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# Annual Network Service Plan

## Eton 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

## Disclaimer

This report has been produced by SunWater, to provide information for client use only. The information contained in this report is limited by the scope and the purpose of the study, and should not be regarded as completely exhaustive. Permission to use or quote information from this report in studies external to the Corporation must first be obtained from the Chief Executive, SunWater.

## 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](mailto:nspfeedback@sunwater.com.au)

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

## Past<sup>1</sup> 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	53,177	21,962	21,962

<sup>1</sup> 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 <sup>2</sup> (\$'000)
Operations	541	521	561	519
Preventive Maintenance	438	416	456	409
Corrective Maintenance	304	314	316	299
Electricity	231	246	247	344
Total	1,514	1,497	1,580	1,571

**Operations**

The operations budget in 2014 is budgeted below the QCA target for 2014.

**Preventive Maintenance**

Preventive maintenance is budgeted below the QCA's target for 2014.

**Corrective Maintenance**

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

<sup>2</sup> 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 \$31k below target for 2014, and over the full 5-year price period the estimated expenditure is \$395k below 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 <sup>3</sup> (\$'000)
201	333	75	44	1,815	1,420

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)
568	(44)	524

<sup>3</sup> 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**

<b>Project Title</b>	<b>Project Scope</b>	<b>2014 Draft Budget (\$'000)</b>
No major projects for 2014		
Other minor works		44
Total		44

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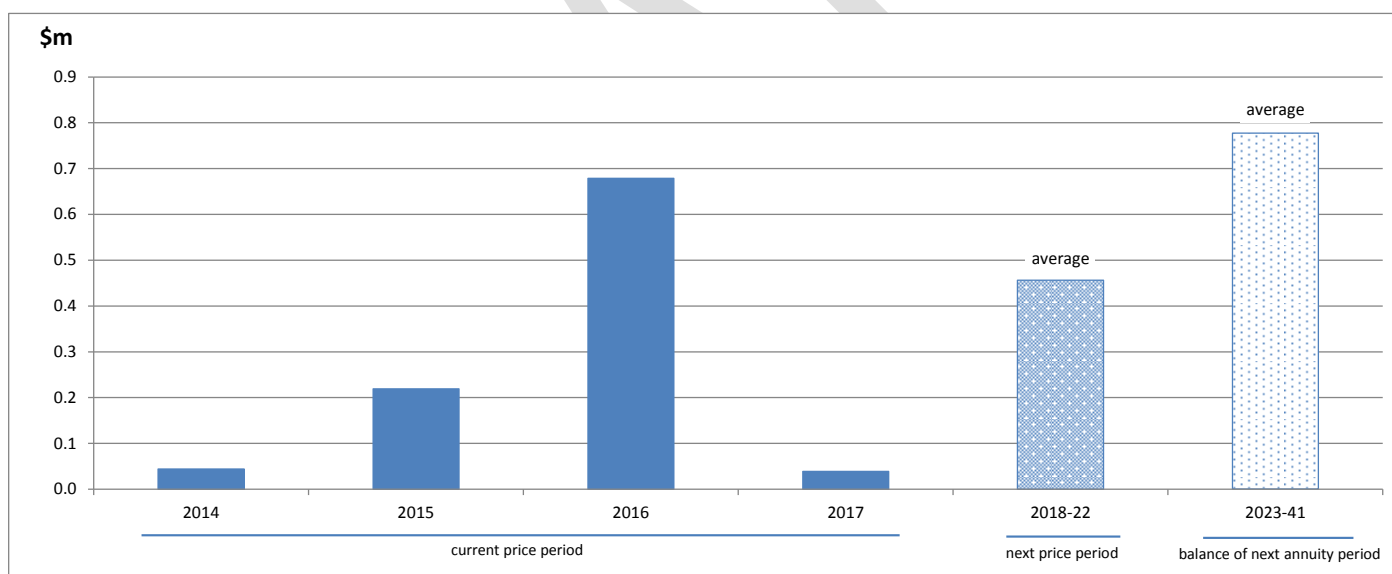
## Overview of Renewals and Enhancements 2014-41

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

### Replace switchboard, PLC, SCADA and common control - MIRANI PUMP STATION 3 (TO MD1)

Year: 2014-16

Current estimate: \$390k

Options analysis completed: No

This equipment planned to be replaced on the basis that it has reached its end of life. An options analysis is planned for 2014. Design, drawing and documentation are planned for 2015. Supply, install and commission are planned for 2016.

### Replace switchboard, PLC, SCADA and common control - MIRANI PUMP STATION 1 (TO MDC)

Year: 2014-16

Current estimate: \$277k

Options analysis completed: No

This equipment planned to be replaced on the basis that it has reached its end of life. An options analysis is planned for 2014. Design, drawing and documentation are planned for 2015. Supply, install and commission are planned for 2016.

## 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 Boundary Fence - Mirani Distribution

Year: 2020

Current estimate: \$426k

Options analysis completed: No

The \$440k encompasses a number of security fences around regulating gates and balancing storages in the EWSS and a single item for the replacement of MDC channel boundary fences. The fencing assets were installed from the early 1980's to the 1990's with a standard asset life of 30 years. Most of the items replacement years have been deferred based on condition assessment and on-going repairs that have enhanced service life. The major component (\$300k) of the budget is MDC boundary fencing replacement. This will be the subject of an Options Study budgeted in 2017. The number of smaller projects making up the balance of the budget will be reassessed by condition closer to the replacement year and replaced or repaired accordingly.

## 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 – Operating Expenditure by Expense Type

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

**Table 7 – Expenditure for Activity by Type<sup>4</sup>**

	2013		2014	
	QCA Target (\$'000)	SunWater Budget (\$'000)	QCA Target (\$'000)	SW Draft Budget (\$'000)
<b>Operations</b>				
Labour	125	101	129	106
Materials	11	22	11	15
Contractors	23	23	24	35
Other	101	139	103	149
Non-direct	281	236	294	214
Operations Total	541	521	561	519
<b>Preventive</b>				
Labour	103	103	106	96
Materials	18	18	19	17
Contractors	95	60	98	105
Other	0	0	0	0
Non-direct	222	235	233	191
Preventive Total	438	416	456	409
<b>Corrective</b>				
Labour	63	63	65	69
Materials	61	61	63	62
Contractors	42	42	43	30
Other	1	1	1	1
Non-direct	137	147	144	137
Corrective Total	304	314	316	299
Electricity	231	246	247	344
<b>Total Operating Exp.</b>	<b>1,514</b>	<b>1,497</b>	<b>1,580</b>	<b>1,571</b>
R&E Annuity Funded <sup>5</sup>	201	333	75	44
Dam Safety and other	0	7,300	0	18,822
<b>Grand Total</b>	<b>1,715</b>	<b>9,130</b>	<b>1,655</b>	<b>20,437</b>

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

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