

SunWater Limited
Level 10, 179 Turbot Street
PO Box 15536 City East
Brisbane Queensland 4002
www.sunwater.com.au
ACN 131 034 985



2015 Annual Network Service Plan

Eton Bulk

June 2014

Table of Contents

Introduction	4
Water Data.....	4
Revenue	5
Routine Expenditure	6
Operations	6
Preventive Maintenance.....	6
Corrective Maintenance	6
Electricity	6
Non-Routine Expenditure	7
2015 Non-Routine Budget	7
Annuity Balance	9
Overview of Annuity Funded Non-Routine Projects 2013-41	10
Material Projects 2015-17	10
Material Projects 2018-22	11
Replace Boundary Fence - MIRANI DISTRIBUTION	11
Material Projects 2023-41	11
Refurbishment/replacement of embankment - KINCHANT DAM.....	11
Appendix –Total Expenditure by Expense Type.....	12

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

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

Post: NSP Feedback
PO Box 15536 City East
Brisbane Qld 4002

Water Data

Table 2 – Water Data

	No. of Customers	Water Entitlements ML
Industrial		100
Irrigation		51,837
Urban		176
Other		1,061
SunWater		9,389
Total	322	62,563
QCA Assumed Water Usage for Irrigation		41.3%
QCA Assumed Water Usage for Total		53.5%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	7	23	(42)
Industrial and Urban*	41	1	1
Other Revenue	44	18,823	751
Total Revenue	92	18,848	711

* 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 irrigation revenue above shows the small amount that is generated purely from the bulk scheme and reflects the variation in annuity spending each year.

The budget revenue for 2014 has been updated from the draft NSP to be consistent with SunWater's final 2013/14 SCI submission by showing the \$18.8m grant from the Government for Kinchant Dam spillway upgrade.

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.)	778	144%	519	93%	741	131%
Preventative	310	71%	410	90%	458	100%
Corrective	144	47%	299	94%	319	100%
Electricity	261	113%	344	139%	248	94%
Total Routine Expenses	1,492	99%	1,572	99%	1,766	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 are taken into account.

Operations

The operations budget in 2015 is 31% 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 6% below the QCA target in 2015 despite 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%. Eton Bulk electricity costs can vary by +/- \$50k from year-to-year due to normal variability.

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.

Table 5 – Non-Routine Expenditure

	2013 SunWater Actual \$'000	% of 2013-17 Target %	2014 SunWater Budget \$'000	% of 2013-17 Target %	2015 SunWater Budget \$'000	% of 2013-17 Target %
Annuity Funded						
R&E - Annuity Funded	161		100		159	
Corrective	(1)		0		0	
Other	0		0		0	
Non-direct	98		50		75	
Annuity Funded Total	259	14%	150	8%	234	13%
Non-Annuity Funded						
R&E - Non-Annuity Funded	2,937		17,002		726	
Non-direct	1,118		1,820		24	
Total Non-Annuity Funded	4,055	n/a	18,822	n/a	750	n/a

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

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
PLC, SCADA and common control Mirani PSTN 3 - MIRANI PUMP STATION 3 (TO MD1)	Preparation of the documentation needed to go to tender to replace the switchboard, PLC and SCADA at Mirani PSTN 3	70
Refurbish PUN4 Pump - Mirani PSTN3 - MIRANI PUMP STATION 3 (TO MD1)	Refurbishment of Pump No. 4 and Mirani Pump Station No. 3	51
Other works	Includes various refurbishment projects and options analysis for Mirani control system.	113
Total		234

