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2015 Annual Network Service Plan

Proserpine 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

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		550
Irrigation		41,717
Urban		10,992
Other		300
SunWater		9,317
Total	**94**	**62,876**

QCA Assumed Water Usage for Irrigation	62.9%
QCA Assumed Water Usage for Total	62.1%

Revenue

Table 3 – Revenue[1]

	2013 SunWater Actual $'000	2014 SunWater Budget $'000	2015 SunWater Budget $'000
Irrigation Revenue*	422	481	511
Industrial and Urban*	1,881	1,565	2,005
Other Revenue	178	172	172
Total Revenue	**2,481**	**2,219**	**2,688**

[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 Expenditure[2]

	2013 SunWater Actual	% of 2013 Target	2014 SunWater Budget	% of 2014 Target	2015 SunWater Budget	% of 2015 Target
	$'000	%	$'000	%	$'000	%
Operations (Excl. Elect.)	689	106%	668	99%	797	117%
Preventative	48	34%	140	94%	151	101%
Corrective	83	161%	51	96%	58	106%
Electricity	7	131%	10	175%	7	127%
Total Routine Expenses	**826**	**97%**	**868**	**98%**	**1,013**	**114%**

The budget routine spend is 14% above the QCA's target for 2015 however the budget falls to 100% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2015 is 17% 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 in line with the QCA's target for 2015.

Electricity

Electricity costs are budgeted 27% higher than the QCA target in 2015 mostly due to 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.

[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 budget 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	18		76		211	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	5		72		67	
Annuity Funded Total	**23**	**3%**	**148**	**20%**	**278**	**37%**
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)
Replace PLC and SCADA system - KELSEY CREEK PIPELINE	Replacement of the PLC and SCADA system is planned as it is obsolete and no further support will be provided from the vendor.	134
Extending the right bank revetment mattresses further upstream to protect the slope against erosion (2013 DS Rec. 7.1b) - PETER FAUST DAM	A small area of the mattress has slipped and exposed the erodible material. The batter could be further damaged in future floods or from heavy rainfall and should be repaired by extending the right bank revetment mattresses further upstream.	33
Remove, inspect and repair rust areas on baulks and recoat with approved coating (2013 DS Rec. 9.3) - PETER FAUST DAM	The baulks are in fair / poor condition, with extensive blistering corrosion along the wear-strip / frame interfaces. The hinge plates on the collapsible baulk are also heavily corroded and will need to be refurbished. It was recommended to remove and inspect the baulks. Repair rust areas on both the open baulks and the collapsible baulk and recoat with approved coating.	23
Other works	Includes conduit inspection and refurbishments of hydraulics at Peter Faust Dam	88
Total		278

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

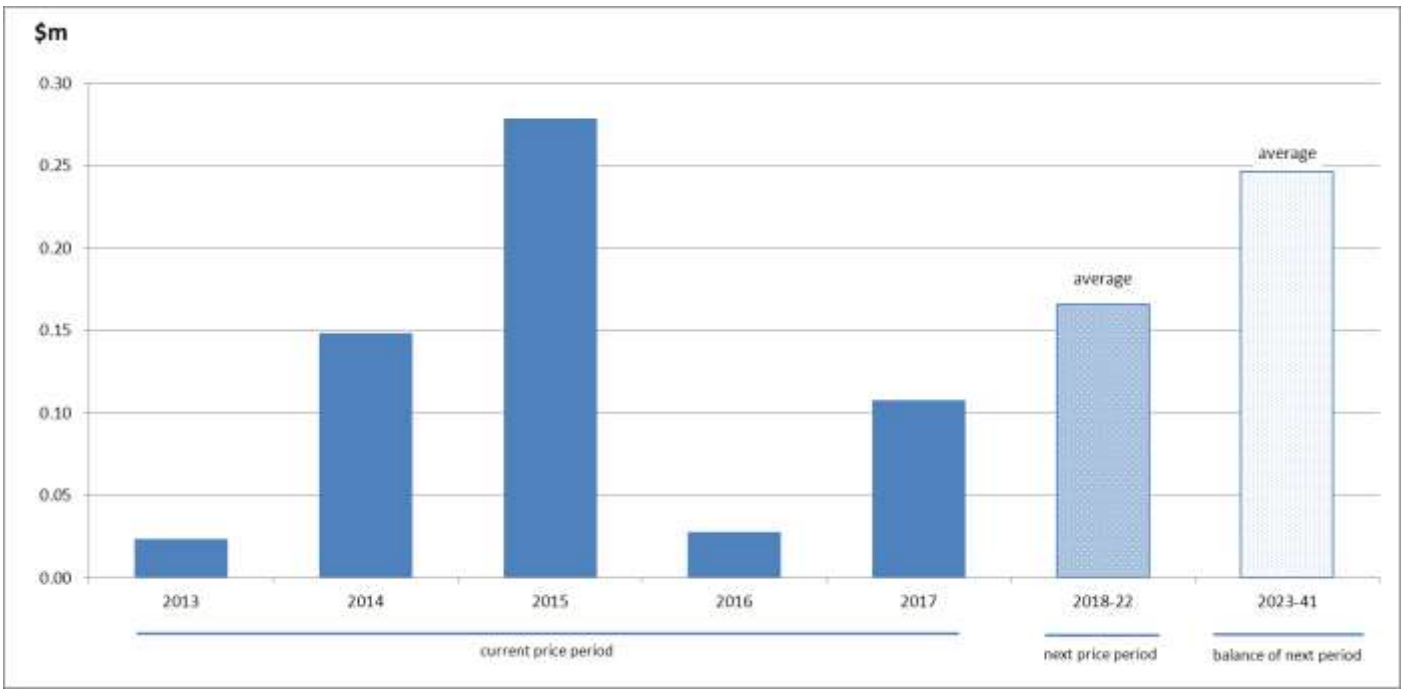
	2013	2014*	2015*	2016	2017
	$'000	$'000	$'000	$'000	$'000
Opening Balance	(360)	(212)	(176)		
Annuity Income	198	200	202	201	201
Spend	(23)	(148)	(278)		
Interest	(27)	(16)	(13)		
Closing Balance	(212)	(176)	(266)		

