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2015 Annual Network Service Plan

St George Distribution

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		0
Irrigation		54,867
Urban		0
Other		0
SunWater		9,701
Total	38	64,568
QCA Assumed Water Usage for Irrigation		86.0%
QCA Assumed Water Usage for Total		93.4%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	2,607	2,583	2,799
Drainage	203	210	210
Irrigation CSO	497	401	305
Industrial and Urban*	18	0	0
Other Revenue	8	1	1
Total Revenue	3,334	3,195	3,315

* 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.)	781	89%	944	105%	980	107%
Preventative	457	133%	369	104%	401	110%
Corrective	63	26%	267	105%	263	101%
Electricity	73	139%	60	107%	60	100%
Total Routine Expenses	1,374	91%	1,640	105%	1,704	106%

The budget routine spend is 6% above the QCA's target for 2015 however the budget falls to 101% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2015 is 7% 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 97% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is budgeted 10% above the QCA's target for 2015 due to increased weed control activity planned for 2015.

Corrective Maintenance

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

Electricity

Electricity costs are budgeted in line with 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%. These price increases have been offset by the lower than average pumping expected in 2015. 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. There have been some corrective works in this service contract to repair flood damage, however these should be able to be accommodated within the QCA's targets.

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	236		103		93	
Corrective	4		403		369	
Other	0		0		0	
Non-direct	70		115		106	
Annuity Funded Total	311	12%	621	24%	568	22%
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 two major projects planned for 2015 are provided below:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
FD01 (2012) Repair Large Washouts - ST GEORGE DISTRIBUTION	Part of major earthworks required to rectify damage caused by extensive flooding in 2012. Repairs commenced in 2014 and will be completed in 2015.	366
FD01 (2012) Desilting 45 to 7700m - ST GEORGE DISTRIBUTION	Part of major earthworks required to rectify damage caused by extensive flooding in 2012. Repairs commenced in 2014 and will be completed in 2015.	23
Reprofiling Watercourse 45 to 7700m - ST GEORGE DISTRIBUTION	Required to refurbish/re-profile sections of the Thuraggi Water-course that have deteriorated over time through fair wear and tear. Project is timed to coincide with major earthworks currently in progress to repair flood damage, to achieve maximum cost efficiency.	23
Repair access crossing - Channel B1 Access Crossing AC - ST GEORGE DISTRIBUTION	This project is to repair a damaged access crossing. Site inspections and review of usage confirm requirement for work.	22
Investigate Buckinbah PSTN - BUCKINBAH PUMP STATION	This has now been broadened to an options study to investigate and identify the most prudent and efficient long-term strategy for this site. Decommissioning will be just one of a number of options investigated. The options study is necessary to address the current unsustainable costs to operate the pump station in its current condition/arrangement.	21
Other works	Includes many small jobs covering transition earthworks and painting & other maintenance to gates.	113

Total	568
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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

