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2015 Annual Network Service Plan

Barker Barambah Bulk

June 2014

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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 2015 NSPs for each of 30 Service Contracts during March 2014. 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>.

The feedback has led to changes being made to SunWater's plans for 2015. While the plans for 2015 are now complete, customer feedback is always welcome 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		60
Irrigation		31,361
Urban		2,200
Other		0
SunWater		694
Total	173	34,315
QCA Assumed Water Usage for Irrigation		37.9%
QCA Assumed Water Usage for Total		55.1%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	566	744	797
Irrigation CSO	1	0	0
Industrial and Urban*	325	247	195
Other Revenue	8	8	8
Total Revenue	900	999	1,001

¹ The 2015 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 Budget	% of 2014 Target	2015 SunWater Budget	% of 2015 Target
	\$'000	%	\$'000	%	\$'000	%
Operations (Excl. Elect.)	598	103%	630	105%	720	119%
Preventative	46	41%	111	96%	98	84%
Corrective	22	43%	46	86%	54	101%
Electricity	10	62%	11	64%	13	68%
Total Routine Expenses	676	89%	798	101%	884	112%

The budget routine spend is 12% above the QCA's target for 2015 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 2015 is 19% 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 100% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

SunWater has restructured its bulk water business during 2013/14. As a consequence the bulk water business will undertake a number of maintenance tasks, such as electrical and mechanical servicing, utilising specialist private sector organisations. Therefore the budget for preventive maintenance, at 84% of target, reflects a reduction in internal labour that is offset by an increase in contract services. The costs of the contract services are yet to be confirmed via the market.

Corrective Maintenance

Corrective maintenance is budgeted in line with the QCA's target for 2015.

Electricity

Electricity costs are budgeted at \$6k below the QCA target in 2015 and were revised up after feedback received from the NSP consultation. The budget is still below target despite the QCA limiting estimated tariff increases to around 30% over the first three years of the price path when actual increases have been around 50%. Barker Barambah electricity costs can vary significantly from year-to-year but represent less than 1% of total routine costs.

² The 2015 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, the most recent of which was completed in February 2014; 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.

2015 Non-Routine Budget

The budget non-routine spend for 2015 is shown in the table below, along with the actual spend for 2013 and the budget spend for 2014. The corrective works in 2013 and 2014 make it likely that the 2013-17 spend for non-routine works will exceed the five-year QCA target. Corrective works are unplanned and were not allowed for in the QCA's targets.

Table 5 – Non-Routine Expenditure

	2013 SunWater Actual \$'000	% of 2013-17 Target %	2014 SunWater Budget \$'000	% of 2013-17 Target %	2015 SunWater Budget \$'000	% of 2013-17 Target %
Annuity Funded						
R&E - Annuity Funded	31		105		39	
Corrective	33		123		20	
Other	5		0		0	
Non-direct	51		138		9	
Annuity Funded Total	120	35%	366	106%	68	20%
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		0		0	
Non-direct	0		0		0	
Total Non-Annuity Funded	0	n/a	0	n/a	0	n/a

The detail for the major projects planned for 2015 is provided below.:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
11BBA01 Reform access road to OLB (2008DS Rec 8.2a) - BJELKE-PETERSEN DAM	The road section between the council public road and the start of the SunWater sealed section of road requires backfilling potholes and placing road base over the section and grading and profiling the road to shed water towards the drainage systems. This project was originally planned for 2013	35
Flood damage repairs at Bjelke-Petersen Dam	Inundation during the 2013 floods caused extensive damage to the Outlet Works Valve House, electrical and mechanical components, and also to the floor of the spillway chute. This project is a continuation of work started in 2013.	21
Other works		12
Total		68

Annuity Balance

The estimated 2014 and 2015 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 2015 is shown in the following table. The balances for 2014 and 2015 are estimates only at this stage because the final actual spends for 2014 and 2015 will not be known until after each of these years is completed.

