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Annual Network Service Plan

Bundaberg Bulk Supply

April 2013

Table of Contents

Introduction	4
Past and Forecast Performance	4
Water Usage	4
Operating Expenditure	5
Operations	5
Preventive Maintenance	5
Corrective Maintenance	5
Electricity	5
Flood Damage	6
Renewals and Enhancements	6
Overview of Renewals and Enhancements 2014-41	8
Material Projects 2014-17	9
Replace Anodes - Ben Anderson Barrage	9
Material Projects 2018-22	9
REPLACE CABLE MAIN WALL - Fred Haigh Dam	9
Material Projects 2023-41	10
Appendix – Operating Expenditure by Expense Type	11

Notes

All financial figures in this report 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 convert to nominal dollars multiply by the following factors, which are based on the QCA's assumed inflation rate of 2.5% p.a.

Table 1 – Conversion Factors for Nominal-to-Real Dollars

Year	2013	2014	2015	2016	2017
Conversion Factor	0.952	0.929	0.906	0.884	0.862

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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 operating expenditure (opex) and renewals and enhancements (R&E) expenditure. In particular, the NSPs will cover:

- current year performance for opex and R&E,
- forecast opex and R&E for the approaching year, and
- the long-term outlook for material R&E spend.

This is the first annual NSP that SunWater has produced. Given that it is being published in the first year of the new price path, and the 2013 year is incomplete, there is no actuals data reported in the performance tables. Also, very few options analyses have been completed to date as the annual planning for renewals and enhancements discussed in this NSP was completed just prior to publishing.

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Email: nspfeedback@sunwater.com.au

Post: NSP Feedback
PO Box 15536 City East
Brisbane Qld 4002

Past¹ and Forecast Performance

The tables in the following sections show the QCA targets with planned water use and spend for the current year and future years. Budgets for future years are based on the current draft budget at the time of consultation and are therefore subject to change.

Water Usage

Table 2 - Water Usage

	WAE	2013 QCA Forecast (ML)	2014 QCA Forecast (ML)
Total	185,689	76,875	76,875

¹ As this is the first year of the 5-year price period, this NSP has the current year and following year figures only; future NSPs will also report on the past year performance against target and budget.

Table 3 – Operating Expenditure

	2013		2014	
	QCA Target (\$'000)	SunWater Budget (\$'000)	QCA Target (\$'000)	SW Draft Budget ² (\$'000)
Operations	722	741	748	806
Preventive Maintenance	333	355	348	342
Corrective Maintenance	132	138	137	165
Electricity	9	18	10	11
Total	1,196	1,252	1,243	1,324

Operations

The operations budget in 2014 is \$58k above the QCA target due to insurance premiums rising significantly more than anticipated in the QCA target for insurance.

Preventive Maintenance

Preventive maintenance is budgeted in line with the QCA's target for 2014.

Corrective Maintenance

Corrective maintenance is budgeted at \$28k above the QCA target for 2014.

Electricity

Electricity costs are budgeted higher than the QCA target in 2014 due to announced increases in electricity prices being much higher than the 12.5% and 7% increases allowed by the QCA in 2013 and 2014. This cost over-run is beyond SunWater's control and is likely to trigger a within-period cost pass-through application to the QCA.

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

Flood Damage

There has been significant flood damage incurred to the assets in this service contract. While the cost of the outstanding repairs is not known accurately, it is estimated that repairs will cost in the range of \$1.1m to \$2.1m, with repairs to primarily occur in 2014. A proportion of these costs will be covered by insurance, however the amount to be returned is uncertain and insurance claims of this nature can take years to settle. The difference between the cost of repairs and the insurance returns will be funded from the annuity.

Renewals and Enhancements

R&E annuity expenditure is forecast to be \$824k above target for 2014 and over the full 5-year price period the estimated expenditure is currently \$752k above the QCA target.

Table 4 – R&E Expenditure (excl. dam safety & other)

2013		2014		5 year price period (2013-17)	
QCA Target (\$'000)	SunWater Budget (\$'000)	QCA Target (\$'000)	SW Draft Budget (\$'000)	QCA Target (\$'000)	SunWater Estimate ³ (\$'000)
364	538	198	1,022	1,714	2,466

The renewals annuity income has been set by the QCA until the end of the current price path in 2017. SunWater will aim to limit the R&E expenditure to the QCA's targets over the current price path in order to manage the annuity balance to reasonable levels. The impact of the draft budget R&E spend on the annuity balance for 2014 is shown in the following table.

