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2016 Annual Network Service Plan

Lower Mary 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		70
Irrigation		19,327
Urban		120
Other		0
SunWater		10,892
Total	170	30,409
QCA Assumed Water Usage for Irrigation		34.5%
QCA Assumed Water Usage for Total		33.0%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue*	127	144	209	267
Irrigation CSO	29	14	0	0
Industrial and Urban*	(110)	116	56	93
Other Revenue	4	5	5	5
Total Revenue	50	279	269	366

* 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 small CSOs shown above in 2013 and 2014 are related to Tinana Barrage and Teddington Weir. As prices reached the QCA's lower-bound in 2015, the CSOs are not received from then onwards.

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.)	197	97%	104	49%	218	104%	213	102%
Preventative	8	10%	5	6%	76	99%	84	112%
Corrective	4	34%	4	30%	10	78%	23	174%
Electricity	0	n/a	0	n/a	0	n/a	0	n/a
Total Routine Expenses	209	73%	112	37%	304	101%	320	108%

The budget routine spend is 8% above the QCA's target for 2016, however the budget falls to 103% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget is 2% above the QCA's target for 2016.

Preventive Maintenance

Preventive maintenance is 12% above the QCA's target for 2016.

Corrective Maintenance

Corrective maintenance is \$10K (74%) above the QCA's target for 2016. This is mainly due to more labour required.

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. The corrective works to repair flood damage have caused non-routine works to exceed the five-year QCA target. Corrective works were not allowed for in the QCA's target.

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	9		3		9		64	
Corrective	18		10		174		255	
Other	0		0		0		0	
Non-direct	11		9		25		115	
Annuity Funded Total	38	80%	23	49%	208	437%	434	911%
Non-Annuity Funded								
R&E - Non-Annuity Funded	0		4		0		0	
Non-direct	0		2		0		0	
Total Non-Annuity Funded	0	n/a	5	n/a	0	n/a	0	n/a

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

Table 6 – Non-Routine Projects 2016

Project Title	Project Scope	2016 Budget (\$'000)
Reinstate upstream rock protection - MARY BARRAGE	The project includes reinstatement of the undermined & damaged concrete slab downstream of the left bank, reinstatement of rock-filled-void immediately downstream of the weir, reinstatement of rock over the upstream clay, and reinstatement of the failed concrete scour protection slab upstream on the left bank of the barrage.	187
Study: Options Analysis & Design for reinstating D/S Rock protection - MARY BARRAGE	This project is to undertake an options study and preliminary designs on enhancements to the downstream rock protection at Mary Barrage. The rock protection has been lost in successive flood events, suggesting it is not a viable option to reinstate 'like-for-like' again.	98
FD01 (2015) Flood Damage Repairs - MARY BARRAGE	This project is to reinstate damaged signage, repair damaged sections of the erosion protection concrete on the left bank, and replace covers over the fish ladder as a result of flooding caused by Cyclone Marcia.	95
Replace Meter Program (2 per year) - LOWER MARY RIVER DISTRIBUTION	Some meters have been assessed as being in an unacceptable condition. They require replacement to maintain the accuracy of meter reads in accordance with SunWater's Metering Policy.	13
Replace Meter Program (2 per year) - TINANA CREEK DISTRIBUTION	Some meters have been assessed as being in an unacceptable condition. They require replacement to maintain the accuracy of meter reads in accordance with SunWater's Metering Policy.	13
Other works	Various smaller replacement and refurbishment projects.	28
Total		434

