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2015 Annual Network Service Plan

Burdekin 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

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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		550
Irrigation		320,288
Urban		10,000
Other		8
SunWater		206,737
Total	312	537,583
QCA Assumed Water Usage for Irrigation		77.6%
QCA Assumed Water Usage for Total		76.3%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	11,378	13,098	15,685
Drainage	638	638	638
Irrigation CSO	3,645	3,015	2,412
Industrial and Urban*	602	607	621
Other Revenue	12	9	9
Total Revenue	16,275	17,367	19,364

* 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 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.)	4,431	101%	4,832	107%	5,094	111%
Preventative	2,724	82%	3,460	101%	3,435	98%
Corrective	3,054	207%	1,576	104%	2,134	137%
Electricity	4,299	94%	4,632	95%	5,809	111%
Total Routine Expenses	14,508	105%	14,499	101%	16,472	111%

The budget routine spend is 11% above the QCA's target for 2015 however the budget falls to 102% of target when the above-QCA increases in insurance and electricity are taken into account. There are \$320k of additional costs associated with the Giru Benefitted Area which have been transferred from the bulk service contract to distribution.

Operations

The operations budget in 2015 is 11% 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 96% 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.

Corrective Maintenance

Corrective maintenance is budgeted 37% above the QCA's target for 2015. Based on the last 3 years, the corrective costs have increased substantially in Burdekin Distribution due to the aging of the assets and high utilisation of these assets.

Electricity

Electricity costs are budgeted 11% 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.

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. At this stage, it is expected that the renewals spend for 2013-17 will exceed the QCA's five-year target. This variance is primarily due to the inclusion of the Variable Speed Drive project at Tom Fenwick pump stations, which will only proceed if there is an overwhelmingly positive business case which has the support of customers.

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	1,216		1,056		2,607	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	351		357		378	
Annuity Funded Total	1,568	22%	1,413	20%	2,985	41%
Non-Annuity Funded						
R&E - Non-Annuity Funded	194		0		0	
Non-direct	63		0		0	
Total Non-Annuity Funded	257	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	2014 Budget (\$'000)
Energy Saving Project Tom Fenwick PSTN - Study, Design, Installation (Ergon Energy) - TOM FENWICK PUMP STATION 1	Ergon Energy has approached SunWater to collaboratively investigate the potential for energy savings at Tom Fenwick Pump Stations. Ergon Energy will contribute \$100k to fund the study. The study will investigate the benefits on installing Variable Speed Drives on the pump motors. This project is to implement recommendations from the study, should it go ahead.	1,502
Replace Control Equipment - MILLAROO A PUMP STATION	The purpose of this project is to install a PLC, SCADA system into Millaroo A pump station. The new system will allow remote condition and efficiency monitoring and remote pump station control and diagnoses. This project is 4 - 5 years over its nominal replacement date and parts and no longer supported by the manufacturer.	150
Replace Fire Alarm System - TOM FENWICK PUMP STATION 1	The fire alarm system at Tom Fenwick pump station has reached the end of its life. The equipment is no longer supported and is obsolete. It has been identified in insurance audits that it is non-functioning and needs to be reinstated to meet the conditions of SunWater's insurance policies.	54
Replace Flowmeter - Millaroo Pump Station B (Current dall tube type does not comply with new NWI standards)	The current aged flow meter (installed in 1970) has failed and will be replaced and upgraded to meet the current AS4747 metering standard. Replacement/upgrade is favoured over repair to address ongoing issues of accuracy, reliability, maintenance cost and WH&S risks associated with the current arrangement.	46

Refurbish PUN1 Pump - Millaroo Pump Station B	Submersible Flygt pump to undergo routine internal inspection/ refurbishment based on current condition & interval since last overhaul to maintain continued reliability.	41
Other works	Various replacement and refurbishment projects.	1,192
Total		2,985

