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2016 Annual Network Service Plan

St George 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

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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		0
Irrigation		54,868
Urban		0
Other		0
SunWater		9,701
Total	38	64,569

QCA Assumed Water Usage for Irrigation 86.0%

QCA Assumed Water Usage for Total 93.4%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue*	2,607	2,671	2,799	2,977
Drainage	203	210	210	220
Irrigation CSO	497	401	305	203
Industrial and Urban*	18	0	0	0
Other Revenue	8	0	1	1
Total Revenue	3,334	3,283	3,315	3,401

* 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 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.)	781	89%	795	89%	980	107%	1,009	109%
Preventative	457	133%	279	79%	401	110%	394	107%
Corrective	63	26%	82	32%	263	101%	272	104%
Electricity	73	139%	71	126%	60	100%	65	100%
Total Routine Expenses	1,374	91%	1,226	78%	1,704	106%	1,740	107%

The budget routine spend is 7% above the QCA's target for 2016 however the budget falls to 106% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2016 is 9% above the QCA target, however the budget for operations drops to 107% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

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

Corrective Maintenance

Corrective maintenance is budgeted 4% above the QCA's target for 2016.

Electricity

Electricity costs are budgeted in line with 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%. These price increases have been offset by the lower than average pumping expected in 2016. 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. There have been some corrective works in this service contract to repair flood damage, however these should be able to be accommodated within the QCA's targets.

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	236		144		93		574	
Corrective	4		146		369		0	
Other	0		6		0		0	
Non-direct	70		72		106		86	
Annuity Funded Total	311	12%	367	14%	568	22%	660	25%
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 two major projects planned for 2016 are provided below:

Table 6 – Non-Routine Projects 2016

Project Title	Project Scope	2016 Budget (\$'000)
Upgrade meter technology - convert to EMAG (Options, Design, Construct) - ST GEORGE DISTRIBUTION	This project is to upgrade the metering technology to current standards at sites where the existing meter had failed in service.	166
Design, manufacture & install switchboard & controls on transportable mount, including portable generator & fuel tank - BUCKINBAH PUMP STATION	An options analysis completed in 2015 determined that the most prudent and efficient option for the on-going operation of Buckinbah Pump Station was to purchase motor starters and generation units. This project actions those findings.	153
Install signage & handover bridge 1- ST GEORGE DISTRIBUTION	This project is to install signage and negotiate a handover of the bridge asset with the landholder who uses it.	121
Install signage & handover bridge 2 - ST GEORGE DISTRIBUTION	This project is to re-assess the structural capacity of the bridge and continue to negotiate its handover.	105
Implement recommendations from 2013 fencing audit to comply with P.M04 - ST GEORGE DISTRIBUTION	This project is to install fencing identified during a 2013 compliance inspection in accordance with SunWater's fencing policy.	92
Other works	Various smaller replacement and refurbishment projects.	23
Total		660

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

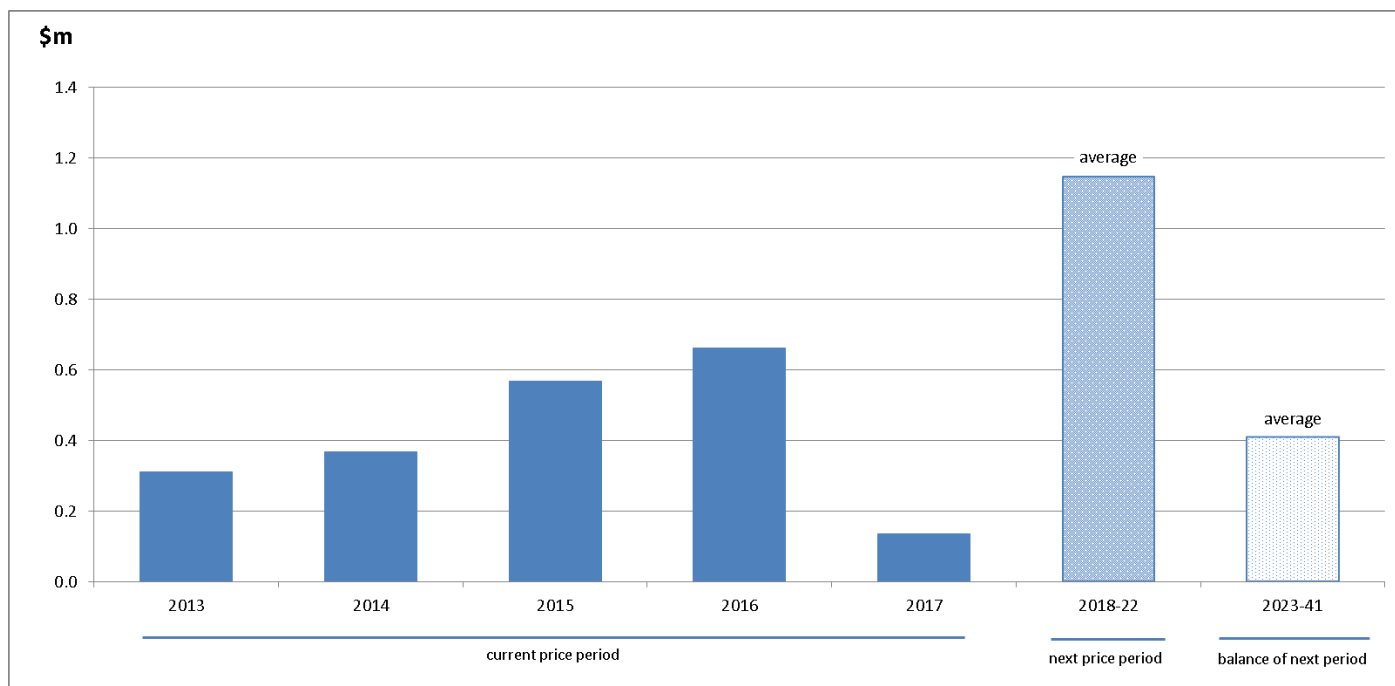
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(1,506)	(1,528)	(1,605)	(1,887)
Annuity Income	402	405	407	424
Spend	(311)	(367)	(568)	(660)
Interest	(113)	(114)	(120)	(141)
Closing Balance	(1,528)	(1,605)	(1,887)	(2,264)

