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2016 Annual Network Service Plan

Pioneer 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		1,920
Irrigation		47,390
Urban		16,520
Other		0
SunWater		12,280
Total	22	78,110
QCA Assumed Water Usage for Irrigation		33.6%
QCA Assumed Water Usage for Total		44.2%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue	614	641	678	695
Industrial and Urban	679	720	755	840
Other Revenue	10	0	0	0
Total Revenue	1,303	1,361	1,433	1,536

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.)	500	96%	560	103%	673	123%	637	117%
Preventative	267	114%	280	115%	243	99%	332	137%
Corrective	209	113%	107	55%	126	65%	120	61%
Electricity	3	76%	3	82%	4	85%	4	79%
Total Routine Expenses	980	103%	951	96%	1,046	106%	1,093	111%

The budget routine spend is 11% above the QCA's target for 2015 however the budget falls to 99% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2016 is 17% above the QCA target, however this is 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 99% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is 37% above the QCA's target for 2016. This is due to focusing labour on preventative inspections and reducing corrective work.

Corrective Maintenance

Corrective maintenance is budgeted 39% below the QCA's target for 2016.

Electricity

Electricity costs are budgeted 21% below the QCA target in 2016 despite 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%. It is not unusual for Pioneer electricity costs to vary by +/- \$2k from year to year.

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 will exceed the five-year QCA target due to the need to implement projects that have arisen since the QCA's review e.g. the decommissioning of the Fabridams at Dumbleton and Mirani in 2015.

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	458		113		930		593	
Corrective	0		0		0		0	
Other	0		3		1		0	
Non-direct	210		115		232		211	
Annuity Funded Total	669	35%	231	12%	1,163	61%	804	42%
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)
Remove sheet piling cofferdam - MARIAN WEIR	There is a health and safety risk to the general public at Marian Weir. Members of public have been seen taking risks on the site and, following a risk assessment, it was decided to change the project from the initial intention of replacing the sheet piling coffer dam, to removing it altogether. Planning has been amended to reflect this and the works are planned to be carried out in FY2016.	279
Replace control system including SCADA for Teemburra dam, Palmtree Creek & Tannalo Valves - TEEMBURRA DAM	This project is to replace the SCADA and control systems at Teemburra Dam, Palmtree Creek and the Tannalo valve offtake. The current system is aged and obsolete parts are difficult to obtain for its ongoing maintenance.	176
5-yr Dam Comprehensive Inspection (by 1 Dec 2015) - TEEMBURRA DAM	This project is a comprehensive inspection of Teemburra Dam in accordance with the condition schedules.	167
Continue Fabricate & install Nappe Splitters - MIRANI WEIR	It is necessary to replace the collapsible splitter piers at Mirani Weir with a permanent arrangement. Collapsible piers function only for a short period during floods and are costly to reinstate due to WHS risk mitigation.	69
Install CCTV camera system, signage and extend fencing - MARIAN WEIR	This project is to enhance public safety at Marian weir by installing CCTV monitoring cameras, SunWater standard signage and fencing. It will only proceed subject to business case approval.	32
Other works	Various smaller replacement and refurbishment projects	81
Total		804

