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Annual Network Service Plan

Eton Distribution

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.

SunWater values customer feedback and will publish all submissions and SunWater's responses on our website. Customers can provide their feedback via email or post at the following addresses:

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	53,177	21,962	21,962

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	743	604	760	761
Preventive Maintenance	631	676	651	547
Corrective Maintenance	443	469	457	466
Electricity	467	498	499	500
Total	2,284	2,247	2,367	2,274

Operations

The operations budget in 2014 is in line with the QCA target.

Preventive Maintenance

Preventive maintenance is budgeted well 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 in line with the QCA target in 2014 despite the announced increases in electricity prices being much higher than the 12.5% and 7% increases allowed by the QCA in 2013 and 2014. Water deliveries are expected to be below the QCA forecast in 2014 leading to lower electricity consumption however electricity costs are higher than allowed for by the QCA on a \$/ML basis. 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.

Renewals and Enhancements

R&E annuity expenditure is forecast to be \$31k above target for 2014, however over the full 5-year price period the estimated expenditure is \$463k 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 ³ (\$'000)
568	582	272	303	2,527	2,064

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)
539	(303)	236

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 Pump Unit No. 2 Starter - VICTORIA PLAINS PUMP STATION	This project is to replace the pump starter. This unit has been in operation since 1989 and SunWater whole of life planning asset life is 20 years. Condition/risk assessment indicate it is due for replacement.	59
Victoria Plains PSTN - Refurbish Pump Unit 1 - VICTORIA PLAINS PUMP STATION	This project is to refurbish the pump unit. This pump has been in operation since 1989 and had a minor overhaul in 2004 (\$4,800 spent). It has a condition score of 4. SunWater whole of life planning refurbishment interval for centrifugal pumps is 15 years. It is planned to refurbish this pump unit in 2014 R&E program. This is based on experience of a recent refurbishment of PUN2 in 2011 where it was discovered that the wear rings or impellor seal rings had 2mm of wear after 10 years of service.	33
Brightly PSTN2 - Refurbish Pump 2 - Major refurbishment - BRIGHTLEY PUMP STATION NO 2	This pump unit was last refurbished in 2003. The standard refurbishment interval for this pump unit is 15 years but due to case leakage this project is now planned for 2014.	25
Replace Actuator, Elec Magnatek (Disch Valve) - MT ALICE PUMP STATION	This project is to replace the electric valve actuator. This actuator has been in operation since 2000 and SunWater whole of life planning asset life is 15 years so is due for replacement. It has a condition score of 5 due to the fact that it is very unreliable, it sometimes takes too long to open which trips the	21

	pump and is too fast to close.	
Replace hydraulic actuator - VICTORIA PLAINS PUMP STATION	This project is to replace the hydraulic valve actuator. This actuator has been in operation since 1989 and SunWater whole of life planning asset life for hydraulic rams is 30 years so is due for replacement in 2019. Given it has a condition score of 5 due to the fact that it is very unreliable and consistently trips the pump it is planned for replacement in 2014 R&E program.	21
Other minor works		144
Total		303

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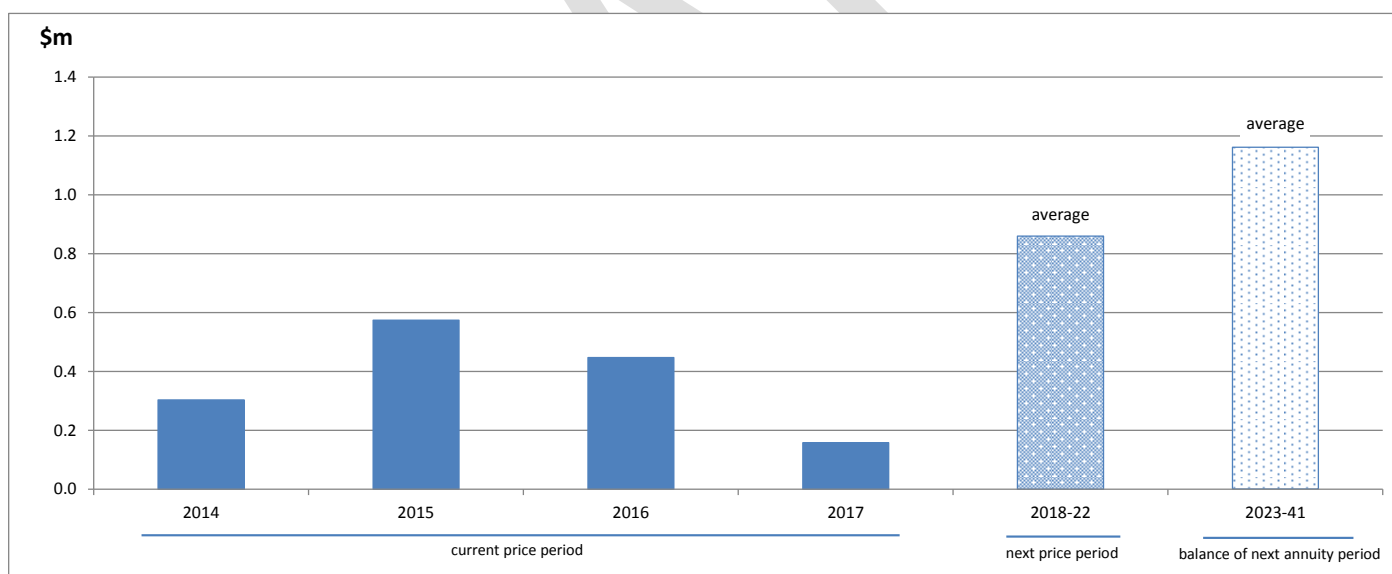
Overview of Renewals and Enhancements 2014-41

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

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 2014-17 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.

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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 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	224	135	231	175
Materials	3	2	3	12
Contractors	4	4	4	104
Other	137	203	139	229
Non-direct	375	260	383	314
Operations Total	743	604	760	834
Preventive				
Labour	153	153	158	90
Materials	132	132	136	129
Contractors	97	97	101	160
Other	0	0	0	0
Non-direct	249	294	256	168
Preventive Total	631	676	651	547
Corrective				
Labour	92	92	95	107
Materials	103	102	106	95
Contractors	92	92	95	70
Other	3	3	3	3
Non-direct	153	180	158	191
Corrective Total	443	469	457	466
Electricity	467	498	499	500
Total Operating Exp.	2,284	2,247	2,367	2,347
R&E Annuity Funded ⁵	568	582	272	303
Dam Safety and other	0	0	0	0
Grand Total	2,852	2,829	2,639	2,650

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.