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2015 Annual Network Service Plan

Lower Fitzroy 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 |

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 | | 24,006 |
| Irrigation | | 3,101 |
| Urban | | 0 |
| Other | | 39 |
| SunWater | | 1,475 |
| Total | 24 | 28,621 |
| QCA Assumed Water Usage for Irrigation | | 2.7% |
| QCA Assumed Water Usage for Total | | 69.9% |

Table 3 – Revenue¹

| | 2013 SunWater Actual \$'000 | 2014 SunWater Budget \$'000 | 2015 SunWater Budget \$'000 |
|-----------------------|--|--|--|
| Irrigation Revenue* | 41 | 40 | 37 |
| Industrial and Urban* | 0 | 0 | 0 |
| Other Revenue | 0 | 0 | 0 |
| Total Revenue | 41 | 40 | 37 |

*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.) | 144 | 95% | 137 | 87% | 170 | 109% |
| Preventative | 24 | 26% | 81 | 86% | 79 | 85% |
| Corrective | 2 | 5% | 52 | 114% | 47 | 102% |
| Electricity | 1 | 97% | 2 | 103% | 1 | 73% |
| Total Routine Expenses | 171 | 60% | 272 | 91% | 298 | 100% |

The budget routine spend is at the QCA's target for 2015 however the budget falls to 94% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2015 is 9% 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 97% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

SunWater has restructured its bulk water business during 2013/14. As a consequence the bulk water business will undertake a number of maintenance tasks, such as electrical and mechanical servicing, utilising specialist private sector organisations. Therefore the budget for preventive maintenance, at 85% of target, reflects a reduction in internal labour that is offset by an increase in contract services. The costs of the contract services are yet to be confirmed via the market.

Corrective Maintenance

Corrective maintenance is budgeted in line with the QCA's target for 2015.

Electricity

Electricity costs are budgeted at \$0.5k below the QCA target in 2015. This 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%. Lower Fitzroy electricity costs can vary by +/- \$0.5k from year-to-year and in total represent around 3% 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 will 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. The budget for the de-silt the fish-lock at Eden Bann Weir has increased significantly from the draft NSP based on experiences at similar sites affect by the 0213 floods.

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 | 0 | | 13 | | 137 | |
| Corrective | 2 | | 67 | | 640 | |
| Other | 0 | | 0 | | 0 | |
| Non-direct | 3 | | 42 | | 87 | |
| Annuity Funded Total | 5 | 3% | 122 | 80% | 864 | 570% |
| 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 four major projects planned for 2015 are provided below:

Table 6 – Non-Routine Projects 2015

| Project Title | Project Scope | 2015 Budget (\$'000) |
|--|--|----------------------|
| Maintain and desilting the fishlock to make it operable after February 2012 flood - EDEN BANN WEIR | Clearing the fish lock chamber and discharge channel from debris that was deposited during 2012 flood. The project estimate was revised immediately prior to the close of the 2014/15 budget as a result of the Project Manager's view that funding was insufficient. The estimate was revised after a workshop of stakeholders, based on improved information about volumes of debris and nature of damage to equipment. These assumptions are drawn from parallels with flood damage in the Burnett system where the 2013 flood caused much greater damage than earlier flooding in 2011. The estimate remains under review following a recent site visit. | 681 |
| Replace Control Equipment - Procure, Install, Commissioning - EDEN BANN WEIR | The option analysis has been done in 2014 FY with a recommendation to replace the control system with SunWater Standard PLC hardware. The 2015 FY project is to implement the recommendation. | 113 |
| Install CCTV system - Eden Bann Weir - EDEN BANN WEIR | The scope of this job is to install a CCTV camera system at Eden Bann Weir to monitor public safety surrounding the weir and also weir operation. At the moment (2014 FY) there is a pilot project to install a CCTV camera system at Clare Weir. The scope at Eden Bann will be refined once the pilot project at Clare Weir is finalised. | 41 |
| WEIR PROGRAM - 5yr Dam Comprehensive Inspection - | Eden Bann Weir is categorised as major weir and SunWater have | 30 |

| | | |
|----------------|---|-----|
| EDEN BANN WEIR | programs to do comprehensive inspection for major weirs to ensure their safety. | |
| Other works | | 0 |
| Total | | 865 |

