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2016 Annual Network Service Plan

Macintyre 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		217
Irrigation		17,112
Urban		454
Other		6,400
SunWater		814
Total	97	24,997
QCA Assumed Water Usage for Irrigation		69.5%
QCA Assumed Water Usage for Total		81.1%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue	813	663	750	1,028
Irrigation CSO	217	173	127	80
Industrial and Urban	109	370	388	79
Other Revenue	2	0	2	2
Total Revenue	1,140	1,207	1,268	1,188

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.)	539	75%	568	76%	829	111%	797	107%
Preventative	207	109%	243	122%	155	78%	221	113%
Corrective	10	27%	51	132%	36	93%	41	107%
Electricity	2	127%	3	177%	3	175%	3	162%
Total Routine Expenses	759	80%	866	88%	1,023	104%	1,063	108%

The budget routine spend is 8% above the 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 7% above the QCA target, however this is almost entirely 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 95% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

The preventative maintenance budget in 2016 is 13% above the QCA target.

Corrective Maintenance

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

Electricity

Electricity costs are budgeted 62% higher than the QCA target in 2016 due partly to the 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 around 50%. Resultant cost over-runs are beyond SunWater's control. In addition to these price increases, the Macintyre Brook electricity usage (kWh) has been running at higher than average levels compared to the last price path.

² 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.

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 will be slightly above the five-year QCA target.

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	%
Annuity Funded								
R&E - Annuity Funded	11		239		123		200	
Corrective	0		0		0		0	
Other	21		6		0		0	
Non-direct	34		109		34		99	
Annuity Funded Total	65	8%	354	42%	156	19%	299	36%
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

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

Table 6 – Non-Routine Projects 2016

Project Title	Project Scope	2016 Budget (\$'000)
5-yr Dam Comprehensive Inspection (by 1 Dec 2015) - COOLMUNDA DAM	This is a regulatory requirement as a part of permit to operate dam. The costs include draining the dissipater area, removal of fish, and specialist equipment	95
Full repaint of Bulkhead gate sections - COOLMUNDA DAM	The bulkhead gate sections have been inspected and it has been determined that the existing levels of rust need to be addressed in the short term by fully blasting and repainting all the sections of gate.	63
Refurbish trunnion bearings, replace grease & prevent grease from leaking (2010 DS Rec 6.3.11a) - COOLMUNDA DAM	A recommendation of the dam safety inspection, this project is still under review to determine the optimum methodology to achieve the desired refurbishment.	51
Re-seal long travel drive gearboxes & replace hoist coupling rubbers - COOLMUNDA DAM	A deficiency has been identified in the crane by a specialist crane contractor, which require rectification	26
Replacement Meter strategy for IBT as developed in 2015 - MACINTYRE BROOK DISTRIBUTION	Based on the Southern Region's documented meter strategy, we use a weighted average for meter replacement costs on a life span of 20 years. There are 115 meters in the Macintyre Brook catchment and this will be a conservative annual occurrence.	24
Other works	Various smaller replacement and refurbishment projects.	40
Total		299

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

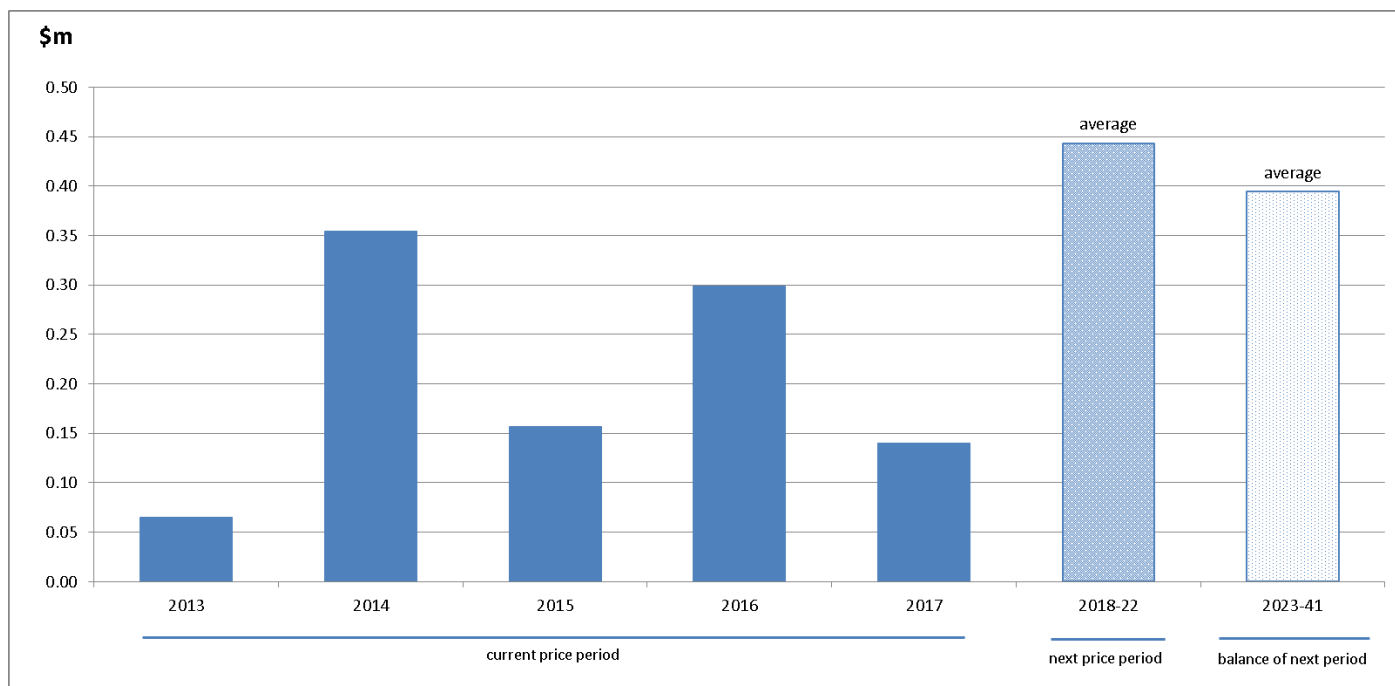
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(1,915)	(1,870)	(2,110)	(2,166)
Annuity Income	253	254	258	266
Spend	(65)	(354)	(156)	(299)
Interest	(143)	(140)	(158)	(162)
Closing Balance	(1,870)	(2,110)	(2,166)	(2,362)

