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2016 Annual Network Service Plan

Mareeba 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

	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		883
Irrigation		144,879
Urban		1,171
Other		0
SunWater		45,000
Total	957	191,933
QCA Assumed Water Usage for Irrigation		60.6%
QCA Assumed Water Usage for Total		67.1%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue*	6,314	6,610	6,849	6,140
Irrigation CSO	495	332	144	82
Industrial and Urban*	381	362	276	276
Other Revenue	16	25	5	5
Total Revenue	7,208	7,329	7,275	6,504

* 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 irrigation revenue reflects the variation in annuity spending each year and this is why revenue appears to drop in 2016.

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.)	2,236	120%	2,280	119%	2,519	129%	2,246	114%
Preventative	489	98%	679	132%	662	126%	708	133%
Corrective	1,136	83%	1,197	83%	1,573	105%	1,550	100%
Electricity	424	126%	412	114%	452	117%	519	125%
Total Routine Expenses	4,286	105%	4,567	108%	5,207	119%	5,023	112%

The budget routine spend is 12% above the QCA's target for 2016. Electricity is forecast at \$102K over what the QCA allowed due to rising prices. However the budget falls to 108% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2016 is 14% above the QCA target, however this is mostly 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 108% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is budgeted 33% above the QCA's target for 2016. This expected variance is due to additional terrestrial and aquatic weed control. In particular, SunWater has embarked on a more comprehensive Copper Sulphate dosing program that involves more dosing, a more scientific methodology and additional testing to meet the requirements of the Research Permit. This program is achieving improved results.

Corrective Maintenance

Corrective maintenance is budgeted in line with the QCA's target for 2016.

Electricity

Electricity costs are budgeted 25% higher than the QCA target in 2016 due to the target being set too low 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%. Cost over-runs due to these price increases are beyond SunWater's control. 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, 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 \$'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	366		755		949		757	
Corrective	0		0		0		0	
Other	0		55		0		79	
Non-direct	105		282		275		299	
Annuity Funded Total	471	6%	1,091	15%	1,224	17%	1,135	15%
Non-Annuity Funded								
R&E - Non-Annuity Funded	2		3		0		0	
Non-direct	1		5		0		0	
Total Non-Annuity Funded	4	n/a	9	n/a	0	n/a	0	n/a

The details for the major projects planned for 2016 are provided below.

Table 6 – Non-Routine Projects 2016

Project Title	Project Scope	2016 Budget (\$'000)
Replace Access Bridge - Cherry Ck & Springs Ck (pending options analysis) - WEST BARRON DISTRIBUTION	An assessment of the bridge has identified several issues, including rotting timbers. Works are required if the bridge is to remain safe for use. A cost estimate for repair was received but because of the value, an options analysis to determine the appropriate repair or refurbishment options is warranted. This will be finalised in 2015. This project is to implement the recommendations of the options analysis.	283
Site audit and strategic plan for MDWSS I&D SCADA assets - Stage 2 (Implement findings) - MDA SCADA	An audit of the current SCADA system covering options for refurbishment or replacement was undertaken in 2013-14. The aim of the audit was to determine the condition, effectiveness and suitability of the current SCADA system and establish a strategic plan to meet the future system requirements. This project to implement its recommendations is continuing from 2015.	204
Replace Isolating Valve - SOUTH WALSH & MAREEBA DISTRIBUTION	This project is to replace ten scour valves. Scour valves are low risk assets and are run-to-fail. These valves have failed in service and must be replaced to ensure the pipelines are able to be drained in a controlled and efficient process.	90
Replace scour valve - WEST BARRON & SOUTHEDGE DISTRIBUTION	This project is to replace eight isolation valves. Pipeline isolation valves are low risk assets and are run-to-fail. These valves have failed in service and must be replaced to ensure the pipelines are able to be isolated when required.	56
Replace baulk with regulating gate - WEST BARRON DISTRIBUTION	The bulkhead at this site has been identified as a risk to service delivery performance. An investigation will be undertaken to determine the most appropriate action.	50
Other works	Various smaller replacement and refurbishment projects.	452
Total		1,135

