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Annual Network Service Plan

Cunnamulla Bulk Supply

April 2013

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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	2,492	1,553	1,553

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	41	41	42	43
Preventive Maintenance	6	6	6	6
Corrective Maintenance	8	9	9	9
Electricity	0	0	0	0
Total	55	56	57	58

Operations

The operations budget in 2014 is above the QCA’s target due to insurance premiums rising by 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 in line with the QCA’s target for 2014.

Electricity

No electricity costs budgeted for this service contract in 2014.

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.

Renewals and Enhancements

R&E annuity expenditure is forecast to be \$5k above target for 2014. However, over the full 5-year price period the estimated expenditure is under 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)
-	-	21	26	45	43

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)
7	(26)	(19)

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)
Repairs to Rock Mattresses, Weld up holes in sheet piling and clean out weep holes. (Scope #1146886) - ALLAN TANNOCK WEIR	Repairs to maintain the structural integrity of the weir were planned for 2013, however weather conditions and other factors forced this project to be deferred to 2014.	26
Other minor works		0
Total		26

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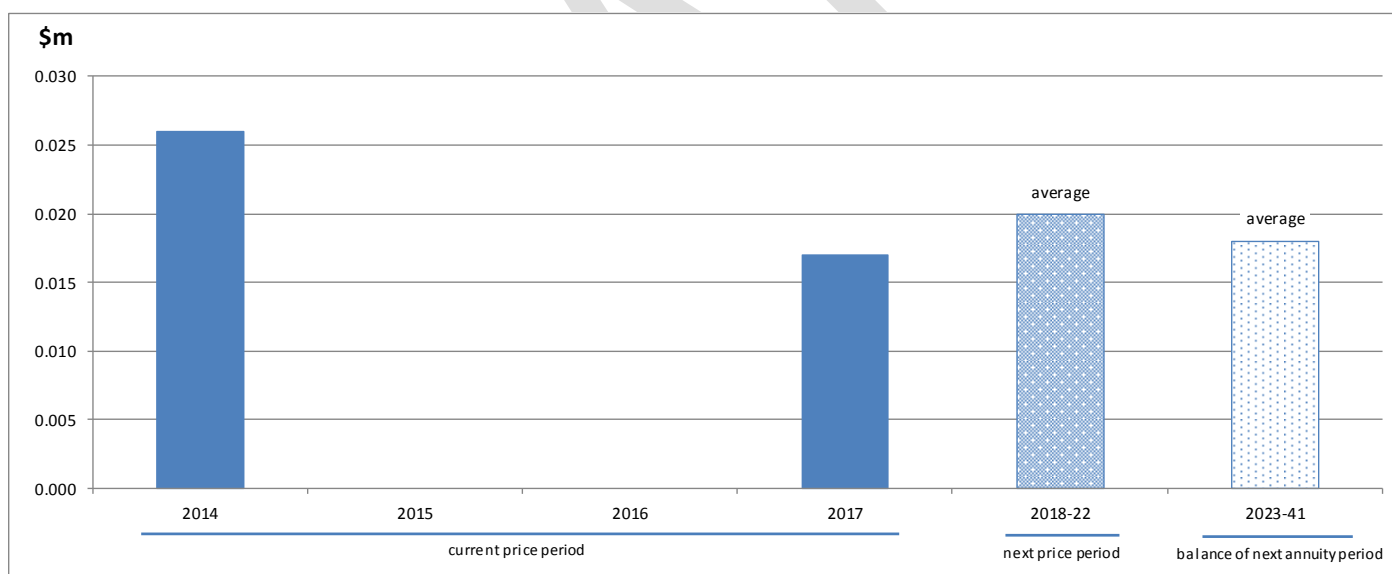
Overview of Renewals and Enhancements 2014-41

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

Repairs to Rock Mattresses, Weld up holes in sheet piling and clean out weep holes - Allan Tannock Weir

Year: 2014

Current estimate: \$26k

Options analysis completed: No

Repairs to maintain the structural integrity of the weir were planned for 2013, however weather conditions and other factors forced this project to be deferred to 2014.

Comprehensive 5 year inspection of Weir - Allan Tannock Weir

Year: 2017

Current estimate: \$17k

Options analysis completed: No

SunWater's policy is to undertake annual inspections on major weir with a comprehensive inspection every 5 years. Therefore, no options analysis will be completed. For minor weirs such as this, we endeavour to only carry out the comprehensive inspection and rely on the operators reports to monitor this remote weir in the intervening period. The inspection costs are based on time, personnel and travel to the site.

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.

Refurbish Sluice Gate (30yr maintenance) - Allan Tannock Weir

Year: 2020

Current estimate: \$15k

Options analysis completed: No

Project to refurbish the 1050mm sluice valve at the weir. No options analysis as yet, however the program will be reviewed at the 2017 inspection.

Replace intake structure walkway - Allan Tannock Weir

Year: 2020

Current estimate: \$55k

Options analysis completed: No

There is a steel walkway to enable SunWater and Council operators to safely operate the outlet valve and enable releases. This walkway has corrosion issues and it is estimated that it may become unsafe to use by 2020. The next planned inspection in 2017 will allow a determination of the remaining life. Options analysis will be completed closer to the implementation.

Repair or Replace Aluminium Rack - Allan Tannock Weir

Year: 2022

Current estimate: \$15k

Options analysis completed: No

A trash rack diverts debris from entering into the 1050 conduit and valve at Allan Tannock Weir. In 2021, the trashrack will be 30 years old. Historically we would replace the trashracks, however the options will be investigated closer to time to refurbish the existing screen depending on the percentage of metal remains.

Comprehensive 5 year inspection of Weir - Allan Tannock Weir

Year: 2022

Current estimate: \$18k

Options analysis completed: No

Refer to 2017 project. (Periodic 5 yearly event)

Material Projects 2023-41

Projects in the R&E plan for 2023-41 should be viewed as indicative at this stage and will be refined as the next pricing review draws closer.

Replace Buoy Line - Allan Tannock Weir

Year: 2025

Current estimate: \$55k

Options analysis completed: No

A buoy line was installed in 2010 for safety reasons as the weir is used for recreational pursuits. The buoy line has a nominal life of 15 years, however subsequent inspections will determine the actual replacement timing.

From a SunWater risk perspective we will now always have to replace the buoy line as it deteriorates. Replacement options analysis will be completed closer to the implementation.

Protection works - Allan Tannock Weir

Year: 2033

Current estimate: \$58k

Options analysis completed: No

Life of protection works indicates replacement in 2033. Inspection closer to time will determine timing which may be earlier or later depending on frequency of flooding and other factors. Options analysis will be completed closer to the implementation.

Replace Buoy Line - Allan Tannock Weir

Year: 2040

Current estimate: \$82k

Options analysis completed: No

Refer above (2025). Recurring project every 15 years.

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 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	10	9	10	10
Materials	3	3	3	3
Contractors	5	5	5	3
Other	3	4	3	7
Non-direct	20	20	21	20
Operations Total	41	41	42	43
Preventive				
Labour	2	2	2	2
Materials	0	0	0	0
Contractors	0	0	0	0
Other	0	0	0	0
Non-direct	4	4	4	4
Preventive Total	6	6	6	6
Corrective				
Labour	2	2	3	3
Materials	1	1	1	1
Contractors	0	0	0	0
Other	0	0	0	0
Non-direct	5	6	5	5
Corrective Total	8	9	9	9
Electricity	0	0	0	0
Total Operating Exp.	55	56	57	58
R&E Annuity Funded ⁵	0	0	21	26
Dam Safety and other	0	0	0	0
Grand Total	55	56	78	84

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.