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

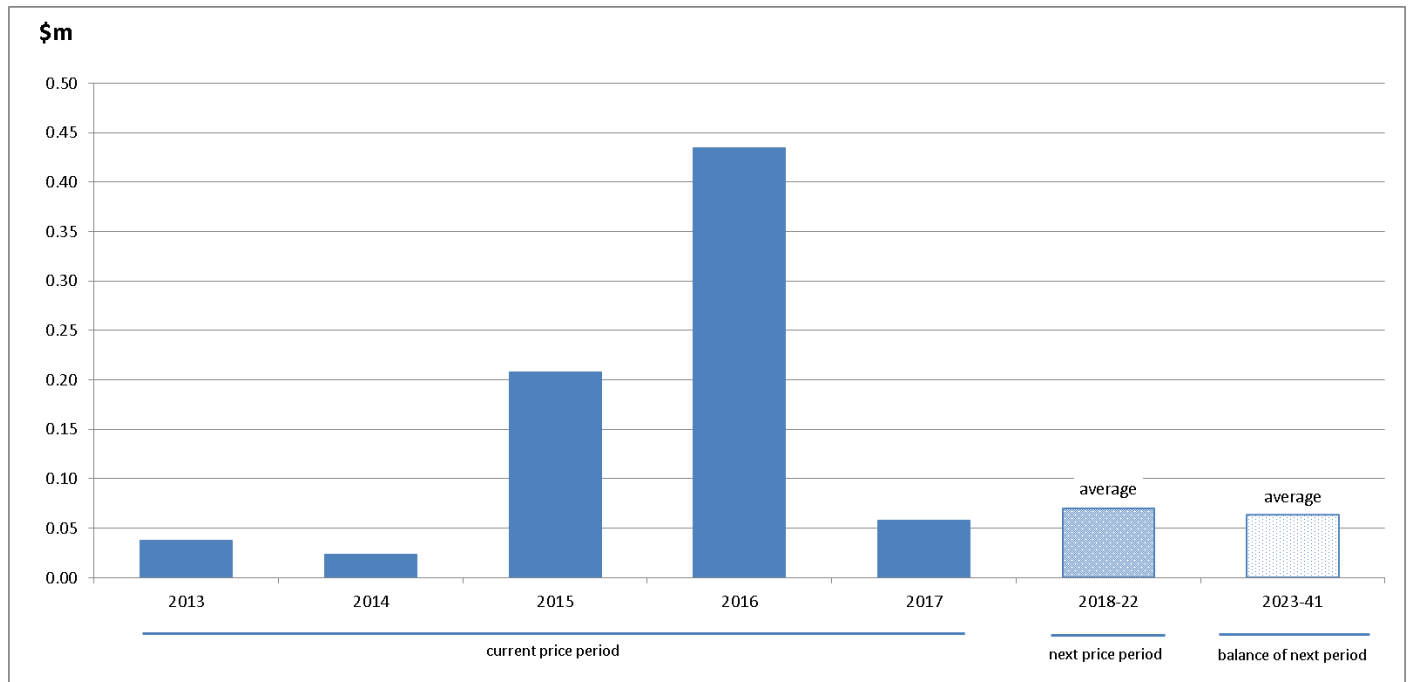
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(1,210)	(1,229)	(1,233)	(1,424)
Annuity Income	110	110	110	110
Spend	(38)	(23)	(208)	(434)
Interest	(91)	(92)	(92)	(107)
Closing Balance	(1,229)	(1,233)	(1,424)	(1,855)

* 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

Reinstate upstream rock protection at Mary River Barrage - MARY BARRAGE

Year: 2016

Current estimate: \$187k

Options analysis completed: Yes

The project includes reinstatement of the undermined & damaged concrete slab downstream of the left bank, reinstatement of rock-filled-void immediately downstream of the weir, reinstatement of rock over the upstream clay, and reinstatement of the failed concrete scour protection slab upstream on the left bank of the barrage.

Options Analysis & Design for reinstating D/S Rock protection - MARY BARRAGE

Year: 2016

Current estimate: \$98k

Options analysis completed: Yes

This project is to undertake an options study and preliminary designs on enhancements to the downstream rock protection at Mary Barrage. The rock protection has been lost in successive flood events, suggesting it is not a viable option to reinstate 'like-for-like' again.

FD01 (2015) Flood Damage Repairs - MARY BARRAGE

Year: 2016

Current estimate: \$95k

Options analysis completed: Yes

This project is to reinstate damaged signage, repair damaged sections of the erosion protection concrete on the left bank, and replace covers over the fish ladder as a result of flooding caused by Cyclone Marcia.

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 downstream left abutment to prevent further erosion & downstream right bank concrete rock pitching - MARY BARRAGE

Year: 2019

Current estimate: \$118k

Options analysis completed: No

The scheduled refurbishment of the downstream left abutment to prevent further erosion and downstream right bank concrete rock pitching at Mary Barrage is condition based and subject to further condition and risk assessments, and an options analysis, closer to the 2019 Water Year before it can proceed.

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 Fencing, Gates & Grids - MARY BARRAGE

Year: 2040

Current estimate: \$143k

Options analysis completed: No

The scheduled replacement of fencing gates and grids at Mary Barrage is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed.

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	41		25		42		43	
Materials	0		0		2		2	
Contractors	0		3		63		46	
Other	76		31		28		23	
Non-direct	80		44		83		100	
Operations Total	197	97%	104	49%	218	104%	213	102%
Preventative								
Labour	2		2		8		11	
Materials	1		0		0		0	
Contractors	0		0		50		47	
Other	0		0		0		0	
Non-direct	4		3		17		26	
Preventative Total	8	10%	5	6%	76	99%	84	112%
Corrective								
Labour	1		1		1		5	
Materials	0		1		0		0	
Contractors	0		0		8		8	
Other	0		1		0		0	
Non-direct	3		2		2		11	
Corrective Total	4	34%	4	30%	10	78%	23	174%
Electricity	0	n/a	0	n/a	0	n/a	0	n/a
Total Routine Expenses	209	73%	112	37%	304	101%	320	108%
	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	9		3		9		64	
Corrective	18		10		174		255	
Other	0		0		0		0	
Non-direct	11		9		25		115	
Total Annuity Funded Non-Routine	38	80%	23	49%	208	437%	434	911%
TOTAL REGULATED EXPENSES	246		135		512		754	
Non-Annuity Funded								
R&E - Non-Annuity Funded	0		4		0		0	
Non-direct	0		2		0		0	
Total Non-Annuity Funded	0	n/a	5	n/a	0	n/a	0	n/a
TOTAL EXPENSES	246		141		512		754	