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2015 Annual Network Service Plan

Maranoa 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		0
Irrigation		800
Urban		0
Other		0
SunWater		5
Total	4	805
QCA Assumed Water Usage for Irrigation		4.1%
QCA Assumed Water Usage for Total		6.3%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue	31	31	50
Industrial and Urban	0	0	0
Other Revenue	0	0	0
Total Revenue	31	31	50

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.)	25	105%	34	136%	39	155%
Preventative	1	7%	7	93%	3	36%
Corrective	0	0%	1	100%	0	0%
Electricity	0	n/a	0	n/a	0	n/a
Total Routine Expenses	26	79%	42	125%	42	123%

The budget routine spend is 23% 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 55% above the QCA target, however more than half of this difference is 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 remaining difference of approximately \$6k is offset by lower budgets for preventive and corrective maintenance.

Preventive Maintenance

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

Corrective Maintenance

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

Electricity

No electricity costs planned for this service contract in 2015.

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	0		0		6	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	0		0		10	
Annuity Funded Total	0	0%	0	0%	17	68%
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

There is one project planned for Maranoa in 2015:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
5yr Dam Comprehensive Inspection –NEIL TURNER WEIR	Neil Turner Weir is categorised as major weir and SunWater have programs to do comprehensive inspection for major weirs to ensure their safety.	17
Other works		0
Total		17

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

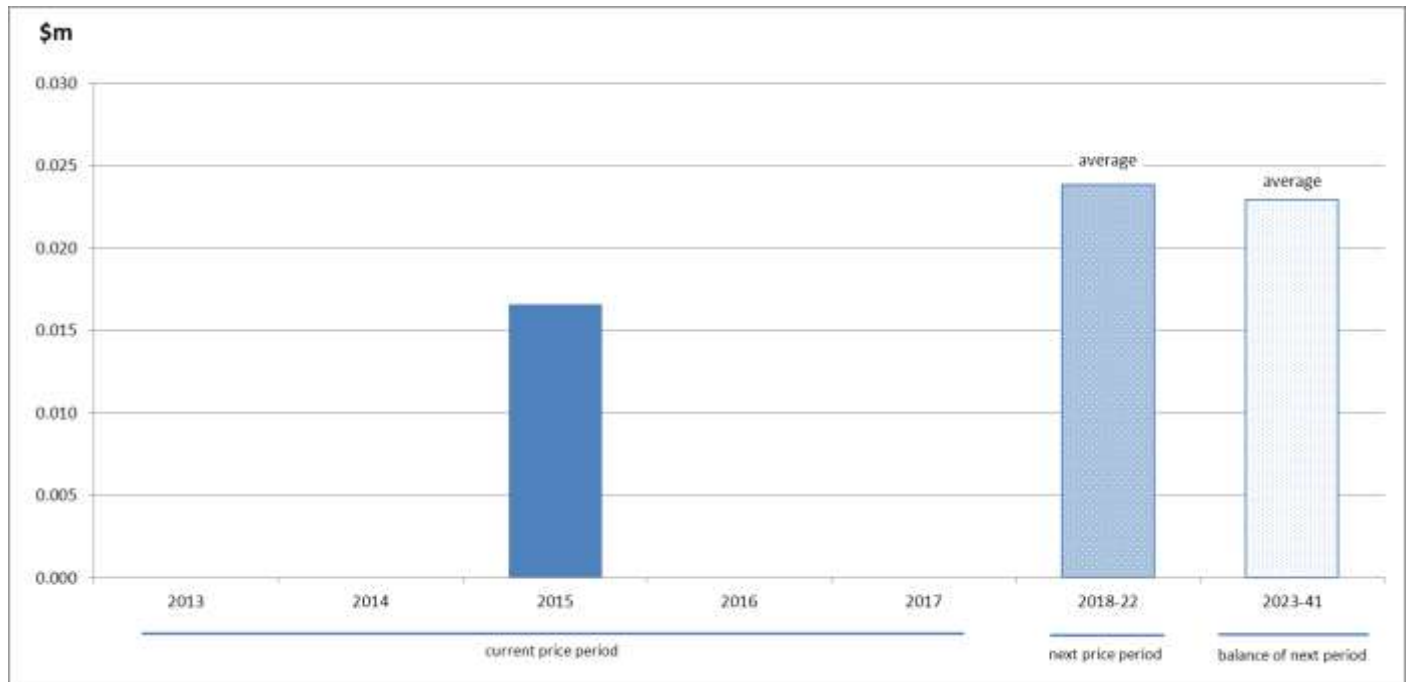
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(7)	(2)	3		
Annuity Income	5	5	6	8	8
Spend	0	0	(17)		
Interest	(1)	(0)	0		
Closing Balance	(2)	3	(8)		