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

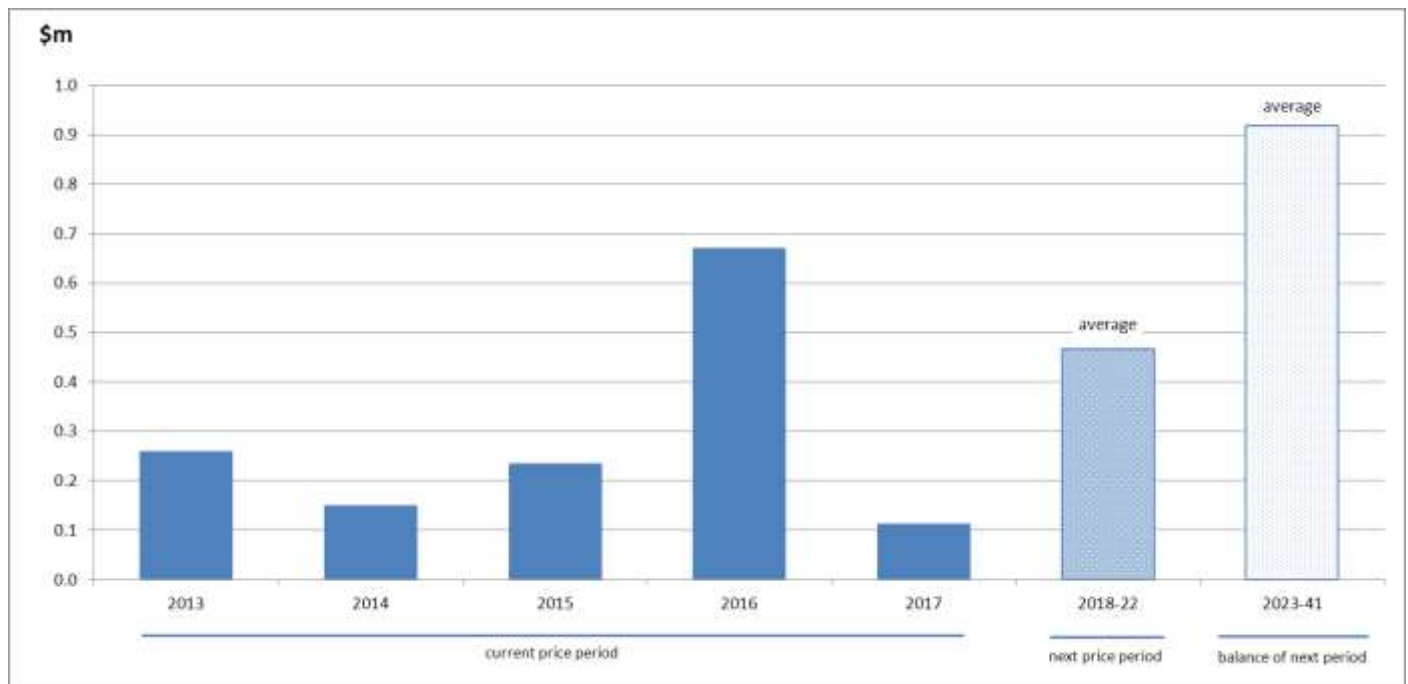
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(2,207)	(2,071)	(1,808)		
Annuity Income	560	568	573	587	623
Spend	(259)	(150)	(234)		
Interest	(165)	(155)	(135)		
Closing Balance	(2,071)	(1,808)	(1,605)		

* 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 evenness in the spread of estimated project costs means there are no projects which exceed the materiality threshold for this service contract for the 2015-17 period.

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 Boundary Fence - MIRANI DISTRIBUTION

Year: 2020

Current estimate: \$400k

Options analysis completed: No

This project encompasses a number of security fences around Mirani diversion channel system. The fences/gates are required due to health and safety reasons. The theoretical life of existing fences is 2016, however, some works were carried out in the past (project ID: 12ETO20) extending the life to 2020. At this stage, it is envisaged that an option analysis will be carried out prior to implementation of this project.

Material Projects 2023-41

The program of works for 2023-41 should be viewed as indicative at this stage and will be refined as the next pricing review draws closer.

Refurbishment/replacement of embankment - KINCHANT DAM

Year: 2027

Current estimate: \$3.1m

Options analysis completed: No

This project is to refurbish/replace the embankment of the borrow pit at Kinchant Dam. The downstream slope is uneven and a major seepage area was observed near the left end of embankment during the 2012 Five Yearly Comprehensive Dam Safety Inspection. The embankment does not seem to have filter material. An option analysis will be carried out prior to refurbishment/replacement of the embankment.

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	174		106		98	
Materials	6		15		8	
Contractors	28		35		142	
Other	229		149		291	
Non-direct	341		214		202	
Operations Total	778	144%	519	93%	741	131%
Preventative						
Labour	79		96		31	
Materials	10		17		26	
Contractors	64		105		325	
Other	2		0		0	
Non-direct	154		192		75	
Preventative Total	310	71%	410	90%	458	100%
Corrective						
Labour	33		69		9	
Materials	26		62		30	
Contractors	18		30		249	
Other	2		1		0	
Non-direct	65		137		31	
Corrective Total	144	47%	299	94%	319	100%
Electricity	261	113%	344	139%	248	94%
Total Routine Expenses	1,492	99%	1,572	99%	1,766	110%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	161		100		159	
Corrective	(1)		0		0	
Other	0		0		0	
Non-direct	98		50		75	
Total Annuity Funded Non-Routine	259	14%	150	8%	234	13%
TOTAL REGULATED EXPENSES	1,751		1,722		2,001	
Non-Annuity Funded						
R&E - Non-Annuity Funded	2,937		17,002		726	
Non-direct	1,118		1,820		24	
Total Non-Annuity Funded	4,055	n/a	18,822	n/a	750	n/a
TOTAL EXPENSES	5,806		20,544		2,751	