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2015 Annual Network Service Plan

Emerald 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

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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		0
Irrigation		83,123
Urban		77
Other		0
SunWater		29,330
Total	133	112,530
QCA Assumed Water Usage for Irrigation		71.7%
QCA Assumed Water Usage for Total		74.9%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	2,754	3,238	3,347
Drainage	346	355	355
Irrigation CSO	233	62	0
Industrial and Urban*	0	0	0
Other Revenue	33	8	8
Total Revenue	3,366	3,663	3,710

* 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.)	832	95%	880	98%	1,127	123%
Preventative	764	125%	658	104%	617	95%
Corrective	181	63%	287	97%	311	103%
Electricity	36	57%	151	222%	151	108%
Total Routine Expenses	1,814	99%	1,976	104%	2,206	110%

The budget routine spend is 10% above the QCA's target for 2015 however the budget falls to 100% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2015 is 23% 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 102% 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 in line with the QCA's target for 2015.

Electricity

Electricity costs are budgeted 8% 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, the 2013-17 non-routine spend will exceed the five-year QCA target. The proposed spend for 2015 has reduced over the NSP due to two crossing repair projects being removed because they were judged as low risk. The condition of these assets will continue to be monitored.

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	633		314		567	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	138		65		66	
Annuity Funded Total	771	44%	378	22%	632	36%
Non-Annuity Funded						
R&E - Non-Annuity Funded	23		0		0	
Non-direct	1		0		0	
Total Non-Annuity Funded	25	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)
Replacement of switchyard assets - SELMA PUMP STATION	This project is to replace the switchyard assets at SELMA pump station, complying with the current Australian Standard. Existing isolators are unserviceable and require replacement. Options for switchgear selection were reviewed in 2012 and the most cost effective replacement selected.	498
Refurbish Pump - SELMA PUMP STATION	This project is to overhaul Pump 3. Pump 1 was overhauled due to an emergency breakdown in 2014. The recent overhaul of Pump 1 found extensive cavitation damage in the pump diffuser housing. Pump 3 has completed a similar service life and this planned refurbishment will reduce the possibility of an emergency breakdown.	62
Documents, Drawings, Specs and Cost Estimate for PLC and SCADA system - SELMA PUMP STATION	This project is to prepare documents, drawings, specifications and a cost estimate for the installation and commissioning of PLC and SCADA system for SELMA pump station. The project has been deferred since 2013 to fund higher priority projects.	52
Other works		20
Total		632