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

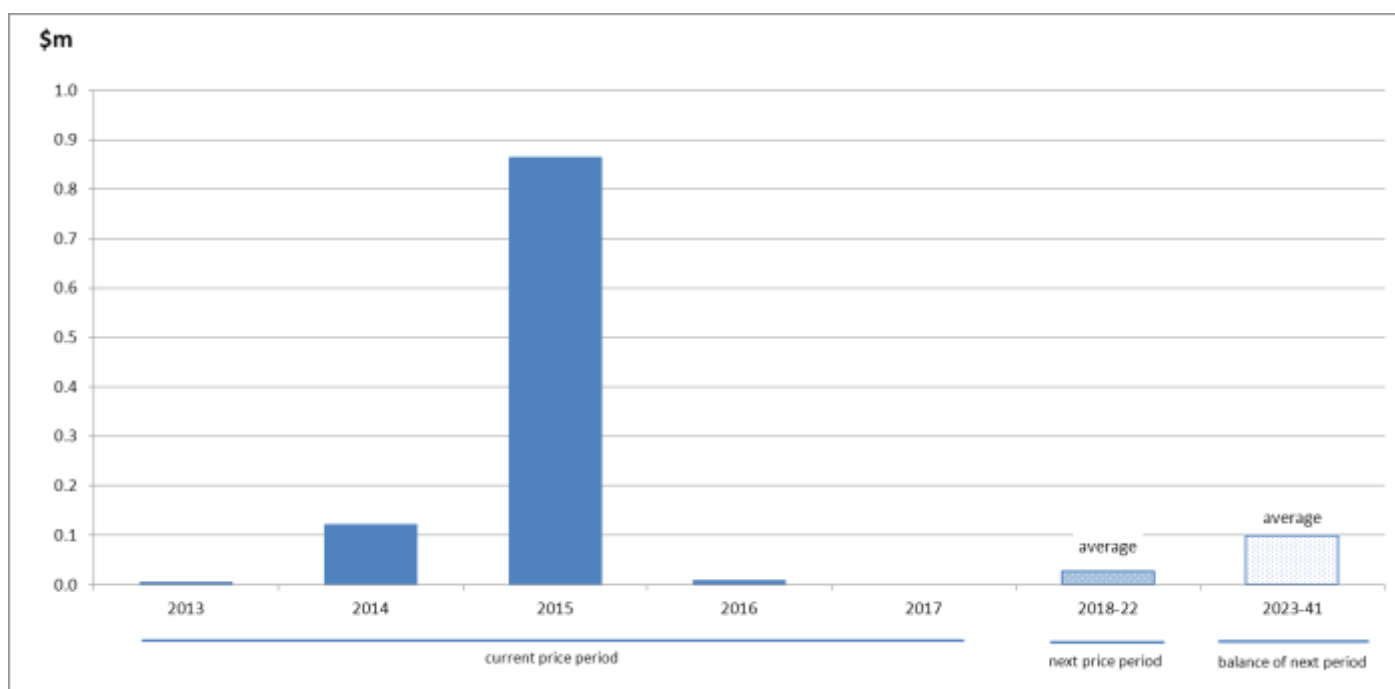
| | 2013 | 2014* | 2015* | 2016 | 2017 |
|------------------------|-------------|--------------|--------------|-------------|-------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Opening Balance | 362 | 393 | 310 | | |
| Annuity Income | 9 | 9 | 11 | 11 | 13 |
| Spend | (5) | (122) | (864) | | |
| Interest | 27 | 29 | 23 | | |
| Closing Balance | 393 | 310 | (520) | | |

* 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 and 2015 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

Replace Control Equipment - Procure, Install, Commissioning - EDEN BANN WEIR

Year: 2015

Current estimate: \$113k

Options analysis completed: Yes

A SCADA system at Eden Bann Weir controls the fishlock operation and also the outlet works. The replacement of the control system at the Eden Bann Weir is due. This replacement is required as the old parts are already obsolete and are not supported by the manufacturer, so sourcing any replacement parts will be difficult. In addition, SunWater will be in breach of The Waterway Barrier Works Development Approvals (Fish Habitat Management Operational Policy FHMOP 008) if the fishway is inoperable due to control system malfunction. Therefore an option analysis was undertaken to ensure that the fishway is operable to investigate if replacement is required and then determine the best option.

