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# 2015 Annual Network Service Plan

## Dawson 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**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Conversion Factor	1.051	1.077	1.104	1.131	1.160

## Disclaimer

This report has been produced by SunWater, to provide information for client use only. The information contained in this report is limited by the scope and the purpose of the study, and should not be regarded as completely exhaustive. Permission to use or quote information from this report in studies external to the Corporation must first be obtained from the Chief Executive, SunWater.

## 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](mailto: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		4,037
Irrigation		51,767
Urban		1,959
Other		1
SunWater		4,173
<b>Total</b>	<b>158</b>	<b>61,937</b>
QCA Assumed Water Usage for Irrigation		60.0%
QCA Assumed Water Usage for Total		70.7%

**Table 3 –Revenue<sup>1</sup>**

	<b>2013 SunWater Actual \$'000</b>	<b>2014 SunWater Budget \$'000</b>	<b>2015 SunWater Budget \$'000</b>
Irrigation Revenue*	214	728	798
Irrigation CSO	1	0	0
Industrial and Urban*	1,643	1,567	2,034
Other Revenue	6	5	5
<b>Total Revenue</b>	<b>1,864</b>	<b>2,301</b>	<b>2,837</b>

\* 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.

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<sup>1</sup> 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<sup>2</sup>**

	<b>2013 SunWater Actual</b>	<b>% of 2013 Target</b>	<b>2014 SunWater Budget</b>	<b>% of 2014 Target</b>	<b>2015 SunWater Budget</b>	<b>% of 2015 Target</b>
	\$'000	%	\$'000	%	\$'000	%
Operations (Excl. Elect.)	647	100%	650	96%	759	112%
Preventative	135	68%	208	101%	204	99%
Corrective	60	67%	85	90%	93	98%
Electricity	15	45%	40	112%	22	57%
<b>Total Routine Expenses</b>	<b>858</b>	<b>88%</b>	<b>983</b>	<b>97%</b>	<b>1,077</b>	<b>106%</b>

SunWater has restructured its bulk water business during 2013/14. As a consequence the bulk water business will not undertake a number of operating and maintenance tasks, such as electrical and mechanical servicing, with internal resources. Many services will be sourced from specialist private sector organisations. As a consequence the budget indicates reductions in internal labour and I&OH that are (partly) offset by increases in contract services. The costs of the contract services are yet to be confirmed via the market.

### Operations

The operations budget is 12% above the QCA target in 2015; mainly as a result of increases in insurance costs being much greater than allowed for by the QCA.

### Preventive Maintenance

Preventive maintenance is currently budgeted below the QCA's target for 2015.

### Corrective Maintenance

Corrective maintenance is currently budgeted below the QCA's target for 2015.

### Electricity

Electricity costs are budgeted at 43% below the QCA target in 2015. This is due to expected lower than average pumping to Moura Off-stream Storage and is 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%.

<sup>2</sup> 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 budget 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. There have been some corrective works in this service contract to repair flood damage, however these should be able to be accommodated within 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	%
<b>Annuity Funded</b>						
R&E - Annuity Funded	(86)		170		376	
Corrective	41		95		0	
Other	0		0		0	
Non-direct	94		137		99	
<b>Annuity Funded Total</b>	<b>49</b>	<b>4%</b>	<b>402</b>	<b>34%</b>	<b>475</b>	<b>40%</b>
<b>Non-Annuity Funded</b>						
R&E - Non-Annuity Funded	0		0		0	
Non-direct	0		0		0	
<b>Total Non-Annuity Funded</b>	<b>0</b>	<b>n/a</b>	<b>0</b>	<b>n/a</b>	<b>0</b>	<b>n/a</b>