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

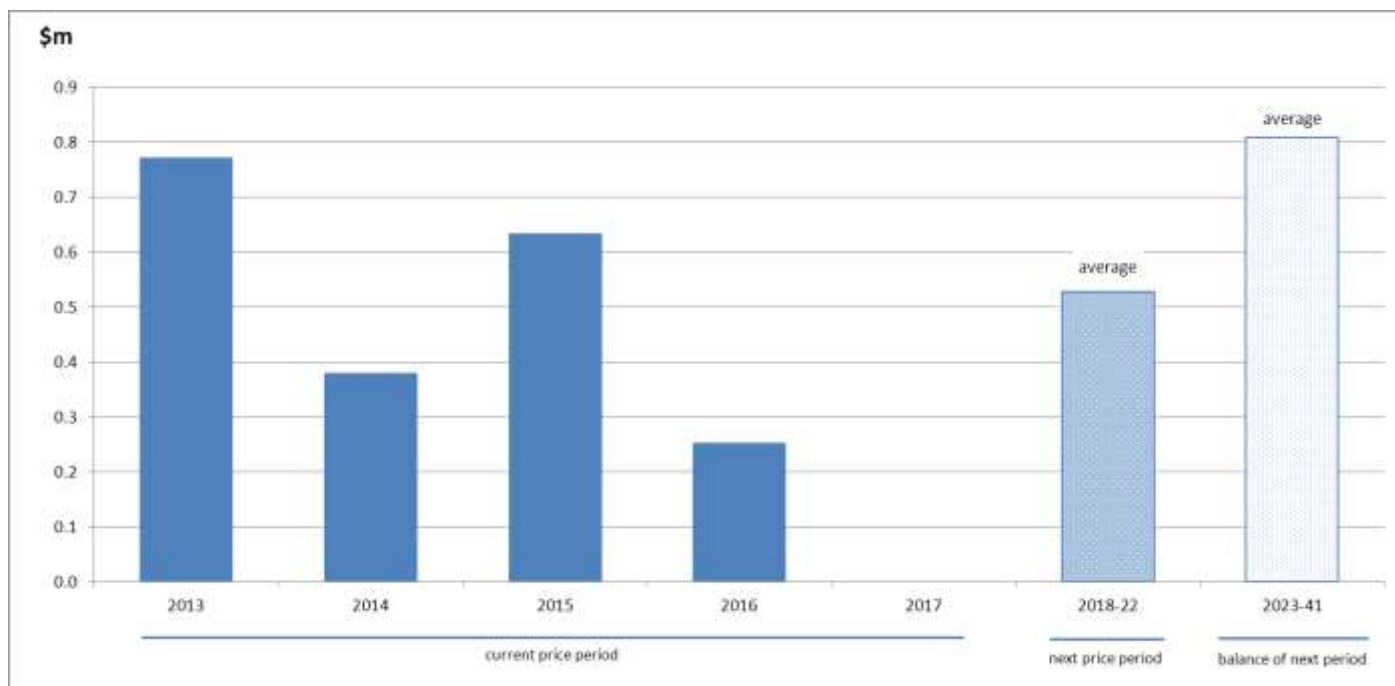
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(14)	(177)	79		
Annuity Income	610	647	708	734	762
Spend	(771)	(378)	(632)		
Interest	(1)	(13)	6		
Closing Balance	(177)	79	161		

* 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

Replacement of switchyard assets - SELMA PUMP STATION

Year: 2015

Current estimate: \$498k

Options analysis completed: Yes

This project is to replace the switchyard assets at SELMA pump station, complying with the current Australian Standard. The project scope is to replace ageing assets, provide separation between Ergon and SunWater assets, and rectify safety issues relating to the high voltage switching equipment. Currently Ergon and SunWater assets are in the same switchyard which makes co-ordinating work and determining responsibility during switching operations difficult. The substation replacement will not change the capacity of the substation; it will still be able to operate 3 pumps.

Stage 1 (Ergon supply connection) of this project is to be completed in 2014. Stage 2 (Installation and commissioning of replacement switchyard equipment) is to be completed in 2015. Existing isolators are unserviceable and can not be repaired. If the isolators are not replaced additional cost is required to establish safe access to high voltage conductors for maintenance

work and safety risk is introduced. Options for switchgear selection were reviewed in 2012 and the most cost effective replacement selected.

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	253		231		290	
Materials	3		18		15	
Contractors	0		44		3	
Other	155		183		314	
Non-direct	421		404		505	
Operations Total	832	95%	880	98%	1,127	123%
Preventative						
Labour	129		126		91	
Materials	184		133		167	
Contractors	220		162		179	
Other	(0)		8		8	
Non-direct	232		229		171	
Preventative Total	764	125%	658	104%	617	95%
Corrective						
Labour	52		59		73	
Materials	31		48		49	
Contractors	7		62		60	
Other	0		11		2	
Non-direct	91		107		128	
Corrective Total	181	63%	287	97%	311	103%
Electricity	36	57%	151	222%	151	108%
Total Routine Expenses	1,814	99%	1,976	104%	2,206	110%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	633		314		567	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	138		65		66	
Total Annuity Funded Non-Routine	771	44%	378	22%	632	36%
TOTAL REGULATED EXPENSES	2,586		2,354		2,838	
Non-Annuity Funded						
R&E - Non-Annuity Funded	23		0		0	
Non-direct	1		0		0	
Total Non-Annuity Funded	25	n/a	0	n/a	0	n/a
TOTAL EXPENSES	2,611		2,354		2,838	