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2016 Annual Network Service Plan

Upper Condamine 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		0
Irrigation		30,314
Urban		3,207
Other		0
SunWater		227
Total	98	33,748
QCA Assumed Water Usage for Irrigation		36.6%
QCA Assumed Water Usage for Total		54.1%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000	2016 SunWater Budget \$'000
Irrigation Revenue	1,155	1,076	1,009	962
Drainage	0	0	0	0
Irrigation CSO	30	2	0	0
Industrial and Urban	945	1,008	973	1,059
Other Revenue	6	2	2	2
Total Revenue	2,135	2,088	1,984	2,023

¹ 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.

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.)	726	103%	700	95%	800	108%	802	109%
Preventative	155	88%	228	124%	167	91%	205	113%
Corrective	61	84%	11	15%	73	96%	82	107%
Electricity	104	163%	80	117%	79	108%	79	100%
Total Routine Expenses	1,047	103%	1,020	96%	1,120	105%	1,168	109%

The budget routine spend is 9% above the QCA's target for 2016 however the budget falls to 98% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2016 is 9% 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 95% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is budgeted 13% above the QCA's target for 2016.

Corrective Maintenance

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

Electricity

Electricity costs are budgeted in line the QCA target 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. 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 \$'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	26		99		424		518	
Corrective	66		15		0		0	
Other	0		0		0		0	
Non-direct	31		98		112		203	
Annuity Funded Total	123	5%	212	9%	536	22%	721	29%
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)
Repair pipeline with Straub couplings as per Options analysis - YARRAMALONG RISING MAIN	The pipeline from Yarramalong pump station & surge tank is leaking and could potentially fail beneath a sealed road. This project is to replace the failing section.	148
Refurbish Submersible PUN1 and PUN2 - YARRAMALONG PUMP STATION	There are 2 flygt pumps which are due and scheduled for a full refurbishment, however this project is still under review and an options study based on risk is currently underway.	98
Safety Initiative - Devise safer working procedure or replace floodlights with easier to maintain system - LESLIE DAM	We are unable to satisfactorily adhere to WH&S requirements to change the bulbs on the floodlights over the spillway at Leslie Dam. We therefore need to change the system so we can safely operate the dam at night.	70
Repair damaged protection works at Toe of Weir - LEMON TREE WEIR	Flood water has damaged the protection works at the toe of Lemon Tree Weir. The project is to rectify the issue.	64
Re-profile North Branch (poss required every 3 yrs instead of every 6 yrs) to keep water flowing - NANGWEE WEIR	This is a continuing project from 2015-16 to remove tree and debris build-up from the channel & allow full flow and water supply to downstream irrigators.	62
Other works	Various smaller replacement and refurbishment projects.	279
Total		721

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

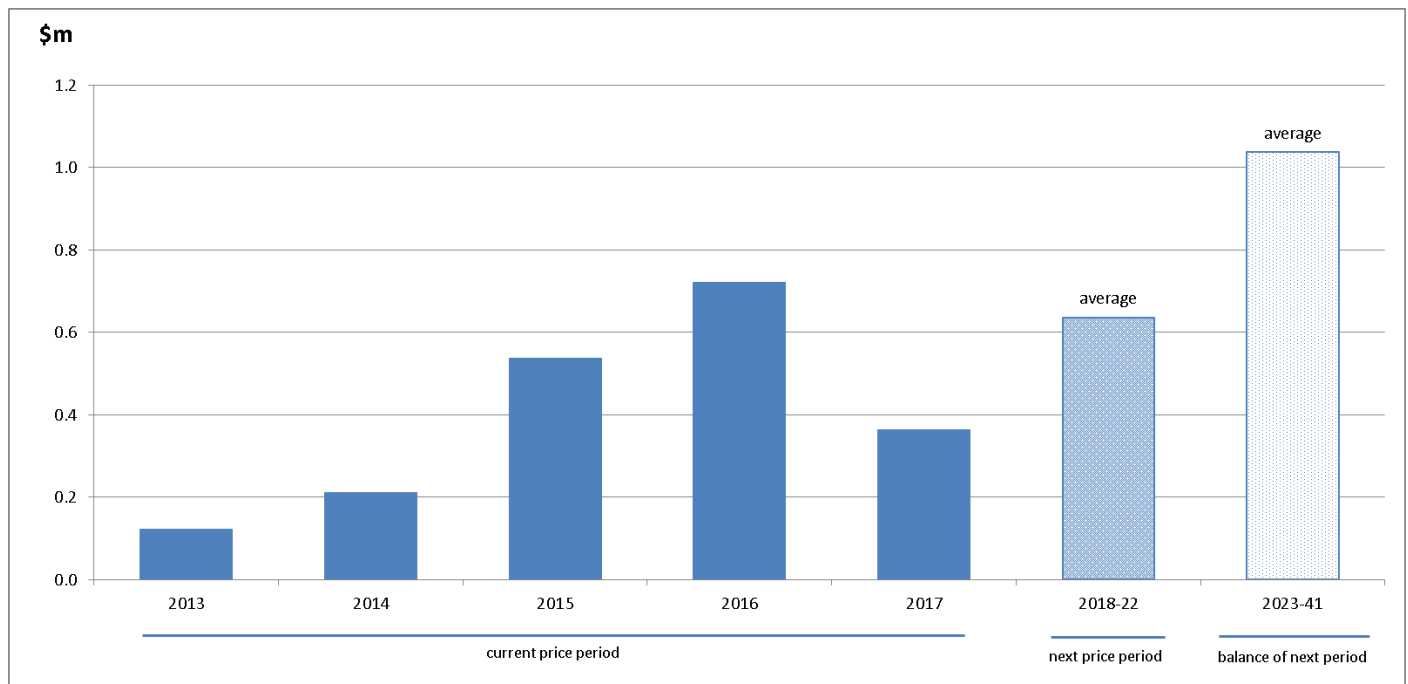
ANNUITY	2013	2014	2015*	2016
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(1,505)	(1,196)	(948)	(999)
Annuity Income	545	549	556	578
Spend	(123)	(212)	(536)	(721)
Interest	(113)	(90)	(71)	(75)
Closing Balance	(1,196)	(948)	(999)	(1,217)

