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2015 Annual Network Service Plan

St George Bulk

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

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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		60
Irrigation		71,770
Urban		3,024
Other		0
SunWater		9,721
Total	162	84,575
QCA Assumed Water Usage for Irrigation		83.2%
QCA Assumed Water Usage for Total		94.2%

Table 3 – Revenue¹

	2013 SunWater Actual \$'000	2014 SunWater Budget \$'000	2015 SW Draft Budget \$'000
Irrigation Revenue*	325	427	430
Industrial and Urban*	175	121	183
Other Revenue	13	2	2
Total Revenue	513	549	616

* 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.)	572	88%	651	96%	832	122%
Preventative	229	102%	218	93%	173	73%
Corrective	132	95%	134	92%	109	75%
Electricity	4	44%	10	112%	5	49%
Total Routine Expenses	937	92%	1,014	95%	1,118	105%

The budget routine spend is 5% above the QCA's target for 2015 however the budget falls to 99% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2015 is 22% above the QCA target, however one third of this difference is 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 remaining difference is offset by lower budgets for preventive and corrective maintenance.

Preventive Maintenance

SunWater has restructured its bulk water business during 2013/14. As a consequence the bulk water business will undertake a number of maintenance tasks, such as electrical and mechanical servicing, utilising specialist private sector organisations. Therefore the budget for preventive maintenance, at 73% of target, reflects a reduction in internal labour that is offset by an increase in contract services. The costs of the contract services are yet to be confirmed via the market.

Corrective Maintenance

Corrective maintenance is budgeted well below the QCA's target for 2015. Significant corrective maintenance will also be undertaken by specialist contractors, as described above.

Electricity

Electricity costs are budgeted at \$5k 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%. St George Bulk electricity costs can vary from year-to-year and represent less than 0.1% 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, 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	159		364		515	
Corrective	270		0		0	
Other	40		0		0	
Non-direct	301		117		95	
Annuity Funded Total	771	29%	481	18%	610	23%
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 four major projects planned for 2015 are provided below:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget (\$'000)
Replace both non functioning mace meters - EJ BEARDMORE DAM	The regulator overseeing the Resources Operation Plan for the scheme of St George requires that water supplied down Thuraggi water course needs to be measured and reported. This project is to install transit time flow meters.	187
Blast and paint steel gantry beam Phase 2 - JACK TAYLOR WEIR	Jack Taylor Weir is a predominately steel structure built 50 years ago. The steel superstructure was part painted in 2008. This project is to complete the painting.	98
Refurbish: Undertake electrical Safety upgrade including production of full set of 'as-built' drawings - EJ BEARDMORE DAM	This project originated from a condition assessment by SunWater's Senior Electrical Engineer and addresses electrical deficiencies identified at the site. The project was originally scoped and estimated for 2014. With changes to the way we operate, SunWater does not have its own electricians anymore and this project and a similar project at Jack Taylor weir were put out for quotes. The quotes received would only cover the cost of one of the projects, so we elected to undertake the work on Jack Taylor Weir first after analysing the risks. Jack Taylor Weir will be upgraded in April 2014, with the Beardmore Dam project scheduled for July/August 2014.	76
14SGA04 Refurbish: Electrical Upgrade (Refer 2012 Supplementary 5 Year Inspection) - EJ BEARDMORE DAM	Provision of a control transformer in each Gate Control Cabinet to improve reliability of gate control and operations, and remove the Dual Supply hazard. Install a 415V isolator for each Gate Control Cabinet and an	67

	isolator for each Gate Motor & emergency stops for each motor	
10SGA17 Refurbish: Flood / erosion Damage including dissipater - Refer 2012 Inspection report - EJ BEARDMORE DAM	Repairs to the spillway dissipater. Where areas larger than 1m ² are to be repaired, they will be repaired with a layer of SL82 mesh placed with 60mm cover with N24 Anchor bars at approximately 2m centres embedded 600mm into foundation rock. For the spillway dissipater, 32 MPa concrete is specified.	66
Other works		116
Total		610