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

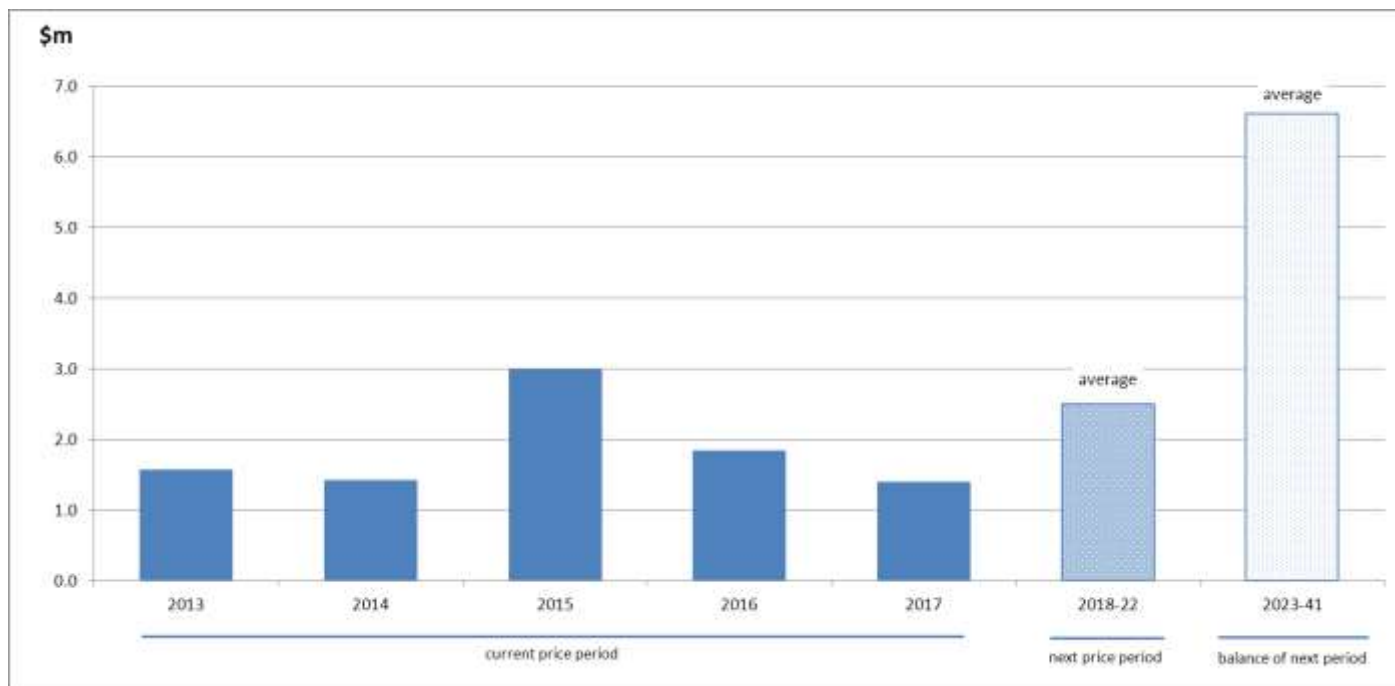
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(5,918)	(5,440)	(4,529)		
Annuity Income	2,489	2,731	2,829	2,960	3,084
Spend	(1,568)	(1,413)	(2,985)		
Interest	(443)	(407)	(339)		
Closing Balance	(5,440)	(4,529)	(5,025)		

* 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. A significant change to the profile over the current price path is the proposal to potentially spend \$1.5m on variable speed drives at Tom Fenwick Pump Stations if the business case justifies the investment.

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

Energy Saving Project, Study, Design, Installation (Ergon Energy) - TOM FENWICK PUMP STATION 1

Year: 2015

Current estimate: \$1.5m

Options analysis completed: No

Ergon Energy has approached SunWater to collaboratively investigate the potential for energy savings at Tom Fenwick Pump Stations. Ergon Energy will contribute \$100k to fund the study. The study will investigate the benefits on installing Variable Speed Drives on the pump motors. SunWater will independently assess the outcomes of the study to decide if the project should go ahead and even then, this project will only proceed if there is an overwhelmingly positive business case which has the support of customers.

If this project proceeds, SunWater will forecast future electricity costs to reflect expected kWh savings from the date when these savings are projected to be achieved. The budget for routine expenditure for 2015 shown in Table 4 does not allow for any savings as the project is still in the proposal stage and may not go ahead.

There was no specific renewals budget for the Tom Fenwick Variable Speed Drive project allowed for when the QCA estimated the annuity component of Burdekin Distribution pricing. This particular project would push SunWater over the QCA target for the price path and will only proceed if there is an overwhelmingly positive business case which has the support of customers. If the decision is made to proceed then the implication is that the extra capital investment is justified by significant routine cost savings.

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 \$'000	% of 2013 Target %	2014 SunWater Budget \$'000	% of 2014 Target %	2015 SunWater Budget \$'000	% of 2015 Target %
ROUTINE EXPENSES						
Operations						
Labour	1,192		1,225		1,163	
Materials	52		123		86	
Contractors	0		21		13	
Other	1,174		1,309		1,781	
Non-direct	2,014		2,154		2,051	
Operations Total	4,431	101%	4,832	107%	5,094	111%
Preventative						
Labour	513		686		667	
Materials	694		605		680	
Contractors	612		926		886	
Other	2		0		0	
Non-direct	903		1,242		1,202	
Preventative Total	2,724	82%	3,460	101%	3,435	98%
Corrective						
Labour	565		386		556	
Materials	762		412		409	
Contractors	713		93		200	
Other	11		3		3	
Non-direct	1,004		681		966	
Corrective Total	3,054	207%	1,576	104%	2,134	137%
Electricity	4,299	94%	4,632	95%	5,809	111%
Total Routine Expenses	14,508	105%	14,499	101%	16,472	111%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	1,216		1,056		2,607	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	351		357		378	
Total Annuity Funded Non-Routine	1,568	22%	1,413	20%	2,985	41%
TOTAL REGULATED EXPENSES	16,076		15,912		19,457	
Non-Annuity Funded						
R&E - Non-Annuity Funded	194		0		0	
Non-direct	63		0		0	
Total Non-Annuity Funded	257	n/a	0	n/a	0	n/a
TOTAL EXPENSES	16,333		15,912		19,457	