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

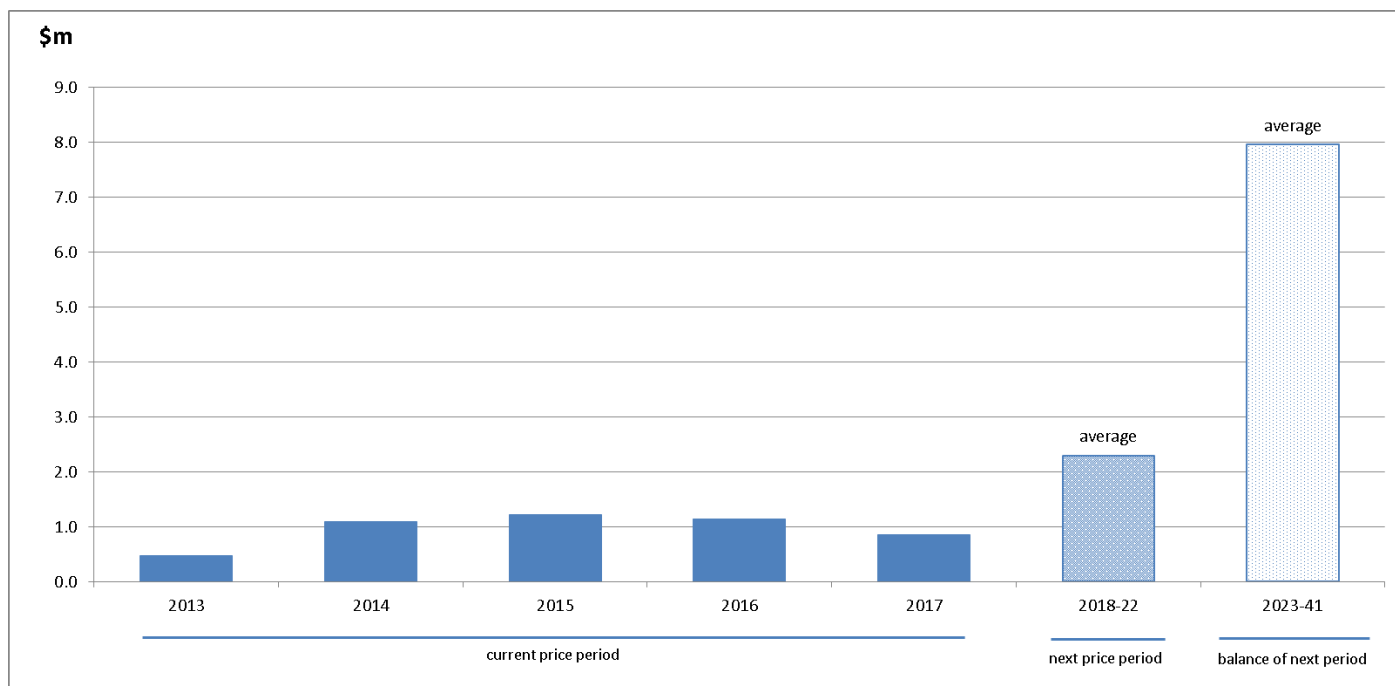
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(587)	660	1,507	2,301
Annuity Income	1,761	1,889	1,905	1,940
Spend	(471)	(1,091)	(1,224)	(1,135)
Interest	(44)	49	113	172
Closing Balance	660	1,507	2,301	3,278

* 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 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 Pipe Walsh River Siphon - WALSH BLUFF DISTRIBUTION

Year: 2032

Current estimate: \$3.94m

Options analysis completed: No

The scheduled replacement of the Walsh River Siphon at 11,900m along Walsh Bluff Main Channel is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed. The pipe is 1,200mm diameter RC. The siphon pipeline will reach the end of its serviceable life in 2039.

Replace Pipeline 8168.64M-9114.13M - EAST BARRON DISTRIBUTION

Year: 2032

Current estimate: \$4.37m

Options analysis completed: No

The scheduled replacement of 1,000m of the East Barron Main Channel is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed. The pipe is 900mm diameter MSCL. The section of pipeline will reach the end of its serviceable life in 2041.

Replace Pipeline 9114.13M-10744.82M - EAST BARRON DISTRIBUTION

Year: 2032

Current estimate: \$4.28m

Options analysis completed: No

The scheduled replacement of 1,600m of the East Barron Main Channel is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed. The pipe is 900mm diameter MSCL. The section of pipeline will reach the end of its serviceable life in 2041.

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	666		601		587		597	
Materials	13		4		5		5	
Contractors	1		1		2		2	
Other	446		662		892		575	
Non-direct	1,110		1,012		1,033		1,067	
Operations Total	2,236	120%	2,280	119%	2,519	129%	2,246	114%
Preventative								
Labour	204		229		208		197	
Materials	65		107		75		51	
Contractors	110		127		25		110	
Other	1		3		0		0	
Non-direct	110		212		354		350	
Preventative Total	489	98%	679	132%	662	126%	708	133%
Corrective								
Labour	266		305		401		403	
Materials	348		345		313		338	
Contractors	58		30		153		80	
Other	4		6		7		7	
Non-direct	459		512		699		722	
Corrective Total	1,136	83%	1,197	83%	1,573	105%	1,550	100%
Electricity	424	126%	412	114%	452	117%	519	125%
Total Routine Expenses	4,286	105%	4,567	108%	5,207	119%	5,023	112%
NON-ROUTINE EXPENSES								
Annuity Funded								
R&E - Annuity Funded	366		755		949		757	
Corrective	0		0		0		0	
Other	0		55		0		79	
Non-direct	105		282		275		299	
Total Annuity Funded Non-Routine	471	6%	1,091	15%	1,224	17%	1,135	15%
TOTAL REGULATED EXPENSES	4,757		5,659		6,431		6,158	
Non-Annuity Funded								
R&E - Non-Annuity Funded	2		3		0		0	
Non-direct	1		5		0		0	
Total Non-Annuity Funded	4	n/a	9	n/a	0	n/a	0	n/a
TOTAL EXPENSES	4,760		5,667		6,431		6,158	