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2015 Annual Network Service Plan

Callide 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		3,772
Irrigation		18,106
Urban		2,187
Other		0
SunWater		22
Total	138	24,087
QCA Assumed Water Usage for Irrigation		36.1%
QCA Assumed Water Usage for Total		52.0%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SW Draft Budget \$'000
Irrigation Revenue	243	340	347
Irrigation CSO	51	21	0
Industrial and Urban	981	856	838
Other Revenue	1	4	4
Total Revenue	1,276	1,220	1,188

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.)	761	123%	699	109%	834	130%
Preventative	264	95%	271	93%	246	84%
Corrective	46	127%	19	50%	42	111%
Electricity	9	132%	9	127%	10	132%
Total Routine Expenses	1,080	115%	998	102%	1,132	116%

The budget routine spend is 16% above the QCA's target for 2015 however the budget falls to 95% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2015 is 30% 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 below the QCA's target for 2015.

Corrective Maintenance

Corrective maintenance is budgeted above the QCA's target for 2015, offsetting some of the savings in preventive maintenance.

Electricity

Electricity costs are budgeted at 32% higher than the QCA target in 2015 due to the target being set too low 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%. Cost over-runs due to these price increases are beyond SunWater's control. Callide electricity costs can vary by +/- \$3k from year-to-year and in total represent around 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. Overall, the 2013-17 non-routine spend is likely to 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.

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	54		268		259	
Corrective	250		525		2	
Other	0		0		0	
Non-direct	227		190		225	
Annuity Funded Total	530	19%	983	36%	486	18%
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 five major projects planned for 2015 are provided below:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
5yr Dam Comprehensive Inspection (by 1 May 2015) - CALLIDE DAM	Callide Dam Five Yearly inspection is a regulatory requirement and due by 1st May 2015. Scope is to inspect Callide Dam on all aspects: documentations, condition assessments. If possible, operate and test all mechanical equipment and physical inspections (including conduit inspections).	120
Stability Analysis of Callide Dam - CALLIDE DAM	To continue monitor Callide Dam embankment stability through installed vibrating piezometers and then assess if further rectification is required.	95
5yr Dam Comprehensive inspection (by 1 Jun 2015) - KROOMBIT DAM	Kroombit Dam Five Yearly inspection is a regulatory requirement and due by 1st June 2015. The scope of this job is to inspect Kroombit Dam on all aspects: documentations, condition assessments. If possible, operation test all mechanical equipment and physical inspections (including conduit inspections).	90
Detail inspection of the left and right hand conduit to determine how to address 2010 DS Rec 6.4.8a and b - CALLIDE DAM	The previous Callide Dam comprehensive inspection found that the mortar liner at the left conduit had failed on some places. However, the right conduit could not be inspected as the snorkel could not seal the right conduit properly. This job is to do a close observation to both conduits, so that a proper scope to repair the mortar line can be developed. But before the close observation can be done, the leakage problem at the	60

	right conduit must have been resolved. Note: this project was deferred from 2014 FY due to crane issue that must be solved as the crane is required to seal the conduits. 2014 budget allocation was re-assigned to fund rectification of the crane issue.	
Improve effectiveness of the toe drain (2012 DS Inspection 2.5.2) - CALLIDE DAM	Improve drainage of the toe drain by installing a PVC drain pipe in the bed of the unlined channel and extending to a low point in the concrete lined section.	23
Other works		98
Total		486