Table 5 – Annuity Balance 2014

2014 Annuity Income (\$'000)	2014 Draft Budget Annuity Spend (\$'000)	Estimated Impact on Annuity Balance (\$'000)
574	(1,022)	(448)

Note: the figures in Table 5 do not include any allowance for any flood damage repairs that may be funded from the annuity, as discussed in the flood damage section above.

³ Actual figures will replace budget figures in the forecast as each year of the price period is completed. R&E forecasts and estimates are subject to change as planning is refined throughout the price period.

The details for the major projects planned for 2014 are provided below:

Table 6 – R&E Projects 2014

Project Title	Project Scope	2014 Draft Budget (\$'000)
Replace Anodes - BEN ANDERSON BARRAGE	Replacing the cathodic protection anodes at the barrage to prevent corrosion of the shutters, sheet piling, concrete reinforcement and other metallic components. The anodes have failed.	471
13BIAXX Replace PLC - Procure, Install, Commission - NED CHURCHWARD WEIR	The PLC is old and it is becoming difficult to obtain spare parts. If it fails, the weir will need 24hour manual operations during peak periods.	128
Refurbish 10 Shutters at Ben Anderson Barrage - BEN ANDERSON BARRAGE	Re-paint, re-coat and reinstall the shutters at the Barrage.	104
12BIA01 Study: 5yr Dam Comprehensive Inspection Supplementary Inspection (combine with annual inspection) - FRED HAIGH DAM	A full civil, mechanical, electrical and operational inspection of the dam is required under dam safety condition schedule 11. The supplementary inspection is needed as the original inspection could not be completed due to high tail water levels.	98
Redesign nut and spindle on Bucca Weir gate to original arrangement and implement (ref. dwg 79760) - BUCCA WEIR	The outlet gate nut at Bucca Weir has failed twice in the close position. It needs to re-designed to prevent this from recurring.	69
Other minor works		152
Total		1,022

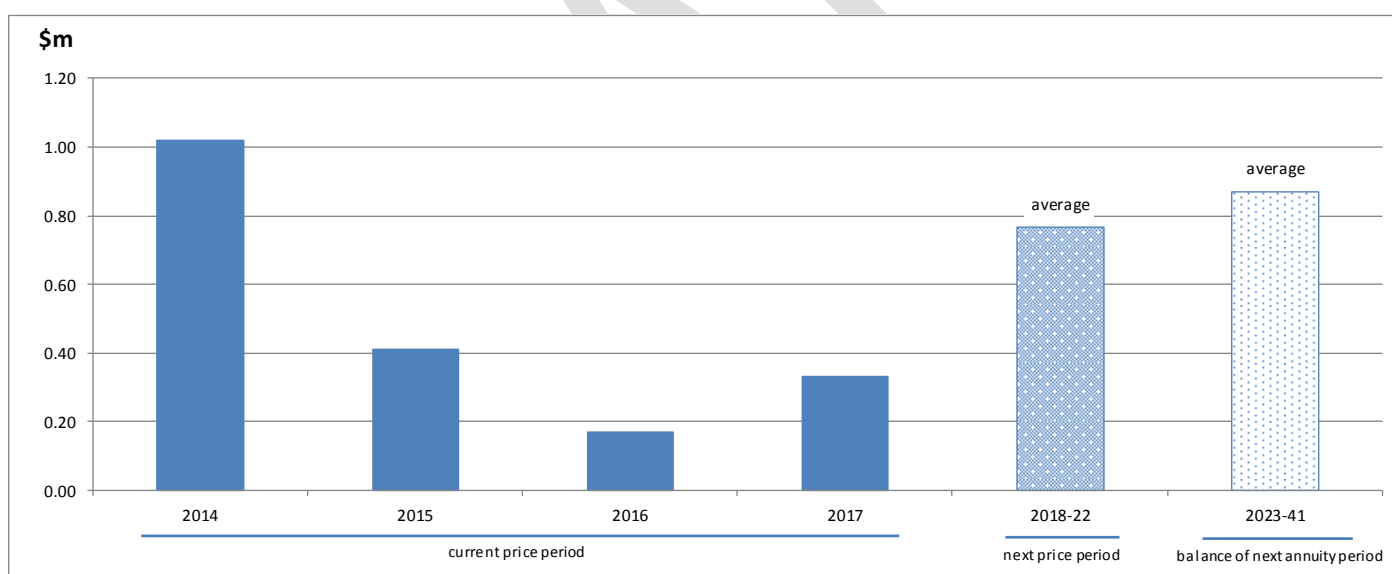
Overview of Renewals and Enhancements 2014-41

SW 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 R&E program, the most recent of which was completed in February 2013. Items requiring immediate maintenance or replacement will be included in the budget for the following year, which was covered in the previous section.