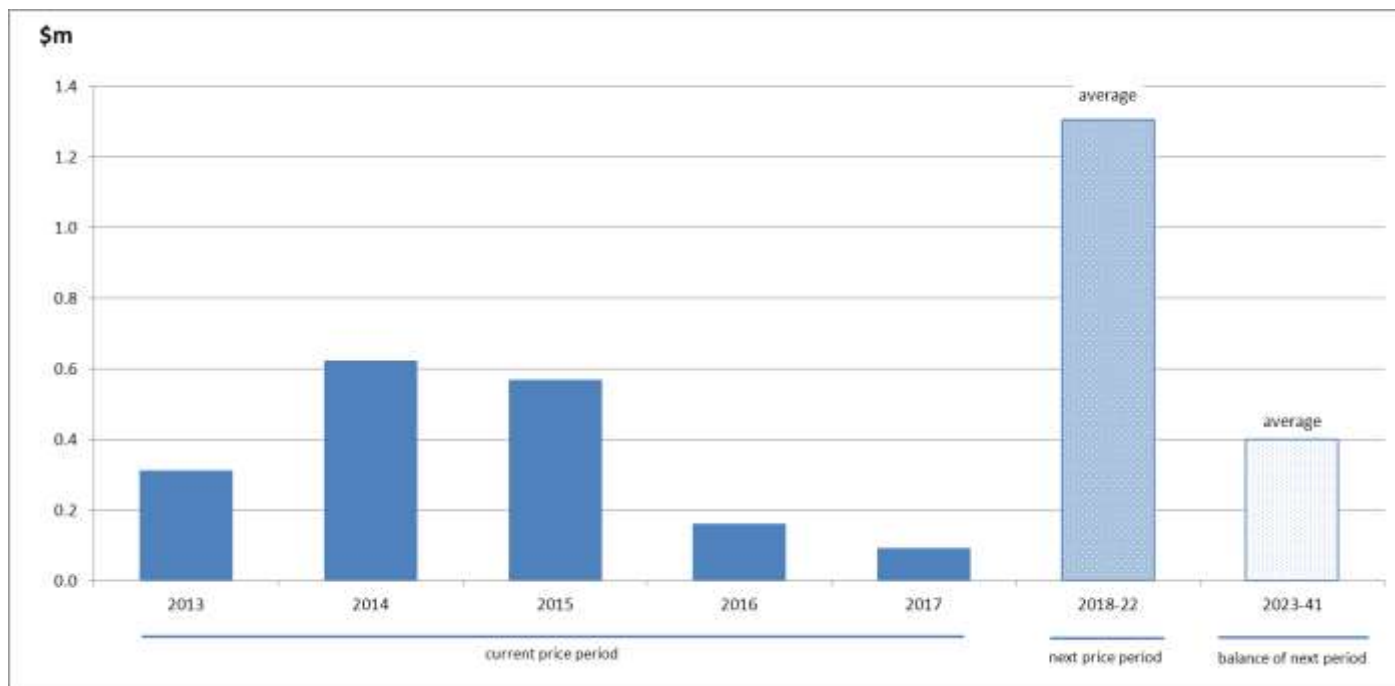
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(1,506)	(1,528)	(1,859)		
Annuity Income	402	405	407	424	422
Spend	(311)	(621)	(568)		
Interest	(113)	(114)	(139)		
Closing Balance	(1,528)	(1,859)	(2,160)		

* 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. The expenditure in 2014 now includes the flood damage repairs that were flagged in last year's NSP.

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

Repair Large Washouts - ST GEORGE DISTRIBUTION

Year: 2015

Current estimate: \$366k

Options analysis completed: No

Major earthworks are required to rectify damage caused by extensive flooding in 2012. Repairs commenced in 2014 and will be completed in 2015.

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.

Construct new submersible type Pump Station - ST GEORGE PUMP STATION

Year: 2018-20

Current estimate: \$4.6m

Options analysis completed: Yes

The St George Pump Station requires replacement due to condition, reliability and WHS access issues. An options study to investigate alternatives for replacement or upgrade detailed a submersible pump station as the most appropriate replacement option. This project is to implement the recommendations of the options analysis. The project will be completed over 2018-2020. The preparation of documents, drawings, specifications and the final cost estimate is scheduled for 2018.

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	228		292		275	
Materials	92		40		75	
Contractors	2		4		2	
Other	77		104		155	
Non-direct	382		504		474	
Operations Total	781	89%	944	105%	980	107%
Preventative						
Labour	136		94		105	
Materials	26		20		25	
Contractors	65		89		89	
Other	0		0		0	
Non-direct	230		165		182	
Preventative Total	457	133%	369	104%	401	110%
Corrective						
Labour	20		87		87	
Materials	9		18		15	
Contractors	1		13		13	
Other	0		0		0	
Non-direct	33		149		148	
Corrective Total	63	26%	267	105%	263	101%
Electricity	73	139%	60	107%	60	100%
Total Routine Expenses	1,374	91%	1,640	105%	1,704	106%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	236		103		93	
Corrective	4		403		369	
Other	0		0		0	
Non-direct	70		115		106	
Total Annuity Funded Non-Routine	311	12%	621	24%	568	22%
TOTAL REGULATED EXPENSES	1,685		2,261		2,272	
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	1,685		2,261		2,272	