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2015 Annual Network Service Plan

Lower Mary 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		9,952
Urban		0
Other		0
SunWater		4,912
Total	78	14,864
QCA Assumed Water Usage for Irrigation		42.3%
QCA Assumed Water Usage for Total		42.6%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	592	722	749
Irrigation CSO	753	753	751
Industrial and Urban*	2	1	2
Other Revenue	3	9	9
Total Revenue	1,350	1,485	1,512

* 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.)	221	88%	262	101%	308	117%
Preventative	176	73%	236	95%	261	103%
Corrective	146	98%	175	114%	135	86%
Electricity	200	136%	246	156%	420	249%
Total Routine Expenses	744	94%	919	112%	1,124	134%

The budget routine spend is 34% above the QCA's target for 2015 however the budget falls to 104% of target when the above-QCA increases in electricity and the expected higher electricity consumption for 2015 are taken into account.

Operations

The operations budget is 17% above the QCA target in 2015 due to the correction of a previous mis-allocation of a distribution asset's insurance costs. Lower Mary Distribution insurance costs of around \$60k were incorrectly attributed to the Bulk scheme target during the last price review. This allocation error does not impact on price paid by customers.

Preventive Maintenance

Preventive maintenance is budgeted slightly above the QCA's target for 2015.

Corrective Maintenance

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

Electricity

Electricity costs are budgeted much higher than the QCA target in 2015. This is in part 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. The other major factor for the increased electricity costs is the significant increase in irrigation water demand due to the extremely dry conditions across the region. These drought conditions are expected to prevail well into the start of the 2015 financial year.

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 spend will exceed the five-year QCA target. There have 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.

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	73		12		36	
Corrective	63		0		0	
Other	0		0		0	
Non-direct	56		7		18	
Annuity Funded Total	191	82%	19	8%	53	23%
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 detail for the major project planned for 2015 is provided below:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
Detailed Options Study for Walker Point Balancing Storage Refurbishment - WALKER POINT DISTRIBUTION	Previous studies on the leak at Walker Point Balancing Storage recommended a reduced operating level as the least cost option to address the issue. There have been operational issues during the most recent watering season from running the storage at a reduced level. The study will confirm modelling assumptions are valid, utilising the latest data.	27
Other works	Includes several valve refurbishment projects.	26
Total		53

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

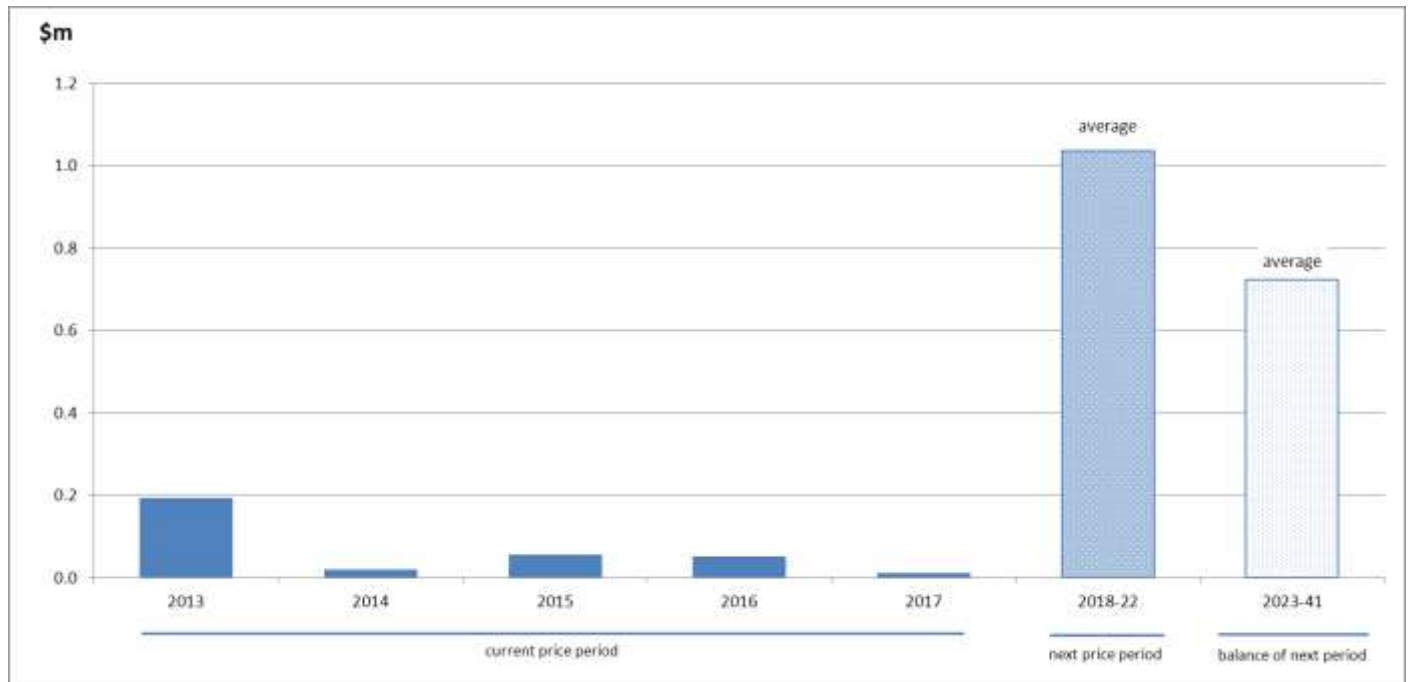
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(462)	(241)	174		
Annuity Income	447	452	458	466	468
Spend	(191)	(19)	(53)		
Interest	(35)	(18)	13		
Closing Balance	(241)	174	592		