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

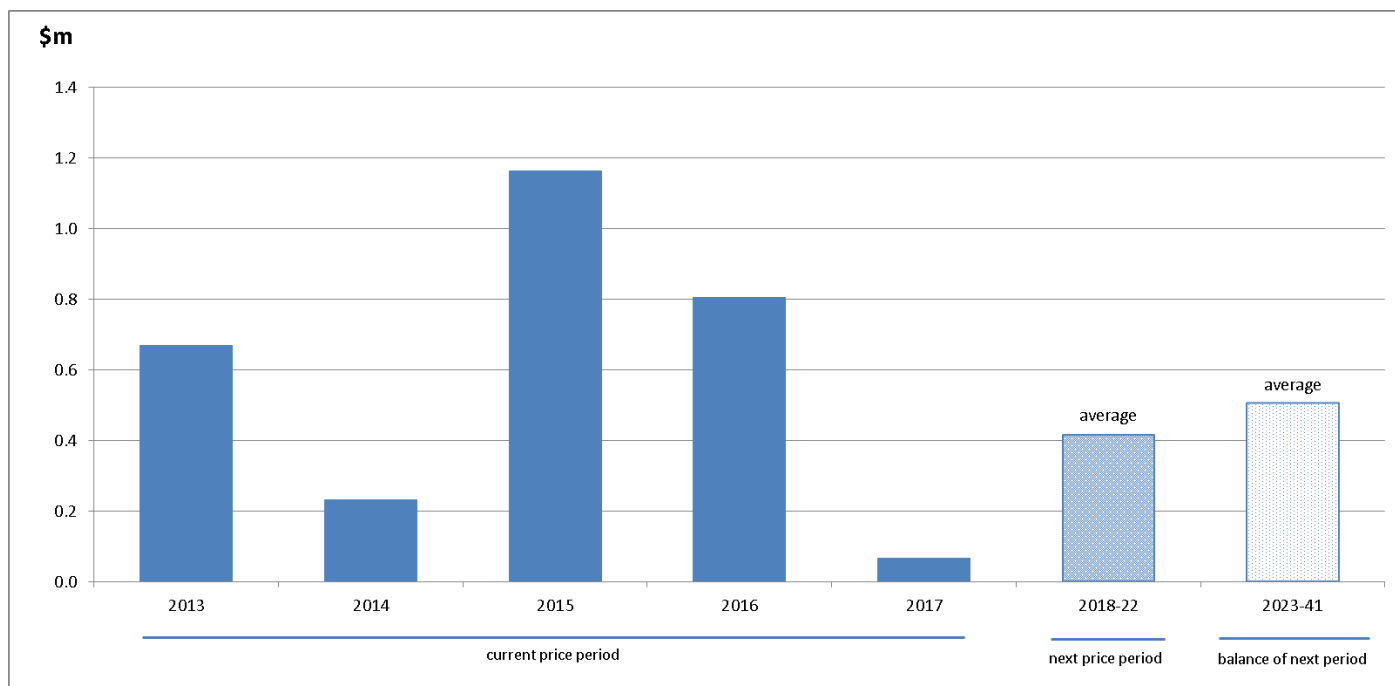
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(2,401)	(2,826)	(2,836)	(3,767)
Annuity Income	423	433	444	446
Spend	(669)	(231)	(1,163)	(804)
Interest	(180)	(212)	(212)	(282)
Closing Balance	(2,826)	(2,836)	(3,767)	(4,406)

* 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.

5yr Dam Comprehensive Inspection - TEEMBURRA DAM

Year: 2021

Current estimate: \$198k

Options analysis completed: No

Teemburra Dam is classed as a major dam with annual inspections and a comprehensive inspection every 5 years. These inspections are undertaken under SunWater policy. This inspection has allowed for internal inspection of the conduit using a dive team to perform the inspection to give certainty on asset condition and to identify any faults or defects which can be planned for repair rather than have sudden failures.

Study: 20yr Dam Safety Review - TEEMBURRA DAM

Year: 2022

Current estimate: \$435k

Options analysis completed: No

Teemburra Dam is a category 1 referable structure and the 20 Year Dam Safety Review is required for Queensland Government Regulatory Compliance. The review is a procedure for systematically assessing the safety of a dam after its original construction. It is a fresh engineering assessment of the integrity of all elements of a dam. It usually incorporates a:

- current failure impact assessment,
- detailed review of structural, hydraulic, hydrologic and geotechnical design aspects,
- review of historical operational performance,
- review of surveillance reports,
- comprehensive inspection of the dam, and
- comparison of the standards used for building and upgrading the dam against current design standards.

Given this requirement is mandatory, an options analysis will not be completed.

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 Fish Lock Hydraulics - DUMBLETON WEIR

Year: 2023

Current estimate: \$490k

Options analysis completed: No

The scheduled replacement of the fishlock hydraulic system at Dumbleton Weir is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed.

Replace Control Equipment - DUMBLETON WEIR

Year: 2024

Current estimate: \$387k

Options analysis completed: No

The scheduled replacement of the control equipment at Dumbleton Weir is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed.

Replace Winch-Main Dam Intake - TEEMBURRA DAM

Year: 2037

Current estimate: \$586k

Options analysis completed: No

The scheduled replacement of the winch on the main dam at Teemburra Dam 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	94		74		108		89	
Materials	1		2		2		7	
Contractors	12		8		83		80	
Other	206		326		262		243	
Non-direct	187		150		218		218	
Operations Total	500	96%	560	103%	673	123%	637	117%
Preventative								
Labour	83		76		34		57	
Materials	5		25		22		19	
Contractors	22		40		116		116	
Other	0		1		0		4	
Non-direct	158		139		71		136	
Preventative Total	267	114%	280	115%	243	99%	332	137%
Corrective								
Labour	47		14		4		5	
Materials	31		36		50		40	
Contractors	40		27		59		59	
Other	0		0		0		0	
Non-direct	91		29		13		16	
Corrective Total	209	113%	107	55%	126	65%	120	61%
Electricity	3	76%	3	82%	4	85%	4	79%
Total Routine Expenses	980	103%	951	96%	1,046	106%	1,093	111%
	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	458		113		930		593	
Corrective	0		0		0		0	
Other	0		3		1		0	
Non-direct	210		115		232		211	
Total Annuity Funded Non-Routine	669	35%	231	12%	1,163	61%	804	42%
TOTAL REGULATED EXPENSES	1,648		1,182		2,208		1,896	
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	1,648		1,182		2,208		1,896	