Budget	%of 2013-17 Target
	\$'000	%	\$'000	%	\$'000	%	\$'000	%
NON-ROUTINE EXPENSES								
Annuity Funded								
R&E - Annuity Funded	73		17		36		92	
Corrective	63		(1)		0		0	
Other	0		0		0		0	
Non-direct	56		1		18		20	
Total Annuity Funded Non-Routine	191	82%	17	7%	53	23%	112	48%
TOTAL REGULATED EXPENSES	935		1,438		1,178		1,144	
Non-Annuity Funded								
R&E - Non-Annuity Funded	0		5		0		0	
Non-direct	0		2		0		0	
Total Non-Annuity Funded	0	n/a	7	n/a	0	n/a	0	n/a
TOTAL EXPENSES	935		1,445		1,178		1,144	