* 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

Projects in 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 - LESLIE DAM

Year: 2018

Current estimate: \$374k

Options analysis completed: No

Leslie 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

Projects in 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 Cableways - LESLIE DAM

Year: 2029

Current estimate: \$2.34m

Options analysis completed: Yes

As some major electrical and control assets were approaching the end of their theoretical life, SunWater undertook a detailed condition assessment on all the electrical control assets at Leslie Dam. Based on the results of this work and primarily due to the stable environmental conditions at Leslie Dam and extended periods without flood, the options analysis came out in favour of extending the expected asset lives of these major electrical assets beyond their originally anticipated life of 35 years.

Part of the conditions for extending the life of the electrical assets saw the options analysis recommend that SunWater introducing a more frequent testing regime along with some precautionary key replacement of critical assets over the next couple of years. After implementing the results of the options analysis into the R&E program, with the addition of these minor works, assets with a replacement cost of around \$3 Million can be confidently pushed back some 10 years at this site, rescheduling the project for 2029-31, rather than 2019-21.

Replace Cable - LESLIE DAM

Year: 2030

Current estimate: \$1.2m

Options analysis completed: No

The electric cabling at Leslie dam has a finite life. The design life for the cabling is 35 years and as the installation was carried out in 1985, the estimated replacement date was 2020. During 2014/15 SunWater undertook a full condition assessment of the cabling system and, based on the positive data we received, we were able, with some degree of confidence, to push the replacement date out by an additional 10 years. Around 2026, we will commission another study with the view of either recommending replacement at a different time, or could involve documentation of a replacement plan.

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	194		148		195		143	
Materials	6		10		10		10	
Contractors	9		9		25		115	
Other	146		257		198		193	
Non-direct	372		275		372		340	
Operations Total	726	103%	700	95%	800	108%	802	109%
Preventative								
Labour	53		67		56		55	
Materials	4		8		3		3	
Contractors	3		29		2		19	
Other	1		4		2		2	
Non-direct	94		120		104		126	
Preventative Total	155	88%	228	124%	167	91%	205	113%
Corrective								
Labour	17		3		16		17	
Materials	7		1		17		17	
Contractors	2		0		6		6	
Other	0		1		1		1	
Non-direct	34		6		31		40	
Corrective Total	61	84%	11	15%	73	96%	82	107%
Electricity	104	163%	80	117%	79	108%	79	100%
Total Routine Expenses	1,047	103%	1,020	96%	1,120	105%	1,168	109%
	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	26		99		424		518	
Corrective	66		15		0		0	
Other	0		0		0		0	
Non-direct	31		98		112		203	
Total Annuity Funded Non-Routine	123	5%	212	9%	536	22%	721	29%
TOTAL REGULATED EXPENSES	1,169		1,232		1,656		1,889	
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	1,169		1,232		1,656		1,889	