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2015 Annual Network Service Plan

Bundaberg Distribution

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

Disclaimer

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		383
Irrigation		155,109
Urban		1,809
Other		46
SunWater		41,520
Total	**880**	**198,867**

QCA Assumed Water Usage for Irrigation	41.1%
QCA Assumed Water Usage for Total	48.0%

Revenue

Table 3 – Revenue[1]

	2013 SunWater Actual $'000	2014 SunWater Budget $'000	2015 SunWater Budget $'000
Irrigation Revenue*	8,723	7,029	10,079
Irrigation CSO	1,074	761	466
Industrial and Urban*	783	672	684
Other Revenue	284	123	123
Total Revenue	**10,864**	**8,584**	**11,352**

* 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 Expenditure[2]

	2013 SunWater Actual	% of 2013 Target	2014 SunWater Budget	% of 2014 Target	2015 SunWater Budget	% of 2015 Target
	$'000	%	$'000	%	$'000	%
Operations (Excl. Elect.)	2,550	106%	2,557	104%	3,456	137%
Preventative	1,540	89%	1,857	105%	2,003	110%
Corrective	1,392	140%	1,063	104%	1,108	106%
Electricity	2,425	82%	2,500	79%	3,500	103%
Total Routine Expenses	**7,907**	**98%**	**7,977**	**95%**	**10,067**	**115%**

The budget routine spend is 15% above the QCA's target for 2015 however the budget falls to 103% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2015 is 37% 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 100% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventative maintenance is budgeted above the QCA's target for 2015. SunWater will continue to refine budgets with the aim of bringing the overall expenditure into line with target.

Corrective Maintenance

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

Electricity

Electricity costs are budgeted 3% higher than the QCA target in 2015 due to 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 30% over the first three years of the price path whereas actual increases have been around 50%. Resultant cost over-runs are beyond SunWater's control.

SunWater will continue to review tariffs each year to identify the best tariff for the expected future operations.

[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, 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. This is despite the 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. The flood repairs to Don Beattie pumpstation has been added to the program of works for 2015.

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	362		545		680	
Corrective	595		185		680	
Other	2		0		0	
Non-direct	554		243		364	
Annuity Funded Total	**1,513**	**33%**	**974**	**21%**	**1,724**	**38%**
Non-Annuity Funded						
R&E - Non-Annuity Funded	176		0		0	
Non-direct	97		0		0	
Total Non-Annuity Funded	**273**	**n/a**	**0**	**n/a**	**0**	**n/a**

The details for the five major projects planned for 2015 are provided below:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget ($'000)
Flood Damage Repairs - Don Beattie PSTN	Don Beattie PSTN has bank instability issues that have been closely monitored by way of regular deformation surveys and analysis since 1988. Movement within the embankment and the structures themselves is observed to be continuing. Significant erosion to the point of exposing the rising main during recent flood events in conjunction with the latest deformation surveys analysis have raised concerns that replacing the eroded material as originally intended as part of these flood repairs will likely not be sufficient to ensure the continued structural integrity of the significant infrastructure at the site. The infrastructure comprises the dry pump well housing the pump station itself and intake, rising main and surge tank. Urgent works has been deemed necessary to reduce the current high risk at the site and a nominal budget has been included in the 2015 year as it is considered highly probably that significant rectification works will be required. The nominal estimate includes establishing the actual level of risk, undertaking design to remedy, and construction of works required to stabilise the toe of the slope immediately above the dry well and to provide protection of the rising main from future floods. This nominal budget will be revised when accurate estimates can be made following completion of the initial detailed design.	763
Replace 120m lengths of pipeline as per option analysis hummingbird doc No. 756460 - FARNSFIELD DISTRIBUTION	There have been a significant number of pipe breaks in the Farnsfield system. Studies were undertaken in 2009 which determined the most appropriate and cost effective action to reduce the risk of service interruptions was staged replacement of the pipe. This project is a continuation of this strategy.	79

Design & Install Permanent Stiffening Support - GOOBURRUM PUMP STATION	Permanent stiffening of pump base to be designed and installed in order to reduce destructive vibration. Refer Dowding & Mills Report	53
Repair/Replace Fencing - WOONGARRA DISTRIBUTION	Existing fencing extensively damaged by trespassers. Therefore not PM 04 compliant. This poses unacceptable risk to SunWater.	45
Refurbish slide gates including protective coating and wear surfaces - GOOBURRUM DISTN.	This project is to refurbish the slide gates. The protective coating and wear surfaces have reached a condition whereby they require refurbishment to ensure continued reliable delivery and isolation.	41
Other works	Comprises many smaller refurbishment projects involving mostly gates, pumps and valves.	743
Total		1724

