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2015 Annual Network Service Plan

Pioneer 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

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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		1,920
Irrigation		46,526
Urban		16,520
Other		864
SunWater		12,280
Total	22	78,110
QCA Assumed Water Usage for Irrigation		33.6%
QCA Assumed Water Usage for Total		44.2%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	614	634	678
Industrial and Urban*	679	622	755
Other Revenue	10	0	0
Total Revenue	1,303	1,257	1,433

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.)	500	96%	548	101%	673	123%
Preventative	267	114%	216	88%	243	99%
Corrective	209	113%	180	93%	126	65%
Electricity	3	76%	5	118%	4	85%
Total Routine Expenses	980	103%	949	96%	1,046	106%

The budget routine spend is 6% above the QCA's target for 2015 however the budget falls to 92% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2015 is 23% 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 99% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is budgeted in line with the QCA's target for 2015.

Corrective Maintenance

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

Electricity

Electricity costs are budgeted \$1k below the QCA target in 2015 despite 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%. It is not unusual for Pioneer electricity costs to vary by +/- \$2k from year to year.

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 will exceed the five-year QCA target due to the need to implement projects that have arisen since the QCA's review e.g. the decommissioning of the Fabridams at Dumbleton and Mirani in 2015.

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	458		153		930	
Corrective	0		0		0	
Other	0		0		1	
Non-direct	210		93		232	
Annuity Funded Total	669	35%	246	13%	1,163	61%
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 five major projects planned for 2015 are provided below:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
Decommission Fabridam - MIRANI WEIR	The Fabridams are subject to options analyses and customer consultation. It is likely that the recommendation will be to decommission the Mirani Fabridam.	208
Decommission Fabridam - DUMBLETON WEIR	The Fabridams are subject to options analyses and customer consultation. It is likely that the recommendation will be to decommission the Dumbleton Fabridam. The cost is an estimate based on the costs of the partial decommissioning of the Bedford Weir Fabridam. This will remain the indicative estimate until the options analysis is completed.	208
Refurbish/replace control system including SCADA for Palmtree Ck & Tannalo valves - TEEMBURRA DAM	Replacement of the control system for the Palmtree Creek and Tannalo offtake valves. The estimated cost is based on independent costings performed by consultant Rory Bostock for similar projects at other sites. The cost is the total cost after estimated project management, procurement, storage supervisor, and overhead costs.	192
20yr Dam Safety Review (exc. 5yr inspection) Works to be carried out in FY 2015 and FY 2016 and be completed by 1 Dec. 2015) - TEEMBURRA DAM	The dam safety condition schedules for each dam require a 20yr safety review to be complete. This is the 20year anniversary of the first review.	132
Replace Tannalo Offtake Valve - PALMTREE CREEK PIPELINE	The offtake valve has failed and needs to be replaced. Site	129

	investigation completed. Stakeholder engagement & agreement on project parameters complete. Equipment specifications are complete and the tender for the equipment closes mid July. Plan to have valve ordered by early August. Delivery is estimated to take 26 weeks, arriving January 2015. Installation to follow in February/ March.	
Other works		294
Total		1,163