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

**Table 6 – Non-Routine Projects 2015**

<b>Project Title</b>	<b>Project Scope</b>	<b>2015 Budget (\$'000)</b>
Engineering option analysis study to reinstate Orange Creek Weir to operational condition - SunWater response to customer request.	Customers requested Orange Creek Weir is reinstated to operational condition. SunWater undertook to commission an engineering options study to verify the current condition of the weir and decided the most suitable option to reinstate it. The scope of this project excludes engagement of a contractor to undertake a site investigation of the foundation, & develop and recommend the most suitable reinstatement option.	213
Upgrade computer of SCADA network for Neville Hewitt Weir - Install, Commission - NEVILLE HEWITT WEIR	The option analysis was completed in 2014 FY with a recommendation to replace the control system with SunWater Standard PLC hardware. This 2015 FY project is to implement this recommendation.	104
Documents, Drawings, Specs and Cost Estimate for PLC and SCADA system - MOSS PUMP STATION	First stage of the computer upgrade of SCADA network at Moura Offstream Storage. This system is already obsolete and no further support will be provided from the vendor.	52
5 yearly comprehensive inspection - GLEBE WEIR	Glebe Weir is categorised as major weir and SunWater have programs to do comprehensive inspection for major weirs to ensure their safety.	30
5yr Dam Comprehensive Inspection - NEVILLE HEWITT WEIR	Neville Hewitt Weir is categorised as major weir and SunWater have programs to do comprehensive inspection for major weirs to ensure their safety.	30
Other works		46
Total		475



## 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**

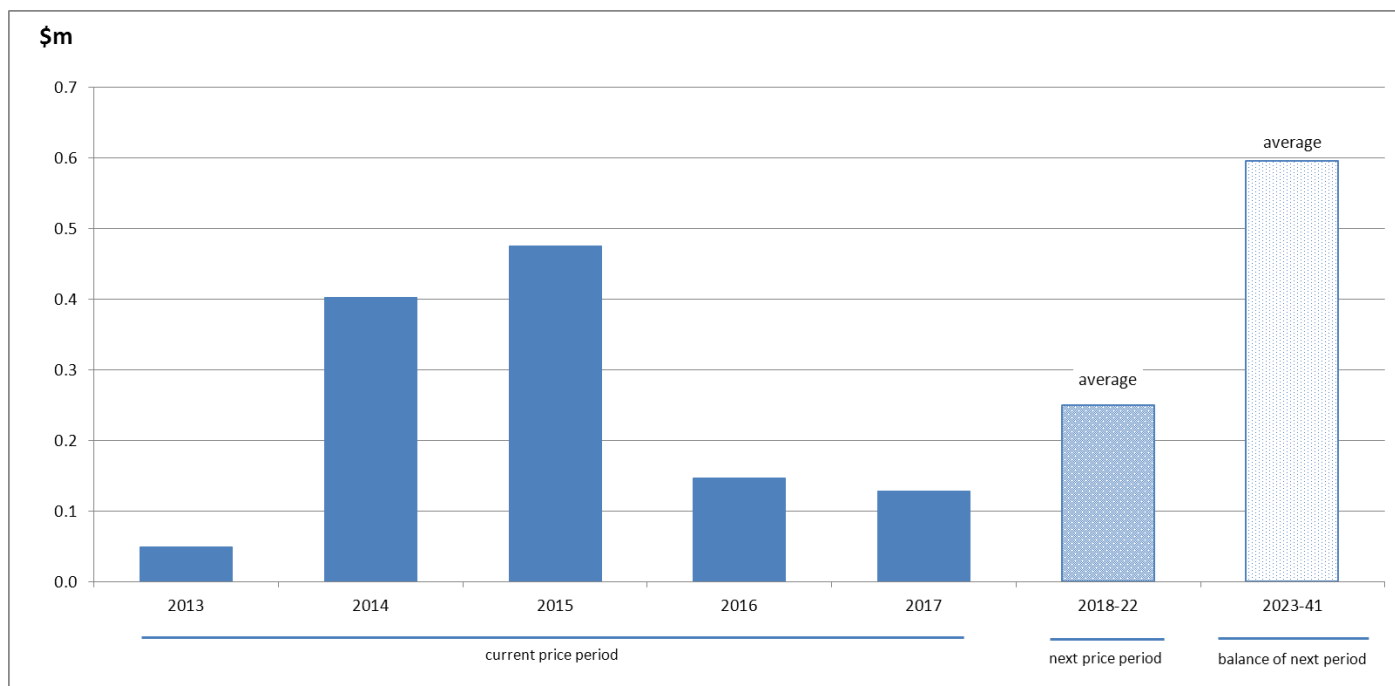
	<b>2013</b>	<b>2014*</b>	<b>2015*</b>	<b>2016</b>	<b>2017</b>
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening Balance</b>	1,875	1,919	1,615		
<b>Annuity Income</b>	(47)	(45)	(20)	(7)	16
<b>Spend</b>	(49)	(402)	(475)		
<b>Interest</b>	140	144	121		
<b>Closing Balance</b>	1,919	1,615	1,241		

