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2015 Annual Network Service Plan

Boyne 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		30,134
Irrigation		9,566
Urban		2,755
Other		375
SunWater		1,625
Total	158	44,455
QCA Assumed Water Usage for Irrigation		48.9%
QCA Assumed Water Usage for Total		53.9%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	359	207	276
Industrial and Urban*	79	62	67
Other Revenue	2	2	2
Total Revenue	440	271	345

* 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 budget revenue for 2014 has been updated from the draft NSP to be consistent with SunWater's final 2013/14 SCI submission.

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.)	1,065	396%	275	98%	389	139%
Preventative	30	31%	87	89%	98	99%
Corrective	12	51%	19	75%	30	119%
Electricity	0	n/a	0	n/a	0	n/a
Total Routine Expenses	1,107	285%	381	94%	517	128%

The budget routine spend is 28% above the QCA's target for 2015 however the budget falls to 100% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2015 is 39% 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 budgeted in line with the QCA's target for 2015. SunWater has restructured its bulk water business during 2013/14. As a consequence the bulk water business will not undertake a number of maintenance tasks such as electrical and mechanical servicing with internal resources. These services will be sourced from specialist private sector organisations.

Corrective Maintenance

Corrective maintenance is budgeted 19% above the QCA's target for 2015. SunWater will continue to refine budgets to bring the overall expenditure into line with target.

Electricity

No electricity costs planned for this service contract in 2015.

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. Overall, the 2013-17 non-routine spend will exceed the five-year QCA target. There has been significant corrective works in this service contract to repair flood damage; corrective works are unplanned and were not allowed for in the QCA's targets. Since the draft NSP was published the estimate for the Boondooma spillway repairs has increased by \$222k.

Table 5 – Non-Routine Expenditure

	2013 SunWater Actual	% of 2013-17 Target	2014 SunWater Budget	% of 2013-17 Target	2015 SunWater Budget	% of 2013-17 Target
	\$'000	%	\$'000	%	\$'000	%
Annuity Funded						
R&E - Annuity Funded	33		139		46	
Corrective	932		0		326	
Other	8		0		0	
Non-direct	966		136		155	
Annuity Funded Total	1,938	347%	276	49%	526	94%
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 details for the three major projects planned for 2015 are provided below:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
Boondooma Dam Spillway Repairs - BOONDOOMA DAM	Investigations into repair strategy for Boondooma spillway. Asset delivery is working on a range of options and designs.	438
Improve ladder safety in Boondooma OLB - entry level to first floor (2013 DS Rec 2.8.1a) - BOONDOOMA DAM	Extend the height of the hand rail to prevent people falling into the valve pit (drop is up to 6 meters).	26
Flood damage repairs at Boondooma Dam (excluding spillway)	During the 2013 floods the Valve House Building was partially inundated. This resulted in damage to the electrical and mechanical components. The valve house roller door was severely damaged and requires replacing. This project is a continuation of the work started in 2013.	21
Other works		41
Total		526

