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2015 Annual Network Service Plan

Mareeba Distribution

June 2014

Table of Contents

Introduction	4
Water Data.....	4
Revenue	5
Routine Expenditure	6
Operations	6
Preventive Maintenance.....	6
Corrective Maintenance	6
Electricity	6
Non-Routine Expenditure	7
2015 Non-Routine Budget	7
Annuity Balance	9
Overview of Annuity Funded Non-Routine Projects 2013-41	10
Material Projects 2015-17	10
Material Projects 2018-22	10
Material Projects 2023-41	10
Appendix –Total Expenditure by Expense Type.....	11

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		1,147
Irrigation		144,747
Urban		863
Other		2
SunWater		45,000
Total	957	191,759
QCA Assumed Water Usage for Irrigation		60.6%
QCA Assumed Water Usage for Total		67.1%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	6,314	6,461	6,849
Irrigation CSO	495	332	144
Industrial and Urban*	381	253	276
Other Revenue	16	5	5
Total Revenue	7,208	7,051	7,275

* 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.)	2,236	120%	2,103	110%	2,519	129%
Preventative	489	98%	619	121%	662	126%
Corrective	1,136	83%	1,458	101%	1,573	105%
Electricity	424	126%	452	125%	452	117%
Total Routine Expenses	4,286	105%	4,631	110%	5,207	119%

The budget routine spend is 19% above the QCA's target for 2015 however the budget falls to 106% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2015 is 29% 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 103% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is budgeted 26% above the QCA's target for 2015. This expected variance is due to additional terrestrial and aquatic weed control. In particular, SunWater has embarked on a more comprehensive Copper Sulphate dosing program that involves more dosing, a more scientific methodology and additional testing to meet the requirements of the Research Permit. This program is achieving improved results.

Corrective Maintenance

Corrective maintenance is budgeted above the QCA's target for 2015. SunWater will continue to refine budgets to bring the overall expenditure into line with target.

Electricity

Electricity costs are budgeted at 17% higher than the QCA target in 2015 due to the target being set too low 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%. Cost over-runs due to these price increases 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	366		893		949	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	105		304		275	
Annuity Funded Total	471	6%	1,197	16%	1,224	17%
Non-Annuity Funded						
R&E - Non-Annuity Funded	2		0		0	
Non-direct	1		0		0	
Total Non-Annuity Funded	4	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)
Site audit and strategic plan for MDWSS I&D SCADA assets - Stage 2 (Implement findings) - MDA SCADA	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.	405
Replace Regulating Gate - BIBOOHRA DISTRIBUTION	The asset has reached the end of serviceable life and the majority of components are no longer supported by the manufacturer. This project is to replace the entire gate unit with modern equivalents.	172
Refurbish Cherry Ck Bridge (Pending Options Analysis) - WEST BARRON DISTRIBUTION	An assessment of the bridge has identified issues including rotting timbers. Works are required if the bridge is to remain safe for use. A cost estimate for repair was received and because of the value, an options analysis to determine the appropriate repair or refurbishment options is warranted. This will be finalised in 2014. This project is to implement the recommendations of the options analysis.	93
Refurbish Spring Ck Bridge (pending options analysis) - WEST BARRON DISTRIBUTION	An assessment of the bridge has identified issues including rotting timbers. Works are required if the bridge is to remain safe for use. A cost estimate for repair was received and because of the value, an options analysis to determine the appropriate repair or refurbishment options is warranted. This will be finalised in 2014. This project is to implement the recommendations of the options analysis.	93