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

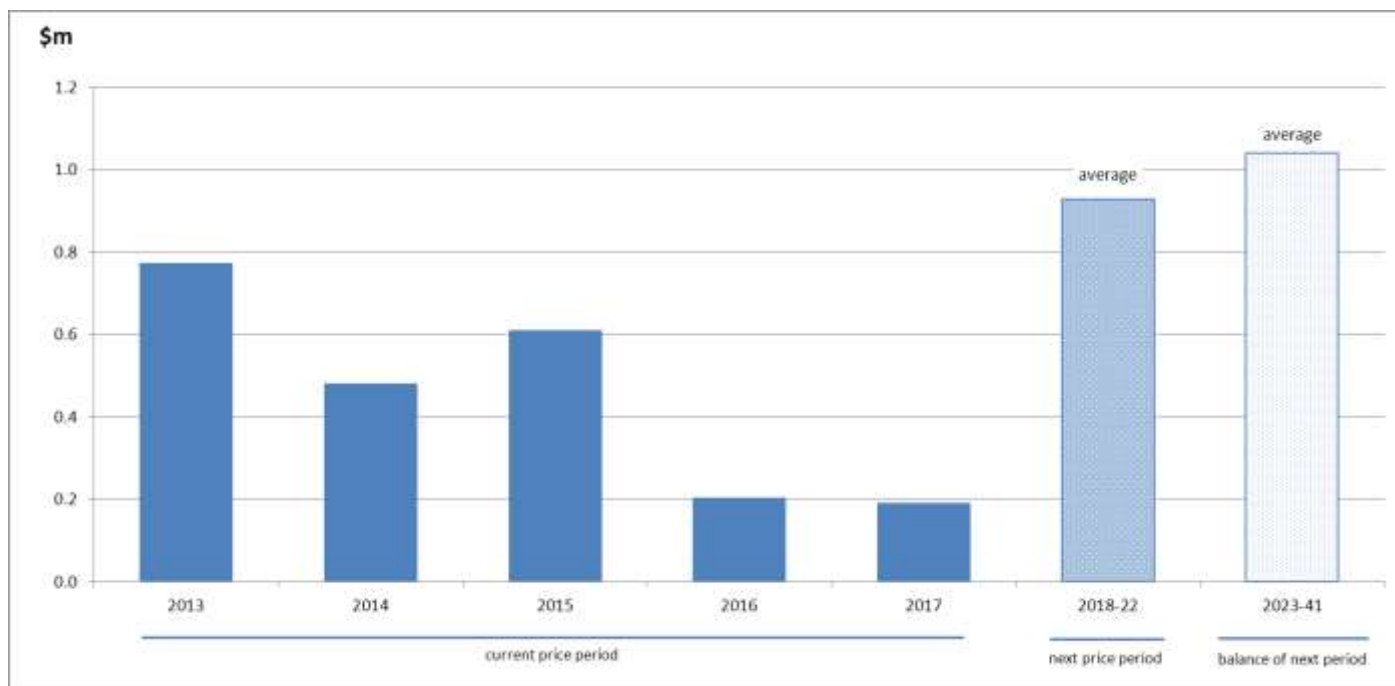
	2013	2014*	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	128	(8)	145		
Annuity Income	625	634	640	649	657
Spend	(771)	(481)	(610)		
Interest	10	(1)	11		
Closing Balance	(8)	145	186		

* 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	155		139		206	
Materials	3		90		2	
Contractors	4		11		46	
Other	83		98		127	
Non-direct	328		314		450	
Operations Total	572	88%	651	96%	832	122%
Preventative						
Labour	75		71		46	
Materials	5		9		14	
Contractors	12		3		19	
Other	1		0		6	
Non-direct	137		136		87	
Preventative Total	229	102%	218	93%	173	73%
Corrective						
Labour	36		43		29	
Materials	13		4		11	
Contractors	10		3		13	
Other	7		2		0	
Non-direct	66		83		55	
Corrective Total	132	95%	134	92%	109	75%
Electricity	4	44%	10	112%	5	49%
Total Routine Expenses	937	92%	1,014	95%	1,118	105%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	159		364		515	
Corrective	270		0		0	
Other	40		0		0	
Non-direct	301		117		95	
Total Annuity Funded Non-Routine	771	29%	481	18%	610	23%
TOTAL REGULATED EXPENSES	1,708		1,495		1,728	
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	1,708		1,495		1,728	