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

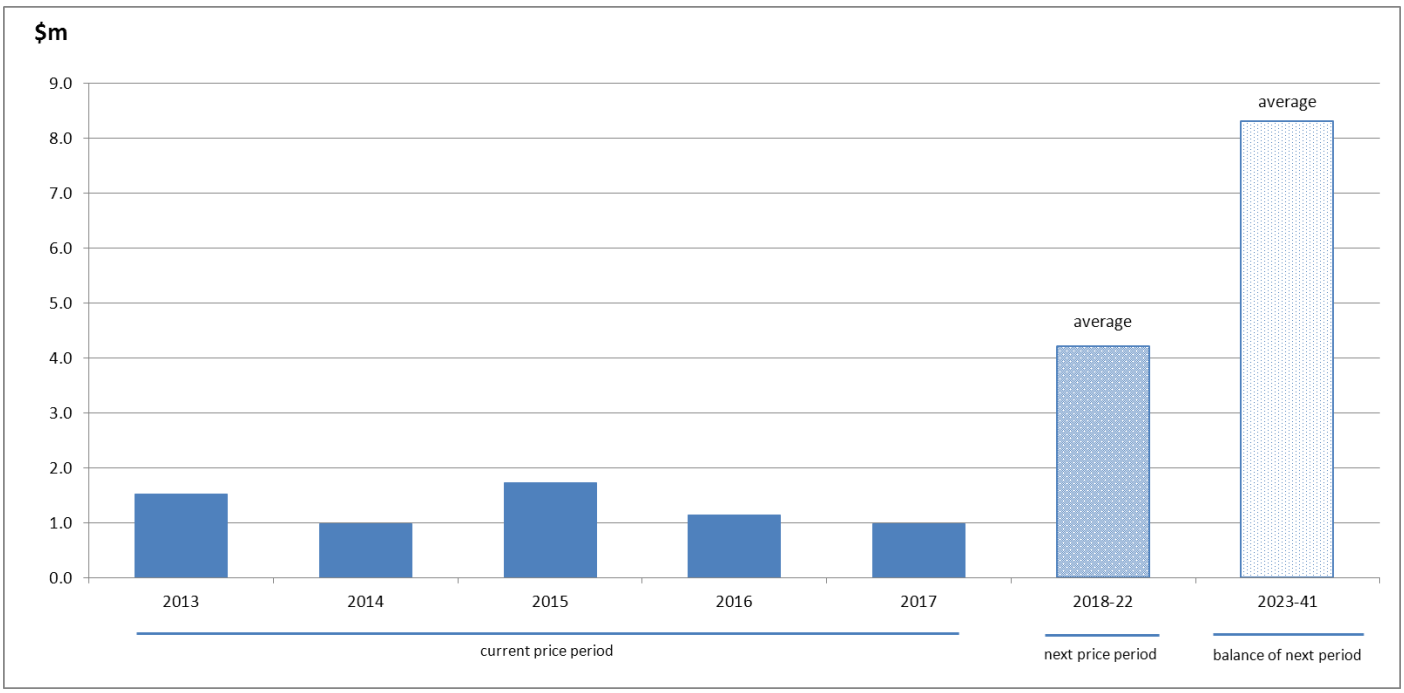
	2013	2014*	2015*	2016	2017
	$'000	$'000	$'000	$'000	$'000
Opening Balance	2,485	2,605	3,439		
Annuity Income	1,446	1,613	1,683	1,789	1,860
Spend	(1,513)	(974)	(1,724)		
Interest	186	195	258		
Closing Balance	2,605	3,439	3,655		

* 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.

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

Flood Damage Repairs - DON BEATTIE PUMP STATION

Year: 2015

Current estimate: $763k

Options analysis completed: No

Don Beattie PSTN has bank instability issues that have been closely monitored by way of regular deformation surveys and analysis since 1988. Movement within the embankment and the structures themselves is observed to be continuing. Significant erosion to the point of exposing the rising main during recent flood events in conjunction with the latest deformation surveys analysis have raised concerns that replacing the eroded material as originally intended as part of these flood repairs will likely not be sufficient to ensure the continued structural integrity of the significant infrastructure at the site. The infrastructure comprises the dry pumpwell housing the pump station itself and intake, rising main and surge tank.

Urgent works has been deemed necessary to reduce the current high risk at the site and a nominal budget has been included in the 2015 year as it is considered highly probably that significant rectification works will be required. The nominal estimate includes establishing the actual level of risk, undertaking design to remedy, and construction of works required to stabilise the toe of the slope immediately above the dry well and to provide protect-ion of the rising main from future floods. This nominal budget will be revised when accurate estimates can be made following completion of the initial detailed design.

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

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 2023-41 period.

Appendix –Total Expenditure by Expense Type

Table 8 – Expenditure for Activity by Type

	2013 SunWater Actual	% of 2013 Target	2014 SunWater Budget	% of 2014 Target	2015 SunWater Budget	% of 2015 Target
	$'000	%	$'000	%	$'000	%
ROUTINE EXPENSES						
Operations						
Labour	642		564		663	
Materials	17		27		8	
Contractors	4		8		4	
Other	803		949		1,586	
Non-direct	1,084		1,008		1,195	
Operations Total	**2,550**	**106%**	**2,557**	**104%**	**3,456**	**137%**
Preventative						
Labour	417		520		588	
Materials	310		313		280	
Contractors	109		113		120	
Other	4		6		5	
Non-direct	700		905		1,010	
Preventative Total	**1,540**	**89%**	**1,857**	**105%**	**2,003**	**110%**
Corrective						
Labour	397		290		309	
Materials	285		231		233	
Contractors	17		33		33	
Other	1		3		0	
Non-direct	692		506		533	
Corrective Total	**1,392**	**140%**	**1,063**	**104%**	**1,108**	**106%**
Electricity	**2,425**	**82%**	**2,500**	**79%**	**3,500**	**103%**
Total Routine Expenses	**7,907**	**98%**	**7,977**	**95%**	**10,067**	**115%**

	2013 SunWater Actual	% of 2013-17 Target	2014 SunWater Budget	% of 2013-17 Target	2015 SunWater Budget	% of 2013-17 Target
	$'000	%	$'000	%	$'000	%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	362		545		680	
Corrective	595		185		680	
Other	2		0		0	
Non-direct	554		243		364	
Total Annuity Funded Non-Routine	**1,513**	**33%**	**974**	**21%**	**1,724**	**38%**
TOTAL REGULATED EXPENSES	**9,420**		**8,951**		**11,791**	
Non-Annuity Funded						
R&E - Non-Annuity Funded	176		0		0	
Non-direct	97		0		0	
Total Non-Annuity Funded	**273**	**n/a**	**0**	**n/a**	**0**	**n/a**
TOTAL EXPENSES	**9,693**		**8,951**		**11,791**	