* 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.

20yr Dam Safety Review - COOLMUNDA DAM

Year: 2020

Current estimate: \$393k

Options analysis completed: No

In 2001 a regulatory 20 Year dam safety review was undertaken at Coolmunda Dam. This involves a team of recognised dam experts reviewing all the geological aspects of the dam and includes a review of all events, all refurbishments and any other works carried out at the dam including a full review of event history and the maintenance histories over the preceding 20 years.

The review is a mandatory 20 year event and the cost estimate is based on the 2001 review, allowing for the fact that much of the 2001 data is still valid. Given this requirement is mandatory, an options analysis will not be completed.

Comprehensive Risk Assessment Update, 1 Year after Safety Review - COOLMUNDA DAM

Year: 2021

Current estimate: \$188k

Options analysis completed: No

In 2020, SunWater are required to undertake a legislative 20-year safety review of Coolmunda Dam. Following the review, where any deficiencies have been identified, we are required to assess the risk which may involve spillway adequacy works and remapping of flood maps following demographic changes and increased population at risk downstream of the dam. The risk assessment will also challenge any aspects of the dam to the ever-improving guidelines issued by ANCOLD.

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.

20yr Dam Safety Review - COOLMUNDA DAM

Year: 2040

Current estimate: \$637k

Options analysis completed: No

In 2001 a regulatory 20 Year dam safety review was undertaken at Coolmunda Dam. This involves a team of recognised dam experts reviewing all the geological aspects of the dam and includes a review of all events, all refurbishments and any other works carried out at the dam including a full review of event history and the maintenance histories over the preceding 20 years.

The review is a mandatory 20 year event and the cost estimate is based on the 2001 review, allowing for the fact that much of the 2001 data is still valid. Given this requirement is mandatory, an options analysis will not be completed.

Comprehensive Risk Assessment Update, 1 Year after Safety Review - COOLMUNDA DAM

Year: 2041

Current estimate: \$290k

Options analysis completed: No

In 2040, SunWater are required to undertake a legislative 20-year safety review of Coolmunda Dam. Following the review, where any deficiencies have been identified, we are required to assess the risk which may involve spillway adequacy works and remapping of flood maps following demographic changes and increased population at risk downstream of the dam. The risk assessment will also challenge any aspects of the dam to the ever-improving guidelines issued by ANCOLD.

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	122		98		183		137	
Materials	2		2		3		3	
Contractors	10		7		34		127	
Other	143		255		199		177	
Non-direct	263		207		410		353	
Operations Total	539	75%	568	76%	829	111%	797	107%
Preventative								
Labour	71		80		46		48	
Materials	4		12		6		7	
Contractors	2		8		16		54	
Other	0		2		1		1	
Non-direct	130		141		86		112	
Preventative Total	207	109%	243	122%	155	78%	221	113%
Corrective								
Labour	3		4		12		12	
Materials	1		1		2		2	
Contractors	0		36		0		0	
Other	0		0		0		0	
Non-direct	6		9		22		27	
Corrective Total	10	27%	51	132%	36	93%	41	107%
Electricity	2	127%	3	177%	3	175%	3	162%
Total Routine Expenses	759	80%	866	88%	1,023	104%	1,063	108%
NON-ROUTINE EXPENSES								
Annuity Funded								
R&E - Annuity Funded	11		239		123		200	
Corrective	0		0		0		0	
Other	21		6		0		0	
Non-direct	34		109		34		99	
Total Annuity Funded Non-Routine	65	8%	354	42%	156	19%	299	36%
TOTAL REGULATED EXPENSES	824		1,220		1,179		1,362	
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	824		1,220		1,179		1,362	