* 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.

Construct new submersible type Pump Station - ST GEORGE PUMP STATION

Year: 2018-20

Current estimate: \$4.42m

Options analysis completed: Yes

The St George Pump Station requires replacement due to condition, reliability and WHS access issues. An options study to investigate alternatives for replacement or upgrade detailed a submersible pump station as the most appropriate and efficient option was undertaken in 2005. It considered three alternate pump station arrangements to replace the existing station. These were:

- (1) Retain existing infrastructure but replace equipment with new modern alternatives;
- (2) Retain infrastructure but replace pumping equipment with close coupled units; and
- (3) Replace all existing infrastructure with a submersible pump station.

This analysis recommended the construction of a new submersible pump station as the cheapest option and addressed all the issues identified. A new analysis should, however, be undertaken as there may be new options available not considered in 2005. Options that may be investigated include the supply of water from elsewhere in the distribution system through the use of relift pump stations, wet well column pumping arrangements, and the existing submersible pump station option.

This project is to implement the recommendations of the options analysis. The project will be completed over 2018-2020. The preparation of documents, drawings, specifications and the final cost estimate is scheduled for 2018.

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 Switchboard - ST GEORGE PUMP STATION

Year: 2033

Current estimate: \$331k

Options analysis completed: No

The scheduled replacement of the switchboard in St George 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 switchboard will reach the end of its serviceable life in 2033.

Replace Suction Pipe - ST GEORGE PUMP STATION

Year: 2035

Current estimate: \$613k

Options analysis completed: No

The scheduled replacement of the suction pipe of St George 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. There are three pipes requiring replacement: a 24", 21" and 16". Each of the pipelines will reach the end of their serviceable life in 2035.

Replace Siphon Offtake Structure 11M - ST GEORGE DISTRIBUTION

Year: 2039

Current estimate: \$219k

Options analysis completed: No

The scheduled replacement of the siphon offtake at 11m along Channel 2 in the SGWSS is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed. This structure supports a dual 48" diameter reinforced concrete siphon pipeline. The structure will reach the end of its serviceable life in 2037.

Replace Pump Station Structure - ST GEORGE PUMP STATION

Year: 2041

Current estimate: \$1.08m

Options analysis completed: No

The scheduled replacement of the St George Pump Station pump well structure is based on the standard asset life, but is subject to condition and risk assessments and an options analysis before it can proceed. The structure consists of reinforced concrete. It will reach the end of its serviceable life in 2037.

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	228		201		275		308	
Materials	92		104		75		65	
Contractors	2		32		2		4	
Other	77		116		155		90	
Non-direct	382		341		474		542	
Operations Total	781	89%	795	89%	980	107%	1,009	109%
Preventative								
Labour	136		82		105		108	
Materials	26		31		25		30	
Contractors	65		25		89		64	
Other	0		4		0		0	
Non-direct	230		136		182		192	
Preventative Total	457	133%	279	79%	401	110%	394	107%
Corrective								
Labour	20		23		87		78	
Materials	9		15		15		10	
Contractors	1		6		13		46	
Other	0		0		0		0	
Non-direct	33		38		148		138	
Corrective Total	63	26%	82	32%	263	101%	272	104%
Electricity	73	139%	71	126%	60	100%	65	100%
Total Routine Expenses	1,374	91%	1,226	78%	1,704	106%	1,740	107%
	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	236		144		93		574	
Corrective	4		146		369		0	
Other	0		6		0		0	
Non-direct	70		72		106		86	
Total Annuity Funded Non-Routine	311	12%	367	14%	568	22%	660	25%
TOTAL REGULATED EXPENSES	1,685		1,593		2,272		2,401	
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	1,685		1,593		2,272		2,401	