Three options are considered in this option analysis, they are:

Option 1: Replace the control system with SunWater Standard PLC Hardware (Schneider)

Option 2: Replace the control system with SunWater Non SunWater Standard PLC Hardware (Allen Bradley)

Option 3: do nothing

The conclusion from this option analysis is a recommendation to select Option 1: to replace the control system with SunWater Standard PLC hardware. The 2015 FY project is to implement the recommendation.

Maintain and de-silt the fishlock to make it operable after February 2012 flood - EDEN BANN WEIR

Year: 2015

Current estimate: \$681k

Options analysis completed: No

This project is to clean the fishlock chamber and discharge channel from debris that was deposited during 2012 flood. The fishlock filling valve will also be refurbished as it is currently leaking and also some metalworks at the weir will be repaired. An options analysis will be completed before this project begins.

The project estimate was revised immediately prior to the close of the 2014/15 budget as a result of the Project Manager's view that funding was insufficient. The estimate was revised after a workshop of stake-holders, based on improved information about volumes of debris and the nature of damage to equipment. These assumptions are drawn from parallels with flood damage in the Burnett system where the 2013 flood caused much greater damage than earlier flooding in 2011. The estimate remains under review following a recent site visit.

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.

Refurbish screens - paint (CAP Item 4.2) - EDEN BANN WEIR

Year: 2020

Current estimate: \$35k

Options analysis completed: No

The screens are scheduled for refurbishment in 2020 as this is the expected life of the current coating. The condition of the screens will be updated closer to 2020 before carrying out the option analysis prior to the replacement of the screens.

5yr Dam Comprehensive Inspection - EDEN BANN WEIR

Year: 2020

Current estimate: \$33k

Options analysis completed: No

Eden Bann Weir is categorised as major weir and SunWater have programs to do comprehensive inspection for major weirs to ensure their safety. Therefore, an options analysis is not required.

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.

Replace Hydraulic System - EDEN BANN WEIR

Year: 2023

Current estimate: \$322k

Options analysis completed: No

An option analysis will be carried out prior to the replacement of hydraulic system based on time based replacement/renewal strategy. The condition of the hydraulic system will be updated before carrying out the option analysis.

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 | 40 | | 36 | | 44 | |
| Materials | 1 | | 4 | | 1 | |
| Contractors | 0 | | 2 | | 7 | |
| Other | 25 | | 26 | | 35 | |
| Non-direct | 77 | | 70 | | 84 | |
| Operations Total | 144 | 95% | 137 | 87% | 170 | 109% |
| Preventative | | | | | | |
| Labour | 7 | | 25 | | 23 | |
| Materials | 3 | | 3 | | 1 | |
| Contractors | 1 | | 3 | | 13 | |
| Other | 0 | | 0 | | 0 | |
| Non-direct | 13 | | 49 | | 43 | |
| Preventative Total | 24 | 26% | 81 | 86% | 79 | 85% |
| Corrective | | | | | | |
| Labour | 1 | | 15 | | 13 | |
| Materials | 1 | | 4 | | 2 | |
| Contractors | 0 | | 3 | | 8 | |
| Other | 0 | | 2 | | 0 | |
| Non-direct | 1 | | 30 | | 24 | |
| Corrective Total | 2 | 5% | 52 | 114% | 47 | 102% |
| Electricity | 1 | 97% | 2 | 103% | 1 | 73% |
| Total Routine Expenses | 171 | 60% | 272 | 91% | 298 | 100% |
| NON-ROUTINE EXPENSES | | | | | | |
| Annuity Funded | | | | | | |
| R&E - Annuity Funded | 0 | | 13 | | 137 | |
| Corrective | 2 | | 67 | | 640 | |
| Other | 0 | | 0 | | 0 | |
| Non-direct | 3 | | 42 | | 87 | |
| Total Annuity Funded Non-Routine | 5 | 3% | 122 | 80% | 864 | 570% |
| TOTAL REGULATED EXPENSES | 176 | | 394 | | 1,162 | |
| 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 | 176 | | 394 | | 1,162 | |