Table 7 – Annuity Balances

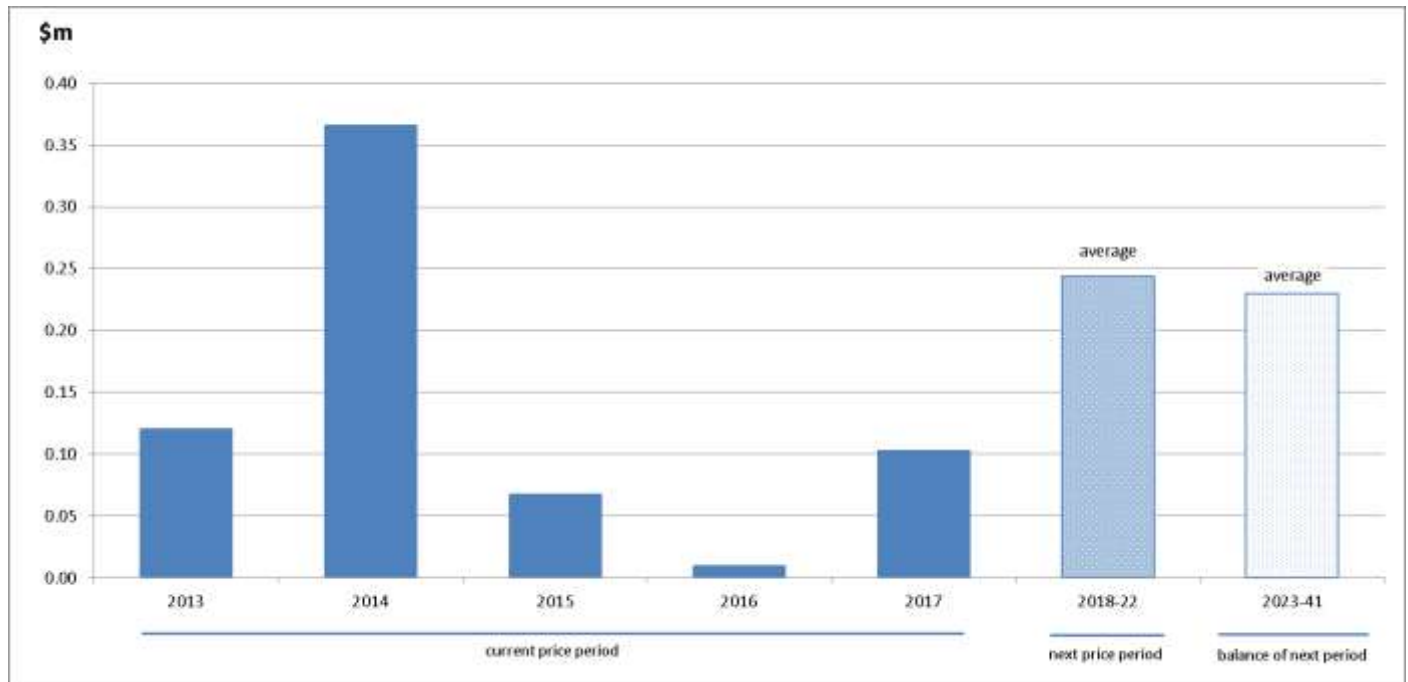
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(1,270)	(1,254)	(1,485)		
Annuity Income	231	230	238	240	246
Spend	(120)	(366)	(68)		
Interest	(95)	(94)	(111)		
Closing Balance	(1,254)	(1,485)	(1,425)		

* All 2014 and 2015 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. The large spike in spending in 2014 is to cover necessary flood repairs.

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 2015-17

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 2015-17 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.

Manufacture and install new inlet structure from design in 2009 - SILVERLEAF WEIR

Year: 2018

Current estimate: \$376k

Options analysis completed: No

The existing structure has corroded away and is becoming a WHS issue. The estimate is based on the manufacture and installation of a new inlet structure as per the approved 2009 design. An options analysis will be completed closer to the implementation date to confirm the preferred option.

Material Projects 2023-41

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.

Replace Cables & Cableways - design, procure - BJELKE-PETERSEN DAM

Year: 2022

Current estimate: \$180k

Options analysis completed: No

Plan to replace cables and cableways at Dam in 2022 on the basis that they would have reached end of life. We will condition assess cables through an ongoing program of electrical testing to monitor ageing and deterioration to better determine replacement timelines. Options are limited to maintaining assets in service for as long as possible and then replacing on a like for like basis or using alternative distribution methods such as overhead, if this is possible or practical. An options analysis will be completed closer to the implementation date.

Appendix – Total Expenditure by Expense Type

Table 8 – Expenditure for Activity by Type

	2013 SunWater Actual \$'000	% of 2013 Target %	2014 SunWater Budget \$'000	% of 2014 Target %	2015 SunWater Budget \$'000	% of 2015 Target %
ROUTINE EXPENSES						
Operations						
Labour	128		138		150	
Materials	1		9		8	
Contractors	18		23		12	
Other	200		184		260	
Non-direct	251		277		291	
Operations Total	598	103%	630	105%	720	119%
Preventative						
Labour	16		37		29	
Materials	1		2		1	
Contractors	0		2		15	
Other	0		0		0	
Non-direct	29		71		54	
Preventative Total	46	41%	111	96%	98	84%
Corrective						
Labour	6		11		16	
Materials	2		11		6	
Contractors	1		2		2	
Other	0		0		0	
Non-direct	13		22		29	
Corrective Total	22	43%	46	86%	54	101%
Electricity	10	62%	11	64%	13	68%
Total Routine Expenses	676	89%	798	101%	884	112%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	31		105		39	
Corrective	33		123		20	
Other	5		0		0	
Non-direct	51		138		9	
Total Annuity Funded Non-Routine	120	35%	366	106%	68	20%
TOTAL REGULATED EXPENSES	796		1,164		952	
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		0		0	
Non-direct	0		0		0	
Total Non-Annuity Funded	0	n/a	0	n/a	0	n/a
TOTAL EXPENSES	796		1,164		952	