Other works		461
Total		1,224

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

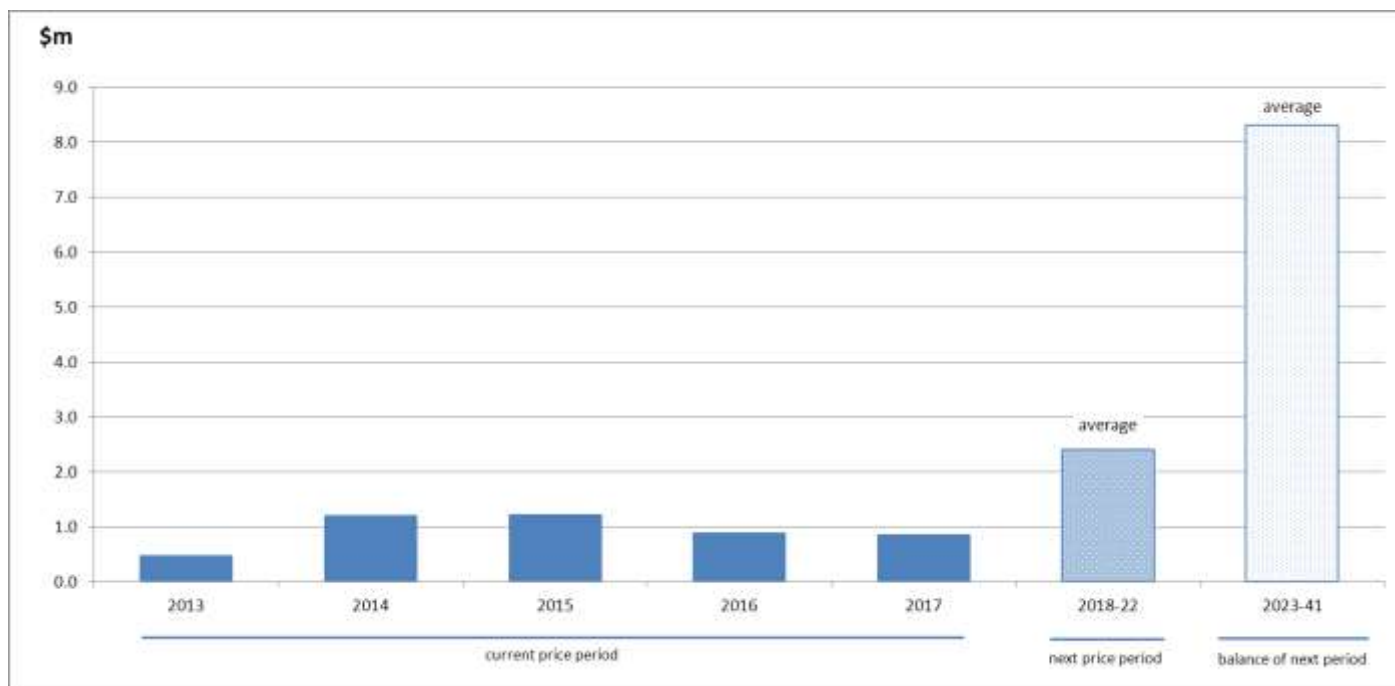
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(587)	660	1,401		
Annuity Income	1,761	1,889	1,905	1,940	2,171
Spend	(471)	(1,197)	(1,224)		
Interest	(44)	49	105		
Closing Balance	660	1,401	2,188		

* 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	666		552		587	
Materials	13		15		5	
Contractors	1		6		2	
Other	446		562		892	
Non-direct	1,110		967		1,033	
Operations Total	2,236	120%	2,103	110%	2,519	129%
Preventative						
Labour	204		186		208	
Materials	65		97		75	
Contractors	110		15		25	
Other	1		0		0	
Non-direct	110		321		354	
Preventative Total	489	98%	619	121%	662	126%
Corrective						
Labour	266		386		401	
Materials	348		358		313	
Contractors	58		31		153	
Other	4		7		7	
Non-direct	459		676		699	
Corrective Total	1,136	83%	1,458	101%	1,573	105%
Electricity	424	126%	452	125%	452	117%
Total Routine Expenses	4,286	105%	4,631	110%	5,207	119%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	366		893		949	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	105		304		275	
Total Annuity Funded Non-Routine	471	6%	1,197	16%	1,224	17%
TOTAL REGULATED EXPENSES	4,757		5,828		6,431	
Non-Annuity Funded						
R&E - Non-Annuity Funded	2		0		0	
Non-direct	1		0		0	
Total Non-Annuity Funded	4	n/a	0	n/a	0	n/a
TOTAL EXPENSES	4,760		5,828		6,431	