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2015 Annual Network Service Plan

Macintyre 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

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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		217
Irrigation		17,112
Urban		453
Other		6,400
SunWater		815
Total	97	24,997
QCA Assumed Water Usage for Irrigation		69.5%
QCA Assumed Water Usage for Total		81.1%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue	813	892	750
Irrigation CSO	217	173	127
Industrial and Urban	109	136	388
Other Revenue	2	2	2
Total Revenue	1,140	1,204	1,268

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.)	539	75%	1,486	199%	829	111%
Preventative	207	109%	371	186%	155	78%
Corrective	10	27%	70	180%	36	93%
Electricity	2	127%	3	187%	3	175%
Total Routine Expenses	759	80%	1,930	195%	1,023	104%

The budget routine spend is 4% above the QCA's target for 2015 however the budget falls to 93% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2015 is 11% 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 78% 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 below the QCA's target for 2015.

Electricity

Electricity costs are budgeted \$1k higher than the QCA target in 2015 due partly to the 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. In addition to these price increases, the Macintyre Brook electricity usage (kWh) has been running at higher than average levels compared to the last price path.

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	11		252		123	
Corrective	0		0		0	
Other	21		0		0	
Non-direct	34		61		34	
Annuity Funded Total	65	8%	312	37%	156	19%
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 three major projects planned for 2015 are provided below:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
Replacement of drums and/ or ropes to achieve 2.5 turns when fully extended - refer notes - COOLMUNDA DAM	As part of compliance approvals for the gantry crane, NQ Cranes reported that the crane did not comply as at full rope extension. To achieve compliance for the crane we need to change the drum and put in smaller steel ropes with a higher tensile strength.	56
Replace Crest Seal (2010 DS Rec 6.3.13a) - See Notes - COOLMUNDA DAM	The seal on gate 6 needs replacing. The risks associated with not replacing this seal are a constant loss of water and the possibility of the dam safety regulator accusing us of poor engineering practice and of not maintaining the dam in a fit state. This project was postponed for 1 year to carry out a project with a much higher risk profile (guide rails at Coolmunda Dam) which took all the available funding for the scheme.	28
Blast loose paint from Gates 3, 5 & 6 and patch until full repaint job in 2018 (Refer Options Analysis HB 1506797 - COOLMUNDA DAM	In 2015, we had planned to paint the 3 gates which have not been repainted at Coolmunda Dam and undertook an options study to challenge the best methodology. From this options analysis (HB # 1506736) it was recommended that we could forgo the high capital cost of a full repaint of the downstream gates 3, 5 and 6 for 3 years as long as we undertook a scrape off and patch paint of the worst areas in 2015. This approach can be re-confirmed during the 5-yearly inspection in 2016.	24
Other works		48
Total		156

