SunWater Limited
Level 10, 179 Turbot Street
PO Box 15536 City East
Brisbane Queensland 4002
www.sunwater.com.au
ACN 131 034 985

2015 Annual Network Service Plan

Theodore 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

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		15,950
Urban		2
Other		0
SunWater		4,005
Total	**42**	**19,957**

QCA Assumed Water Usage for Irrigation	66.9%
QCA Assumed Water Usage for Total	73.5%

Revenue

Table 3 – Revenue[1]

	2013 SunWater Actual $'000	2014 SunWater Budget $'000	2015 SunWater Budget $'000
Irrigation Revenue*	874	1,102	1,163
Drainage	44	45	45
Irrigation CSO	462	447	425
Industrial and Urban*	0	0	1
Other Revenue	2	2	2
Total Revenue	**1,383**	**1,596**	**1,636**

* 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] SunWater 2015 budget figures are draft as at the time of consultation. Budget figures for the next financial year are not locked down until late in the financial year prior.

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.)	355	64%	566	99%	600	103%
Preventative	404	104%	389	98%	418	102%
Corrective	77	38%	201	95%	227	105%
Electricity	125	80%	180	107%	180	100%
Total Routine Expenses	**962**	**74%**	**1,336**	**99%**	**1,425**	**103%**

The budget routine spend is 3% above the QCA's target for 2015 however the budget falls to 100% of target when the above-QCA increases in insurance are taken into account.

Operations

The operations budget in 2015 is 3% 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 96% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is budgeted above the QCA's target for 2015. SunWater will continue to refine budgets to bring the overall expenditure into line with target.

Corrective Maintenance

Corrective maintenance is budgeted above the QCA's target for 2015. SunWater will continue to refine budgets to bring the overall expenditure into line with target.

Electricity

Electricity costs are budgeted in line with the QCA target in 2015. This is due to expected lower than average pumping for 2015 which offsets the understatement of electricity increases by the QCA during the last price determination. The QCA limited estimated tariff increases to around 30% over the first three years of the price path when actual increases have been around 50%.

[2] SunWater 2015 budget figures are draft as at the time of consultation. Budget figures for the next financial year are not locked down until late in the financial year prior.

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. There have been some corrective works in this service contract; however these should be able to be accommodated within the QCA's 2013-17 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	259		30		142	
Corrective	22		0		0	
Other	0		0		0	
Non-direct	98		6		45	
Annuity Funded Total	**379**	**43%**	**36**	**4%**	**187**	**21%**
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)
Refurbish Pump - PUN2 - Gibber Gunyah PSTN - GIBBER GUNYAH PUMP STATION	This pump is due for refurbishment as it is far beyond its refurbishment life.	35
Install Meter Outlet Channel D 916 Metres - THEODORE IRRIGATION DISTRIB	This new meter installation is to replace two existing meter off-takes located on Channel D2 and relinquish Channel D2 to the local irrigator as part of the scheme rationalisation program from previous years.	34
Refurbish Motor - PUN2 - Gibber Gunyah PSTN - GIBBER GUNYAH PUMP STATION	This pump is due for refurbishment as it is far beyond its refurbishment life.	27
Other works	Includes several smaller pump and valve refurbishment projects.	91
Total		187

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

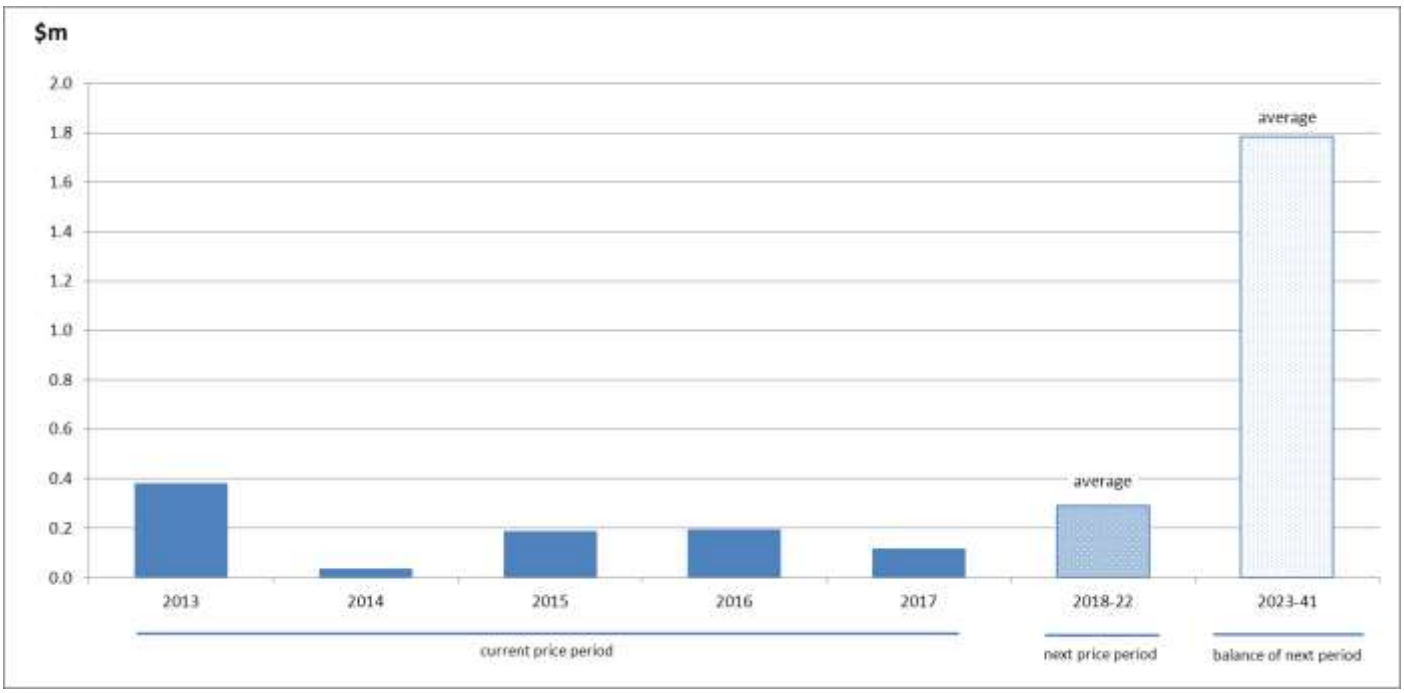
	2013	2014*	2015*	2016	2017
	$'000	$'000	$'000	$'000	$'000
Opening Balance	1,337	1,108	1,237		
Annuity Income	51	82	107	110	113
Spend	(379)	(36)	(187)		
Interest	100	83	93		
Closing Balance	1,108	1,237	1,250		