* 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

5yr Dam Comprehensive Inspection - NEIL TURNER WEIR

Year: 2015

Current estimate: \$17k

Options analysis completed: No

SunWater policy is to conduct annual and 5 yearly inspections on our weir assets to ensure that the asset will be able to perform its designed function. The estimate to carry out the works is a built up figure using our works order system and recognised the time and rate of engineers and also the remoteness of the site. No options analysis is required.

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 rock mattresses, gabions - NEIL TURNER WEIR

Year: 2018

Current estimate: \$59k

Options analysis completed: No

The 2011 dam safety inspection identified the need for these repairs. Damage to the rock mattresses are not considered an imminent issue, however this assessment may change based on what happens at other SunWater sites. This work is scheduled for the year after the next 5-yearly inspection, when a more up-to-date assessment can be made.

Refurbish damaged splitter blocks - NEIL TURNER WEIR

Year: 2019

Current estimate: \$25k

Options analysis completed: No

The splitter blocks dissipate the energy generated by the flows over the weir and slow the water and protect the downstream works. The damage to the splitter blocks most likely occurred with impact damage from debris cascading over the weir during times of flood.

Based on risk and condition assessment in 2011, this project has been pushed out based on criticality and risk as well as customer expectations (via the NSP process). When the detailed planning commences, it is probable that overall savings would be made in set-up and travel costs by combining this project to occur at the same time as the gabion mattress project above.

Options analysis will be completed closer to the implementation.

Refurbish: Inspect and repair for damage and corrosion - NEIL TURNER WEIR

Year: 2020

Current estimate: \$17k

Options analysis completed: No

Damage periodically occurs to both the protection works and to the splitter piers at Neil Turner Weir. This project also addresses corrosion on the outlet works and the outlet works sluice valve.

Options analysis will be completed closer to the implementation.

5yr Dam Comprehensive Inspection (2015calendar year) - NEIL TURNER WEIR

Year: 2020

Current estimate: \$18k

Options analysis completed: No

See above.

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.

Refurbish rock mattresses, gabions - NEIL TURNER WEIR

Year: 2028

Current estimate: \$75k

Options analysis completed: No

Refer to 2018 project, above. In long term financial planning for the scheme, the best engineering estimate of how often you need to do major refurbishments to assets are used. In this case, we estimate that we will need to perpetually refurbish the rock protection mattresses every 10 years. This will be re-assessed with 5-yearly dam inspections.

Options analysis will be completed closer to the implementation.

Replace Trash Racks/Screens - NEIL TURNER WEIR

Year: 2035

Current estimate: \$61k

Options analysis completed: No

This is a scheduled replacement item due to expected end of life. Analysis completed before the next price review will confirm the optimal estimates in terms of the value and timing of this project.

Refurbish rock mattresses, gabions - NEIL TURNER WEIR

Year: 2038

Current estimate: \$95k

Options analysis completed: No

Refer to 2028 project above.

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	4		7		7	
Materials	0		0		0	
Contractors	0		0		0	
Other	14		14		18	
Non-direct	8		13		14	
Operations Total	25	105%	34	136%	39	155%
Preventative						
Labour	0		2		0	
Materials	0		0		0	
Contractors	0		0		3	
Other	0		0		0	
Non-direct	0		5		0	
Preventative Total	1	7%	7	93%	3	36%
Corrective						
Labour	0		0		0	
Materials	0		0		0	
Contractors	0		0		0	
Other	0		0		0	
Non-direct	0		1		0	
Corrective Total	0	0%	1	100%	0	0%
Electricity	0	n/a	0	n/a	0	n/a
Total Routine Expenses	26	79%	42	125%	42	123%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	0		0		6	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	0		0		10	
Total Annuity Funded Non-Routine	0	0%	0	0%	17	68%
TOTAL REGULATED EXPENSES	26		42		58	
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	26		42		58	