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2015 Annual Network Service Plan

Mareeba 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		8,038
Irrigation		151,298
Urban		81
Other		0
SunWater		45,007
Total	1,133	204,424
QCA Assumed Water Usage for Irrigation		60.4%
QCA Assumed Water Usage for Total		69.4%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	161	89	(94)
Industrial and Urban*	1,866	796	1,143
Other Revenue	2	2	2
Total Revenue	2,029	887	1,051

* Bulk water charges have not been unbundled from Distribution charges therefore a portion of the Distribution revenue is attributable to the Bulk service contract. The irrigation revenue above shows the small amount that is generated purely from the bulk scheme and reflects the variation in annuity spending each year. The budget revenue for 2014 has been updated from the draft NSP to correctly show the final agreed budget.

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.)	785	100%	878	108%	879	108%
Preventative	136	70%	207	101%	195	96%
Corrective	16	64%	26	102%	23	92%
Electricity	2	33%	4	65%	2	31%
Total Routine Expenses	939	93%	1,115	106%	1,100	105%

The budget routine spend is 5% above the QCA's target for 2015 however the budget falls to 90% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2015 is 8% 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 89% of the QCA target when the insurance over-run is taken into account.

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

Electricity costs are budgeted at \$4k 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%. Mareeba Bulk electricity costs can vary from year-to-year and in total represent less than 1% 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.

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	214		131		104	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	36		69		31	
Annuity Funded Total	250	58%	200	46%	135	31%
Non-Annuity Funded						
R&E - Non-Annuity Funded	(2)		0		0	
Non-direct	0		0		0	
Total Non-Annuity Funded	(1)	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)
Review ventilation, replace the hinged windows (2013 DS Rec.6.4.3a&b) - TINAROO DAM	Internal ventilation is relatively poor. The hinged windows when open present a head strike risk in the vicinity of the pit access and should be replaced with louvered/sliding windows or similar.	25
Review ventilation, replace the mesh floor (2013 DS Rec.6.4.8a&b) - TINAROO DAM	Expanded metal mesh is used for the building floor. The ventilation within the building is poor and has contributed to the poor external condition of both the left and right hand conduits. Improvement of ventilation and replacement of current mesh floor with web-forged style grating are recommended.	25
Other works	Various smaller refurbishments and repairs.	85
Total		135

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

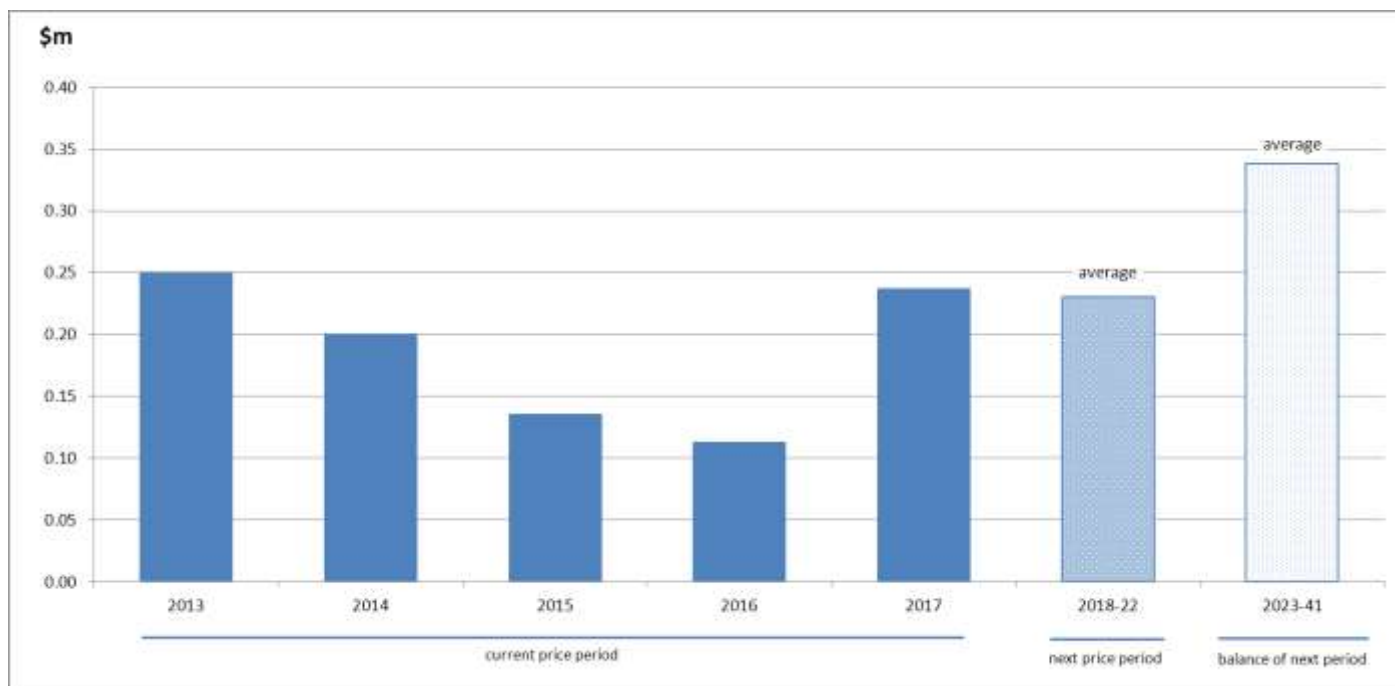
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	1,007	940	919		
Annuity Income	108	108	116	117	120
Spend	(250)	(200)	(135)		
Interest	75	70	69		
Closing Balance	940	919	969		