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 R&E. Having an annuity funding arrangement acknowledges that a long-term view of R&E spend is required to ensure adequate funding and to address issues such as inter-generational equity.

The annuity that is calculated over a 20-year planning period; given that the next pricing period ends in 2022, the estimated R&E spend out until 2041 will affect the next pricing review. The estimated R&E expenditure out to 2041 is shown in the chart following.

Figure 1 –R&E Annuity Expenditure 2014-41



All material R&E 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 more detailed options analyses being completed for the 5-year pricing periods than 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 2014-17

Replace Anodes - Ben Anderson Barrage

Year: 2014

Current estimate: \$471k

Options analysis completed: No

Replacing the cathodic protection anodes at Ben Anderson Barrage. There are no options for this work other than to replace the anodes. Without them, corrosion of the metallic components will occur.

Refurbish 10 Shutters at Ben Anderson Barrage - Ben Anderson Barrage

Year: 2015-16

Current estimate: \$245k

Options analysis completed: yes

Repaint and recoat the shutters at Ben Anderson Barrage. This is an ongoing project aimed to keep the shutters in optimal condition. It is possible that all shutters will be refurbished under flood damage work however, at the time of writing, a detailed inspection was not possible due to high water levels. If they are all refurbished under flood damage repairs, this project won't be required for another ten years.

Options considered:

Option 1 – do nothing and let the shutters fail.

Option 2 – replace with stainless steel

Option 3 – repaint and recoat.

The preferred option is option 2 based on an assessment of whether to refurbish or replace that was completed in 2009. This assessment determined that the current maintenance strategy is the most cost-effective.

Material Projects 2018-22

Projects in the R&E plan for 2018-22 should be viewed as indicative at this stage and will be refined as the next pricing review draws closer.

REPLACE CABLE MAIN WALL - Fred Haigh Dam

Year: 2018-19

Current estimate: \$609k

Options analysis completed: No

Replace the main incoming electrical cables to the main part of the dam to ensure ongoing supply to the intake tower crane and lighting. Potential options include:

Option 1 – do nothing

Option 2 – replace with an alternative power source.

Option 3 – Replace like for like

The preferred option at this stage is option 3 because it has proven effective over the life of the dam to date. An options analysis will be completed prior to implementation.

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.

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Appendix – Operating Expenditure by Expense Type

Table 7 below shows the operating expenditure for the service contract categorised by expenditure type. Operating expenditure below includes estimated flood damage and any other non-routine work funded by the annuity.

Table 7 – Expenditure for Activity by Type⁴

	2013		2014	
	QCA Target (\$'000)	SunWater Budget (\$'000)	QCA Target (\$'000)	SW Draft Budget (\$'000)
Operations				
Labour	167	145	172	172
Materials	13	26	14	5
Contractors	29	29	30	35
Other	151	151	153	214
Non-direct	362	390	379	380
Operations Total	722	741	748	806
Preventive				
Labour	98	98	101	107
Materials	31	31	32	10
Contractors	5	5	5	18
Other	0	0	1	0
Non-direct	199	221	209	207
Preventive Total	333	355	348	342
Corrective				
Labour	27	95	27	113
Materials	34	150	35	371
Contractors	15	90	16	562
Other	0	0	0	4
Non-direct	56	224	59	262
Corrective Total	132	559	137	1,312
Electricity	9	18	10	11
Total Operating Exp.	1,196	1,673	1,243	2,471
R&E Annuity Funded ⁵	364	538	198	1,022
Dam Safety and other	0	0	0	0
Grand Total	1,560	2,211	1,441	3,493

⁴ Nominal dollar figures can be converted to real dollars (\$2011) by dividing by the conversion factors in Table 1.

⁵ R&E and Dam Safety are built up from the same expenditure types shown for opex, including non-directs.