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

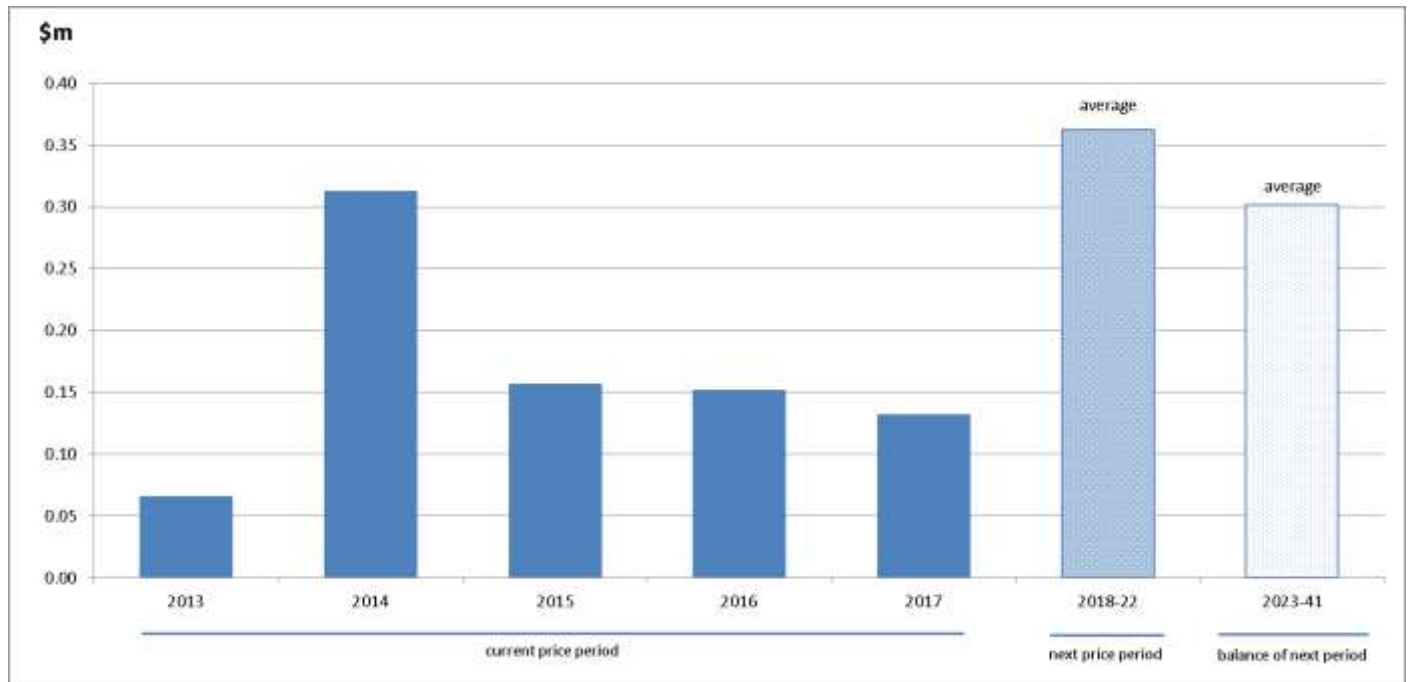
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(1,915)	(1,870)	(2,068)		
Annuity Income	253	254	258	266	269
Spend	(65)	(312)	(156)		
Interest	(143)	(140)	(155)		
Closing Balance	(1,870)	(2,068)	(2,122)		

* 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

Develop and install an effective lock out system for spillway gate operation - COOLMUNDA DAM

Year: 2017

Current estimate: \$91k

Options analysis completed: No

Callide Dam and Coolmunda Dam share a design whereby in a flood event the gates open automatically by using the flood water and a counterweight system to raise the gates. This automation causes problems when maintenance is needed on the gates as any movement in the gates or counterweights during maintenance presents a risk to personnel.

Callide Dam had a retrofitted lockout system to prevent any movement and allow maintenance activity to be carried out safely. The plan is to undertake similar work at Coolmunda Dam, however as Coolmunda Dam has a bulkhead gate and can safely isolate one gate at a time there is an argument that an additional lock out system may be unnecessary. A possible outcome of

the 2016 5-yearly inspection could be a recommendation that, because Coolmunda has a bulkhead gate, it shouldn't need lock down gates. This will be subject to discussion and confirmation by the mechanical and civil engineering team who will undertake a series of risk assessments to determine whether this project can be cancelled. If deemed unnecessary then this project will be removed from the program.

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.

20yr Dam Safety Review (by 1 Dec 2020) - COOLMUNDA DAM

Year: 2021

Current estimate: \$267k

Options analysis completed: No

In 2001 a regulatory 20 Year dam safety review was undertaken at Coolmunda Dam. This involves a team of recognised dam experts reviewing all the geological aspects of the dam and includes a review of all events, all refurbishments and any other works carried out at the dam including a full review of event history and the maintenance histories over the preceding 20 years.

The review is a mandatory 20 year event and the cost estimate is based on the 2001 review, allowing for the fact that much of the 2001 data is still valid. Given this requirement is mandatory, an options analysis will not be completed.

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	122		358		183	
Materials	2		29		3	
Contractors	10		24		34	
Other	143		294		199	
Non-direct	263		781		410	
Operations Total	539	75%	1,486	199%	829	111%
Preventative						
Labour	71		123		46	
Materials	4		7		6	
Contractors	2		4		16	
Other	0		0		1	
Non-direct	130		237		86	
Preventative Total	207	109%	371	186%	155	78%
Corrective						
Labour	3		22		12	
Materials	1		4		2	
Contractors	0		0		0	
Other	0		0		0	
Non-direct	6		43		22	
Corrective Total	10	27%	70	180%	36	93%
Electricity	2	127%	3	187%	3	175%
Total Routine Expenses	759	80%	1,930	195%	1,023	104%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	11		252		123	
Corrective	0		0		0	
Other	21		0		0	
Non-direct	34		61		34	
Total Annuity Funded Non-Routine	65	8%	312	37%	156	19%
TOTAL REGULATED EXPENSES	824		2,242		1,179	
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	824		2,242		1,179	