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

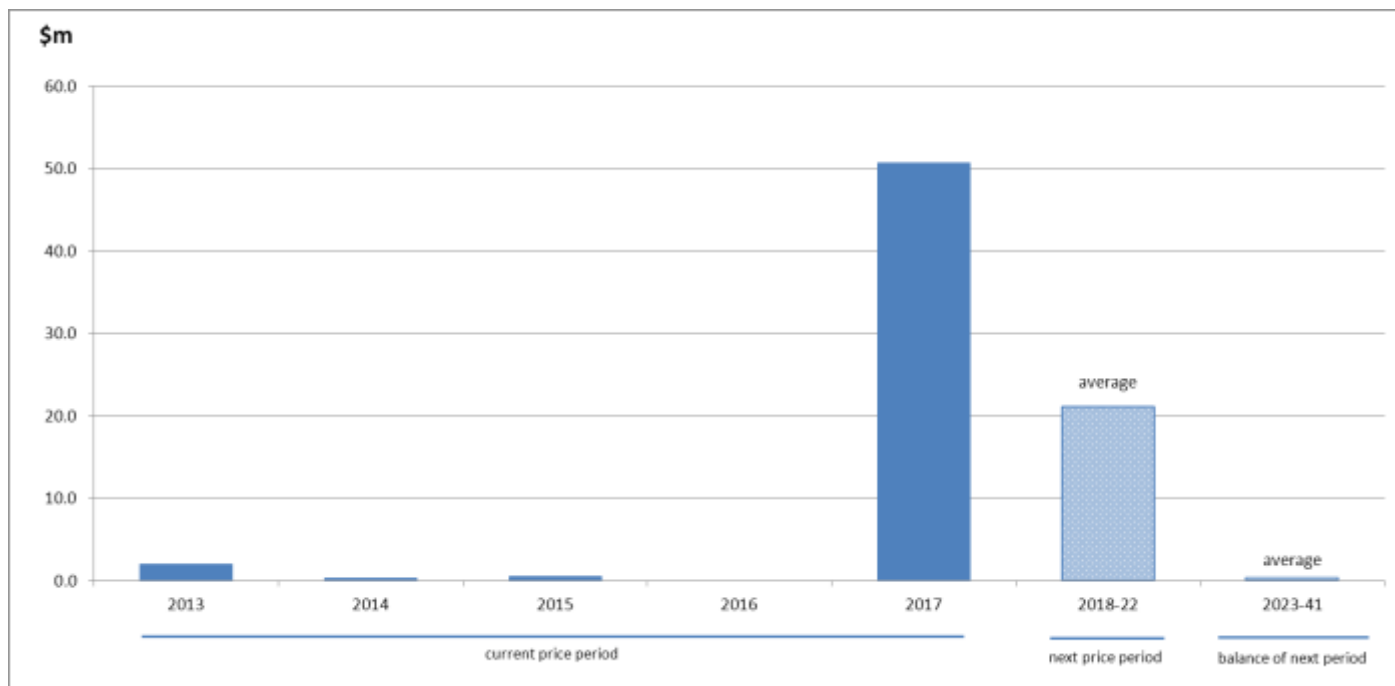
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(170)	(2,108)	(2,528)		
Annuity Income	13	13	17	17	17
Spend	(1,938)	(276)	(526)		
Interest	(13)	(158)	(189)		
Closing Balance	(2,108)	(2,528)	(3,227)		

* 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 Boondooma spillway repairs dominates planned future spend at an estimated \$155m spent over 2017-19.

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

Boondooma Spillway Flood Damage Repairs - BOONDOOMA DAM

Year: 2017-19

Current estimate: \$155m

Options analysis completed: No

Substantial damage occurred to the Boondooma spillway in both the 2010-11 and 2013 floods. The future plan includes a project to implement the preferred engineering solution at an estimated cost of \$155m. SunWater has not yet made a decision as to the preferred business strategy and is continuing to work with insurers and key stakeholders. The insurance claim is still being developed. The \$155m is the current best estimate for repairs and an options study is currently nearing completion with assessment of the preferred option to be determined later in the year.

A proportion of these costs may be covered by insurance, however the amount to be returned is uncertain and insurance claims of this nature can take years to settle. The difference between the cost of repairs and the insurance returns will be funded from

the annuity and will impact prices. A HUF of 90% in the Boyne scheme means that the majority of the cost shortfall will not be apportioned to medium priority customers such as irrigators.

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

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 Access Bridge - BOONDOOMA DAM

Year: 2040

Current estimate: \$2m

Options analysis completed: No

Replacement of Access Bridge to the inlet structure. Regular condition assessments of the access bridge will determine if it requires refurbishment or replacement and will determine the required timing. An options analysis will be completed closer to the implementation.

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	118		52		55	
Materials	3		3		1	
Contractors	3		9		35	
Other	693		106		186	
Non-direct	249		106		113	
Operations Total	1,065	396%	275	98%	389	139%
Preventative						
Labour	10		27		17	
Materials	1		5		1	
Contractors	0		1		46	
Other	0		1		0	
Non-direct	18		53		34	
Preventative Total	30	31%	87	89%	98	99%
Corrective						
Labour	3		3		9	
Materials	1		5		0	
Contractors	2		4		4	
Other	0		1		0	
Non-direct	6		6		17	
Corrective Total	12	51%	19	75%	30	119%
Electricity	0	n/a	0	n/a	0	n/a
Total Routine Expenses	1,107	285%	381	94%	517	128%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	33		139		46	
Corrective	932		0		326	
Other	8		0		0	
Non-direct	966		136		155	
Total Annuity Funded Non-Routine	1,938	347%	276	49%	526	94%
TOTAL REGULATED EXPENSES	3,045		656		1,044	
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	3,045		656		1,044	