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

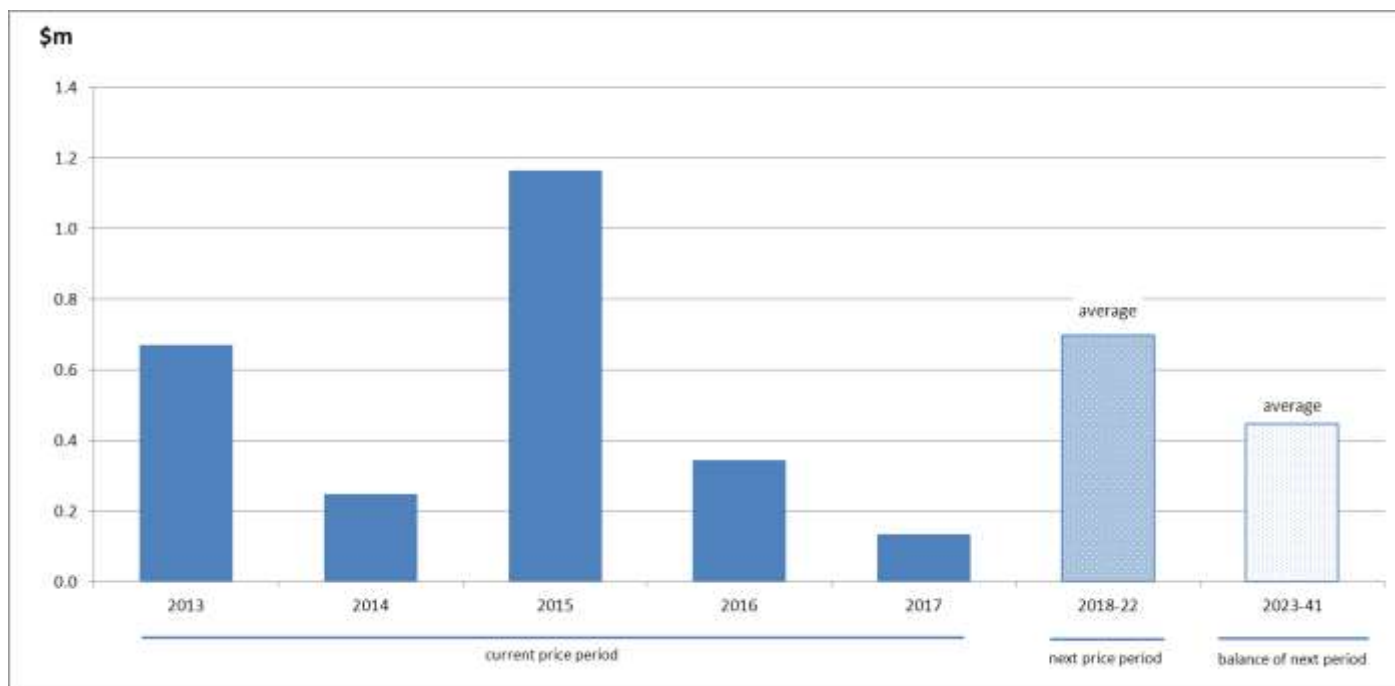
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(2,401)	(2,826)	(2,851)		
Annuity Income	423	433	444	446	457
Spend	(669)	(246)	(1,163)		
Interest	(180)	(212)	(214)		
Closing Balance	(2,826)	(2,851)	(3,783)		

* 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.

Enlarge Outlet Works - MARIAN WEIR

Year: 2018

Current estimate: \$1.6m

Options analysis completed: No

This project is to complete the outlet works at Marian Weir and to build a cofferdam. Enlargement of the Outlet Works is required to comply with ROP and safety requirements. An options analysis will be completed closer to implementation at which point the cost estimate will be firmed up. Pioneer Valley Water Board, and other customers, will be consulted at this time.

Replace Control Equipment - DUMBLETON WEIR

Year: 2019

Current estimate: \$350k

Options analysis completed: No

The replacement of the control system at the Dumbleton Weir is scheduled for 2019. This replacement is required as many old parts have already become obsolete and without support from the manufacturer, sourcing any replacement parts will be difficult, if not impossible. Option analyses at several other sites indicate that replacement of the control system with SunWater Standard PLC hardware is the preferred way forward. Condition will continue to be monitored and an options analysis is likely to be undertaken closer to implementation.

Material Projects 2023-41

The program of works for 2022-41 should be viewed as indicative at this stage and will be refined as the next pricing review draws closer.

Replace Fish Lock Hydraulics - DUMBLETON WEIR

Year: 2023

Current estimate: \$457k

Options analysis completed: No

The hydraulics are expected to have reached their end-of-life by 2023. This project is to replace or refurbish the fish lock hydraulics depending on a condition assessment to be performed closer to that time. Condition will continue to be monitored and an options analysis is likely to be undertaken closer to implementation.

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	94		117		108	
Materials	1		13		2	
Contractors	12		16		83	
Other	206		167		262	
Non-direct	187		235		218	
Operations Total	500	96%	548	101%	673	123%
Preventative						
Labour	83		64		34	
Materials	5		6		22	
Contractors	22		20		116	
Other	0		0		0	
Non-direct	158		125		71	
Preventative Total	267	114%	216	88%	243	99%
Corrective						
Labour	47		37		4	
Materials	31		29		50	
Contractors	40		40		59	
Other	0		0		0	
Non-direct	91		74		13	
Corrective Total	209	113%	180	93%	126	65%
Electricity	3	76%	5	118%	4	85%
Total Routine Expenses	980	103%	949	96%	1,046	106%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	458		153		930	
Corrective	0		0		0	
Other	0		0		1	
Non-direct	210		93		232	
Total Annuity Funded Non-Routine	669	35%	246	13%	1,163	61%
TOTAL REGULATED EXPENSES	1,648		1,195		2,208	
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	1,648		1,195		2,208	