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

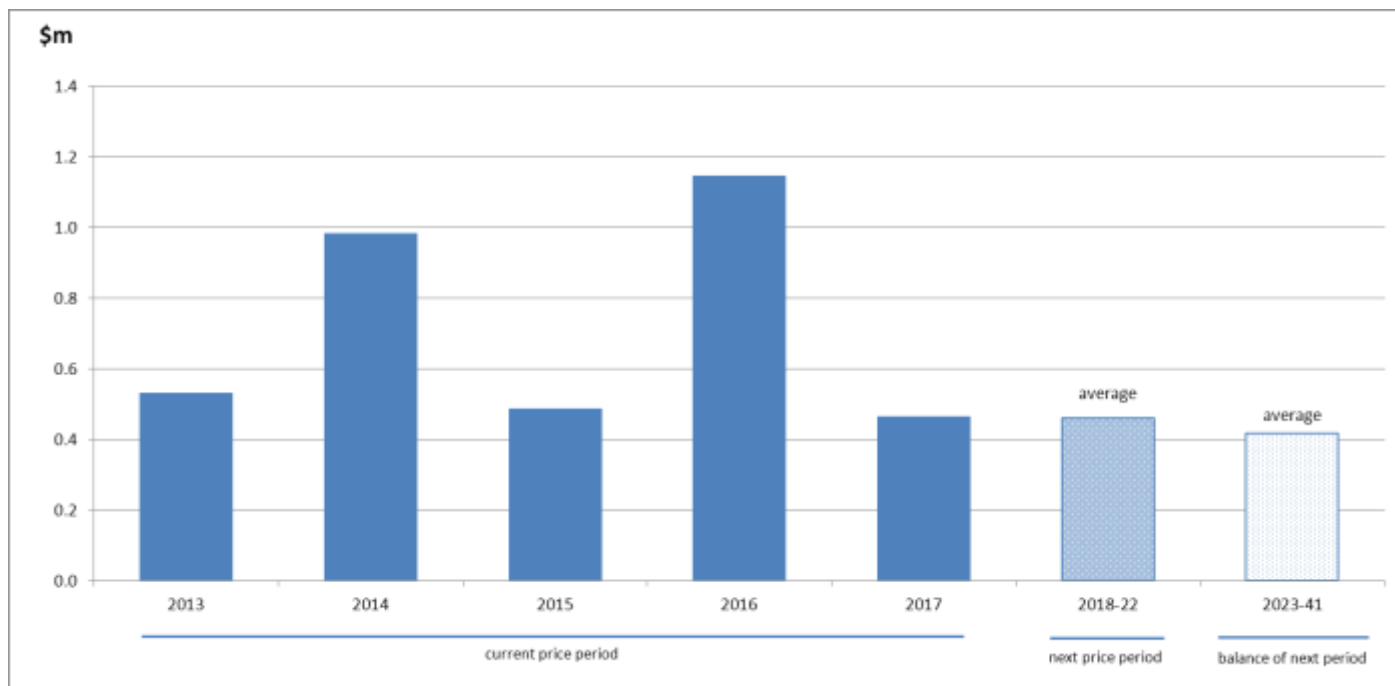
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(658)	(867)	(1,545)		
Annuity Income	371	370	370	374	380
Spend	(530)	(983)	(486)		
Interest	(49)	(65)	(116)		
Closing Balance	(867)	(1,545)	(1,776)		

* 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 expenditure in 2014 now includes the flood damage repairs that were flagged in last year's NSP.

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

Remedial stability works - CALLIDE DAM

Year: 2016

Current estimate: \$557k

Options analysis completed: No

This project is a continuation of the 2015 FY project if the outcome from that project is to recommend further rectification to ensure the stability of Callide Dam embankment is to be carried on. The full scope of this project will be based on the recommendations from 2015 FY project.

Material Projects 2018-22

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 - Procure, Install, Commissioning - CALLIDE DAM

Year: 2020

Current estimate: \$804k

Options analysis completed: No

The estimated end of life of these assets is 2027. Cables and cableways will be condition assessed through an ongoing program of electrical testing to monitor ageing and deterioration to better determine replacement timelines. An option analysis will be carried out prior to the replacement of cable and cableways based on time based replacement/renewal strategy. 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.

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	159		138		125	
Materials	9		3		5	
Contractors	15		23		21	
Other	274		255		373	
Non-direct	304		280		311	
Operations Total	761	123%	699	109%	834	130%
Preventative						
Labour	85		85		74	
Materials	12		7		8	
Contractors	6		10		21	
Other	(0)		3		4	
Non-direct	162		165		139	
Preventative Total	264	95%	271	93%	246	84%
Corrective						
Labour	3		1		12	
Materials	6		9		5	
Contractors	30		5		3	
Other	0		0		0	
Non-direct	6		3		22	
Corrective Total	46	127%	19	50%	42	111%
Electricity	9	132%	9	127%	10	132%
Total Routine Expenses	1,080	115%	998	102%	1,132	116%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	54		268		259	
Corrective	250		525		2	
Other	0		0		0	
Non-direct	227		190		225	
Total Annuity Funded Non-Routine	530	19%	983	36%	486	18%
TOTAL REGULATED EXPENSES	1,610		1,981		1,618	
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	1,610		1,981		1,618	