* 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

Replace PLC and SCADA system - KELSEY CREEK PIPELINE

Year: 2015

Current estimate: $134k

Options analysis completed: Yes

The replacement of the control system at the Kelsey Creek Pipeline is due. 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. An options analysis was undertaken to consider several available options and then decision was made to select one option based on the highest benefit that can be achieved at the lowest cost.

The option analysis has been done in 2014 FY. Three options were considered:

Option 1 - This option uses SunWater standard Schneider Hardware and Software.

Option 2 - This option uses Allen Bradley PLC Hardware and Software instead of SunWater standard Schneider Hardware and Software.

Option 3 - In this option the control system will not be replaced.

The recommendation is to replace the control system with SunWater Standard PLC hardware (option 1). The 2015 FY project is to implement the recommendation.

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.

5yr Dam Comprehensive Inspection - PETER FAUST DAM

Year: 2019
Current estimate: $113k
Options analysis completed: No

Peter Faust 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, therefore no options analysis is required. This comprehensive inspection must be completed by the 1st of December 2018, and every fifth anniversary thereafter.

Replace V-Notch Weir - PROSERPINE RIVER DISTRIBUTION

Year: 2022
Current estimate: $185k
Options analysis completed: No

The expected end of the physical life of the V-notch weir is currently2022.The condition of the V-notch weir will be updated closer to this date to confirm the replacement date and an options analysis carried out on the replacement of V-notch weir.

Replace Boat Ramp - PETER FAUST DAM

Year: 2022
Current estimate: $115k
Options analysis completed: No

The boat ramp has an expected end-of-life at 2022. A condition assessment and option analysis will be performed prior to the replacement of the Boat Ramp.

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.

Replacement balance for cable and cableways - PETER FAUST DAM

Year: 2032
Current estimate: $1.15m
Options analysis completed: No

Cables will be monitored over time through an ongoing program of electrical testing to determine ageing and deterioration to better establish 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 a 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.

Appendix –Total Expenditure by Expense Type

Table 8 – Expenditure for Activity by Type

	2013 SunWater Actual	% of 2013 Target	2014 SunWater Budget	% of 2014 Target	2015 SunWater Budget	% of 2015 Target
	$'000	%	$'000	%	$'000	%
ROUTINE EXPENSES						
Operations						
Labour	135		125		132	
Materials	19		25		22	
Contractors	46		47		84	
Other	224		213		294	
Non-direct	264		256		264	
Operations Total	**689**	**106%**	**668**	**99%**	**797**	**117%**
Preventative						
Labour	13		29		34	
Materials	3		11		14	
Contractors	3		40		36	
Other	2		0		1	
Non-direct	26		59		66	
Preventative Total	**48**	**34%**	**140**	**94%**	**151**	**101%**
Corrective						
Labour	13		6		9	
Materials	21		14		21	
Contractors	15		19		9	
Other	3		0		0	
Non-direct	30		12		18	
Corrective Total	**83**	**161%**	**51**	**96%**	**58**	**106%**
Electricity	**7**	**131%**	**10**	**175%**	**7**	**127%**
Total Routine Expenses	**826**	**97%**	**868**	**98%**	**1,013**	**114%**

	2013 SunWater Actual	% of 2013-17 Target	2014 SunWater Budget	% of 2013-17 Target	2015 SunWater Budget	% of 2013-17 Target
	$'000	%	$'000	%	$'000	%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	18		76		211	
Corrective	0		0		0	
Other	0		0		0	
Non-direct	5		72		67	
Total Annuity Funded Non-Routine	**23**	**3%**	**148**	**20%**	**278**	**37%**
TOTAL REGULATED EXPENSES	**849**		**1,017**		**1,292**	
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	**849**		**1,017**		**1,292**	