\* 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

The two projects for SCADA upgrades at Neville Hewitt Weir and MOSS Pump Station discussed in the draft NSP are still in the plans however options analyses are no longer required for these projects.

### Investigate reinstatement of the weir – ORANGE CREEK WEIR

Year: 2015

Current estimate: \$213k

Options analysis completed: No

This project is an options analysis to examine the merits of reinstatement of the Orange Creek Weir to operational condition. This project is in direct response to customer feedback at the IAC meeting.

## **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 %
<b>ROUTINE EXPENSES</b>						
<b>Operations</b>						
Labour	178		178		118	
Materials	1		6		20	
Contractors	6		11		215	
Other	112		106		167	
Non-direct	350		349		239	
<b>Operations Total</b>	<b>647</b>	<b>100%</b>	<b>650</b>	<b>96%</b>	<b>759</b>	<b>112%</b>
<b>Preventative</b>						
Labour	45		67		48	
Materials	4		4		3	
Contractors	3		3		56	
Other	(1)		6		6	
Non-direct	84		129		91	
<b>Preventative Total</b>	<b>135</b>	<b>68%</b>	<b>208</b>	<b>101%</b>	<b>204</b>	<b>99%</b>
<b>Corrective</b>						
Labour	15		22		22	
Materials	8		11		12	
Contractors	5		9		17	
Other	0		0		0	
Non-direct	32		43		42	
<b>Corrective Total</b>	<b>60</b>	<b>67%</b>	<b>85</b>	<b>90%</b>	<b>93</b>	<b>98%</b>
<b>Electricity</b>	<b>15</b>	<b>45%</b>	<b>40</b>	<b>112%</b>	<b>22</b>	<b>57%</b>
<b>Total Routine Expenses</b>	<b>858</b>	<b>88%</b>	<b>983</b>	<b>97%</b>	<b>1,077</b>	<b>106%</b>
<b>NON-ROUTINE EXPENSES</b>						
<b>Annuity Funded</b>						
R&E - Annuity Funded	(86)		170		376	
Corrective	41		95		0	
Other	0		0		0	
Non-direct	94		137		99	
<b>Total Annuity Funded Non-Routine</b>	<b>49</b>	<b>4%</b>	<b>402</b>	<b>34%</b>	<b>475</b>	<b>40%</b>
<b>TOTAL REGULATED EXPENSES</b>	<b>907</b>		<b>1,385</b>		<b>1,552</b>	
<b>Non-Annuity Funded</b>						
R&E - Non-Annuity Funded	0		0		0	
Non-direct	0		0		0	
<b>Total Non-Annuity Funded</b>	<b>0</b>	<b>n/a</b>	<b>0</b>	<b>n/a</b>	<b>0</b>	<b>n/a</b>
<b>TOTAL EXPENSES</b>	<b>907</b>		<b>1,385</b>		<b>1,552</b>	