* 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

Projects in 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.

Design & Costing for Replacement Pump Stations – THEODORE IRRIGATION DISTRIBUTION

Year: 2019
Current estimate: $259k
Options analysis completed: No

Both the Theodore and Gibber Gunyah Pump Stations are due for replacement. An options study to investigate alternatives for replacement, upgrade or combining the stations is currently underway. This project is to implement the recommendations of the options analysis. The project works are planned for 2019-21 (see below). The preparation of documents, drawings, specifications and the final cost estimate is scheduled for 2019.

Replace Suction Pipe Pump No2 & No3 - GIBBER GUNYAH PUMP STATION

Year: 2020
Current estimate: $324k
Options analysis completed: No

See above.

Replace Pumpwell Building - THEODORE PUMP STATION

Year: 2021
Current estimate: $157k
Options analysis completed: No

See above.

Material Projects 2023-41

Replace pump station as per options analysis recommendations - THEODORE PUMP STATION

Year: 2023
Current Estimate: $6.775M
Options analysis completed: Yes

This aged pump station has reached the end of its effective life with issues surrounding its structural integrity, continued reliability, and WH&S. External consultants have been engaged to conduct an options study to identify the optimum solution. Their recommendation is to replace the existing pump station with a lineshaft turbine pump station adjacent to the current location. The estimated cost has been nominally included in the annuity profile pending a thorough review of the recently completed options analysis, and a detailed design yet to be prepared/commissioned closer to actual replacement date. The cost estimate is for a replacement pump station of suitable capacity that will permit the decommissioning of the Fork Pump Station.

Replace pump station as per options analysis - GIBBER GUNYAH PUMP STATION

Year: 2024
Current Estimate: $10.8M
Options analysis completed: Yes

This aged pump station has reached the end of its effective life with issues surrounding its structural integrity, continued reliability, and WH&S. External consultants have been engaged to conduct an options study to identify the optimum solution. Their recommendation is to replace the existing pump station with a lineshaft turbine pump station adjacent to the current location. The estimated cost has been nominally included in the annuity profile pending a thorough review of the recently completed options analysis, and a detailed design yet to be prepared/commissioned closer to actual replacement date.

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	115		190		189	
Materials	4		1		2	
Contractors	1		2		1	
Other	40		47		85	
Non-direct	195		326		323	
Operations Total	**355**	**64%**	**566**	**99%**	**600**	**103%**
Preventative						
Labour	122		109		120	
Materials	31		37		33	
Contractors	50		53		56	
Other	0		0		3	
Non-direct	201		190		206	
Preventative Total	**404**	**104%**	**389**	**98%**	**418**	**102%**
Corrective						
Labour	21		62		71	
Materials	18		29		23	
Contractors	3		3		10	
Other	0		0		2	
Non-direct	36		107		121	
Corrective Total	**77**	**38%**	**201**	**95%**	**227**	**105%**
Electricity	**125**	**80%**	**180**	**107%**	**180**	**100%**
Total Routine Expenses	**962**	**74%**	**1,336**	**99%**	**1,425**	**103%**

	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	259		30		142	
Corrective	22		0		0	
Other	0		0		0	
Non-direct	98		6		45	
Total Annuity Funded Non-Routine	**379**	**43%**	**36**	**4%**	**187**	**21%**
TOTAL REGULATED EXPENSES	**1,341**		**1,372**		**1,612**	
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	**1,341**		**1,372**		**1,612**	