* 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

Conduct Post tensioning of the Anchors by a Specialist Contractor - TINAROO DAM

Year: 2017

Current estimate: \$207k

Options analysis completed: No

The dam has been assessed as an “Extreme” hazard category dam in accordance with ANCOLD Guidelines on Assessment of the Consequences of Dam Failure. The guidelines on dam safety management by ANCOLD states 5-yearly monitoring frequency of post tensioning of the anchors for “Extreme” hazard category dam. As previous monitoring of post tension anchors will be conducted in 2017, it will also be due for monitoring in 2022. Given this requirement is stipulated in the guidelines, an options analysis will not be completed.

Material Projects 2018-22

5yr Dam Comprehensive Inspection (by Dec 2018) - TINAROO DAM

Year: 2019

Current estimate: \$145k

Options analysis completed: No

Tinaroo Falls Dam is a category 2 dam under Water Supply (Safety and Reliability) Act 2008. Under the Dam Safety Condition Schedule, the dam owner must carry out a comprehensive inspection of the dam in accordance with the Queensland Dam Safety Management Guidelines. Given this requirement is mandatory, an options analysis will not be completed. The next comprehensive inspection is due on or before the 1st day of December 2018, and on or before every fifth anniversary thereafter.

Replace Half of Trash Rack Screen - TINAROO DAM

Year: 2020

Current estimate: \$364k

Options analysis completed: No

The program to replace the Trash Rack Screens will start from 2020. They are approaching 30 years old (end of the lifecycle) and may show signs of needing the replacement to be done. The trash screens were inspected in 2013 by industrial divers and their inspections did not observe significant defects to the screens; the general condition of the trash screens was satisfactory. Condition of the screens will be monitored and an option analysis will be carried out in 2019 prior to the replacement of trash screen at outlet works.

Replacement of Trash Screen - Tinaroo Falls Dam OWIR - TINAROO DAM

Year: 2020

Current estimate: \$129k

Options analysis completed: No

An option analysis will be carried out in 2019 prior to the replacement of trash screen at outlet works. A condition and risk assessment was carried out in 2004 and it will be updated before carrying out the option analysis.

Conduct Post tensioning of the Anchors by a Specialist Contractor - TINAROO DAM

Year: 2022

Current estimate: \$234k

Options analysis completed: No

Next scheduled inspection of post-tensioning as describe in 2017 project above.

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.

Replace Cables & Cableways - TINAROO DAM

Year: 2027

Current estimate: \$685k

Options analysis completed: No

The estimated end of life of these assets is 2027. Cables and cableways will be condition assessed through an ongoing program of electrical testing to monitor ageing and deterioration to better determine replacement timelines. An option analysis will be carried out prior to the replacement of cable and cableways based on time based replacement/renewal strategy. 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.

Replace Trash Rack Screen - TINAROO DAM

Year: 2036

Current estimate: \$1.1m

Options analysis completed: No

Continuation of the program to replace the Trash Rack Screens as described in 2020 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	143		196		138	
Materials	7		14		2	
Contractors	7		15		9	
Other	318		225		394	
Non-direct	310		427		336	
Operations Total	785	100%	878	108%	879	108%
Preventative						
Labour	38		68		67	
Materials	1		6		1	
Contractors	1		1		4	
Other	24		0		0	
Non-direct	72		131		123	
Preventative Total	136	70%	207	101%	195	96%
Corrective						
Labour	3		7		6	
Materials	2		4		3	
Contractors	2		1		2	
Other	2		0		1	
Non-direct	7		14		12	
Corrective Total	16	64%	26	102%	23	92%
Electricity	2	33%	4	65%	2	31%
Total Routine Expenses	939	93%	1,115	106%	1,100	105%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	214		131		104	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	36		69		31	
Total Annuity Funded Non-Routine	250	58%	200	46%	135	31%
TOTAL REGULATED EXPENSES	1,189		1,315		1,235	
Non-Annuity Funded						
R&E - Non-Annuity Funded	(2)		0		0	
Non-direct	0		0		0	
Total Non-Annuity Funded	(1)	n/a	0	n/a	0	n/a
TOTAL EXPENSES	1,187		1,315		1,235	