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2015 Annual Network Service Plan

Eton 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		100
Irrigation		52,770
Urban		175
Other		128
SunWater		9,384
Total	315	62,557
QCA Assumed Water Usage for Irrigation		41.3%
QCA Assumed Water Usage for Total		55.1%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	2,802	3,115	3,579
Irrigation CSO	1,497	1,433	1,357
Industrial and Urban*	0	0	0
Other Revenue	29	4	4
Total Revenue	4,327	4,552	4,940

* 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.)	675	91%	761	100%	1,046	135%
Preventative	443	70%	547	84%	692	104%
Corrective	510	115%	466	102%	484	103%
Electricity	255	55%	500	100%	624	117%
Total Routine Expenses	1,883	82%	2,274	96%	2,846	116%

The budget routine spend is 16% above the QCA's target for 2015 however the budget falls to 103% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2015 is 35% above the QCA target; however this is almost 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 105% 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 17% above 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, 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	% 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	528		216		272	
Corrective	0		0		0	
Other	0		70		0	
Non-direct	49		91		85	
Annuity Funded Total	577	23%	377	15%	357	14%
Non-Annuity Funded						
R&E - Non-Annuity Funded	16		0		0	
Non-direct	10		0		0	
Total Non-Annuity Funded	26	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)
Replace Eton Office Radio Repeater (OMC SCADA) - OAKENDEN MAIN CHANNEL DISTRIB	An audit of the current SCADA system covering options for replacement was undertaken in 2013-14. The aim of the audit was to determine the effectiveness and suitability of the current SCADA system and establish a strategic plan to meet the future system requirements. This project is to implement the recommendations of the audit	42
Refurbish OMC Reg Gate RG05 - Blast, Paint, Bearings and Seals - OAKENDEN MAIN CHANNEL DISTRIB	This project is to refurbish Regulator Gate 5 on Oakenden Main Channel. The gate has reached a condition whereby it requires refurbishment to ensure continued reliable channel regulation. Due to a linear build-up of failure risk one gate is typically refurbished every year to ensure an even distribution of the risk of multiple failures.	39
Supply and Install Two New Embankment Subsurface Seepage Drains - Near MO12 - OAKENDEN MAIN CHANNEL DISTRIB	This project is to install subsurface drainage to divert a confirmed channel leak into a SunWater cross drain.	29
Refurbish vacuum priming system Brightly PSTN 1 - pumps and valves (VPS pump 2) - BRIGHTLEY PUMP STATION NO 1	This project is to replace vacuum priming pump and motor unit 2. The unit has reached a condition whereby it needs to be replaced to ensure continued reliable operation.	22
Refurbish PUN2 Motor - Victoria Plains PSTN - VICTORIA PLAINS PUMP STATION	This project is to refurbish the pump motor. The unit has reached a condition whereby it needs to be replaced to ensure continued reliable operation	21

Other works	Includes various smaller refurbishment and replacement projects.	204
Total		357

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

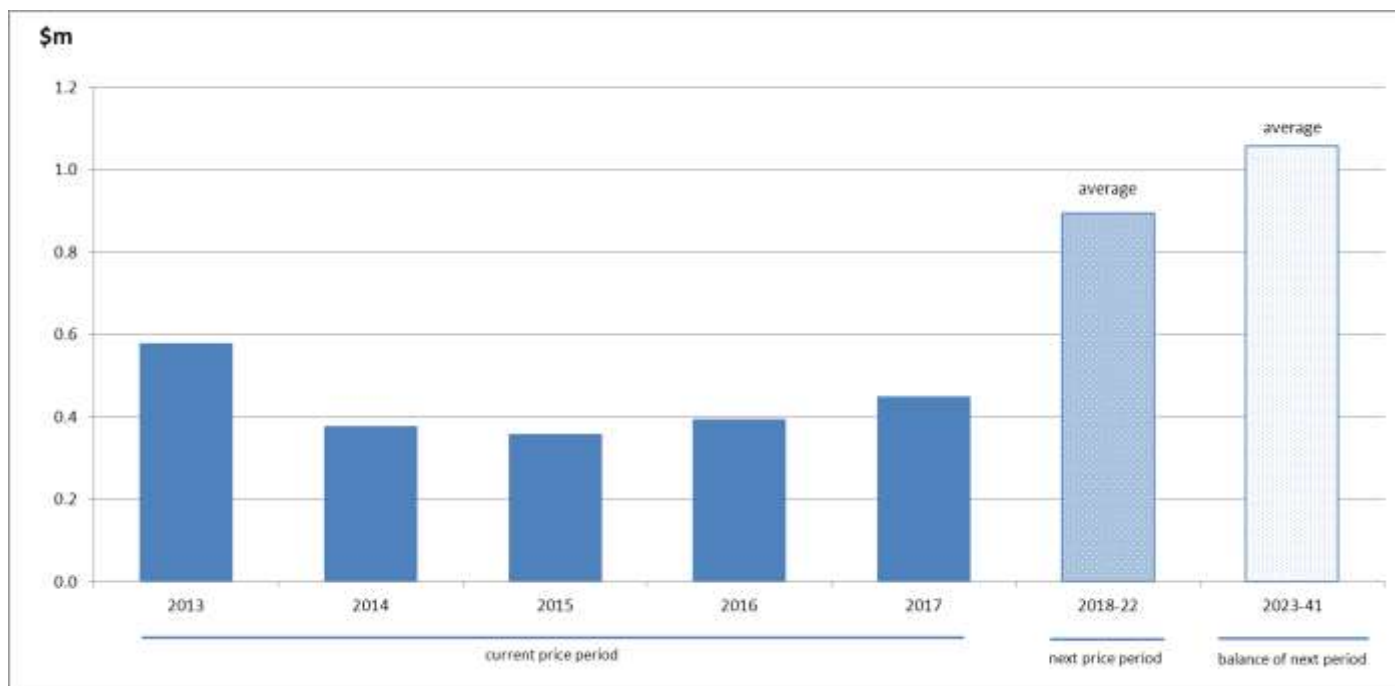
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(223)	(300)	(160)		
Annuity Income	517	539	585	596	618
Spend	(577)	(377)	(357)		
Interest	(17)	(22)	(12)		
Closing Balance	(300)	(160)	56		

* 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 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	173		175		237	
Materials	4		12		2	
Contractors	1		34		1	
Other	203		229		389	
Non-direct	295		311		418	
Operations Total	675	91%	761	100%	1,046	135%
Preventative						
Labour	103		90		163	
Materials	89		129		132	
Contractors	67		160		110	
Other	0		0		0	
Non-direct	184		168		287	
Preventative Total	443	70%	547	84%	692	104%
Corrective						
Labour	108		107		98	
Materials	145		95		115	
Contractors	68		70		92	
Other	1		3		3	
Non-direct	187		191		176	
Corrective Total	510	115%	466	102%	484	103%
Electricity	255	55%	500	100%	624	117%
Total Routine Expenses	1,883	82%	2,274	96%	2,846	116%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	528		216		272	
Corrective	0		0		0	
Other	0		70		0	
Non-direct	49		91		85	
Total Annuity Funded Non-Routine	577	23%	377	15%	357	14%
TOTAL REGULATED EXPENSES	2,460		2,651		3,203	
Non-Annuity Funded						
R&E - Non-Annuity Funded	16		0		0	
Non-direct	10		0		0	
Total Non-Annuity Funded	26	n/a	0	n/a	0	n/a
TOTAL EXPENSES	2,486		2,651		3,203	