* 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.

Repair Balancing Storage Embankment - WALKER POINT DISTRIBUTION

Year: 2018

Current estimate: \$692k

Options analysis completed: No

The Walker Point Balancing Storage is currently experiencing issues of increased seepage with concerns about the effects this is having to the stability of the embankment. A refurbishment project to address this has been included in the annuity program pending the outcome of a detailed options analysis, to be conducted in 2015. The nominal costs to refurbish/rectify are based on increasing the weighting zone of the embankment. The adopted costs were estimated by consultants that recommended this project during the recent Engineering Due Diligence process as part of the LMA review.

Replace Switchboard, High Voltage - OWANYILLA PUMP STATION

Year: 2022

Current estimate: \$1.15m

Options analysis completed: No

Failure of the high voltage switchboard at Owanyilla Pump Station will incur significant cost and lead to significant consequences downstream. The switchboard will be monitored and preventative maintenance will ensure a maximum service life. This project is to procure, install and commission the replacement components. A condition assessment and options analysis for the replacement of the switchboard will be completed prior to undertaking 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.

Replace Cable - WALKER POINT PUMP STATION

Year: 2023

Current estimate: \$1.2m

Options analysis completed: No

Failure of the cabling at Walker Point Pump Station will incur significant cost and lead to significant consequences downstream. The cables will be monitored and preventative maintenance will ensure a maximum service life. This project is to procure, install and commission the replacement cables and associated items. An options analysis will be completed closer to the project start date. A condition assessment and options analysis for the replacement of the cables will be completed prior to undertaking this project. Options are limited to maintaining assets in service for as long as possible and then replacing on a like for like basis or using alternative distribution methods such as overhead if this is possible or practical.

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	78		62		77	
Materials	2		3		2	
Contractors	0		0		0	
Other	13		87		95	
Non-direct	128		110		134	
Operations Total	221	88%	262	101%	308	117%
Preventative						
Labour	57		79		88	
Materials	14		10		12	
Contractors	15		10		10	
Other	0		1		2	
Non-direct	90		135		149	
Preventative Total	176	73%	236	95%	261	103%
Corrective						
Labour	46		53		35	
Materials	23		27		27	
Contractors	1		3		10	
Other	0		1		3	
Non-direct	76		91		60	
Corrective Total	146	98%	175	114%	135	86%
Electricity	200	136%	246	156%	420	249%
Total Routine Expenses	744	94%	919	112%	1,124	134%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	73		12		36	
Corrective	63		0		0	
Other	0		0		0	
Non-direct	56		7		18	
Total Annuity Funded Non-Routine	191	82%	19	8%	53	23%
TOTAL REGULATED EXPENSES	935		938		1,178	
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	935		938		1,178	