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Annual Network Service Plan

Maranoa 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
Renewals and Enhancements	6
Overview of Renewals and Enhancements 2014-41.....	8
Material Projects 2014-17	9
5yr Dam Comprehensive Inspection - Neil Turner Weir	9
Material Projects 2018-22	9
Refurbish rock mattresses, gabions - Neil Turner Weir	9
Refurbish damaged splitter blocks - Neil Turner Weir	9
Inspect and repair damage and corrosion - Neil Turner Weir	9
5yr Dam Comprehensive Inspection - Neil Turner Weir	10
Material Projects 2023-41	10
Refurbish rock mattresses, gabions - Neil Turner Weir	10
Replace Trash Racks/Screens - Neil Turner Weir	11
Refurbish rock mattresses, gabions - Neil Turner Weir	11
Appendix – Operating Expenditure by Expense Type	12

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	800	33	33

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	24	27	25	35
Preventive Maintenance	7	8	8	7
Corrective Maintenance	1	0	1	0
Electricity	0	0	0	0
Total	32	35	34	42

Operations

The operations budget in 2014 is \$10k above the QCA target partly due to insurance premiums rising \$3k more than the QCA allowed for.

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 expenses budgeted for 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 in line with target over the full 5-year price period.

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)
-	-	-	-	24	24

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)
5	-	5

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)
No R&E projects planned for 2014		0
Total		0

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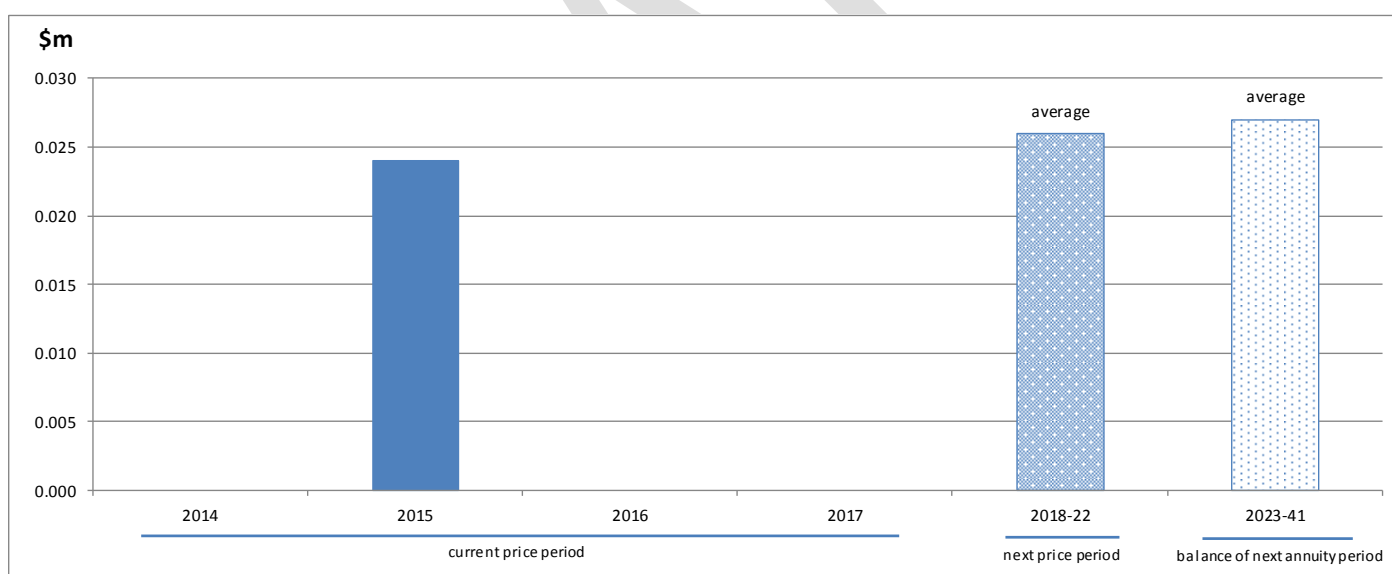
Overview of Renewals and Enhancements 2014-41

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 is developing 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

5yr Dam Comprehensive Inspection - Neil Turner Weir

Year: 2015

Current estimate: \$24k

Options analysis completed: No

SunWater policy is to conduct annual and 5 yearly inspections on our weir assets to ensure that the asset will be able to perform its designed function. Therefore, no options analysis will be completed.

The estimate to carry out the works is a built up figure using our works order system and recognised the time and rate of engineers and also the remoteness of 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 rock mattresses, gabions - Neil Turner Weir

Year: 2018

Current estimate: \$61k

Options analysis completed: No

The 2011 annual inspection was conducted during a dry period and identified issues at the weir. The mattressing on the left and right embankments / abutments have isolated areas of damage while the area downstream of the spillway has also undergone damage/. The damage is being exacerbated by vehicular traffic using the mattresses as an access across the river.

Following the inspection, repairs were initially scheduled for 2013/2014, however on re-examining the criticality and risk of not repairing immediately and in keeping with customer expectations (via the NSP) it was concluded that we could move this project out to 2018. The cost estimate is based on labour and materials needed for repairs.

Options analysis will be completed closer to the implementation.

Refurbish damaged splitter blocks - Neil Turner Weir

Year: 2019

Current estimate: \$25k

Options analysis completed: No

The splitter blocks dissipate the energy generated by the flows over the weir and slow the water and protect the downstream protection works. The damage to the splitter blocks most likely occurred with impact damage from debris cascading over the weir during times of flood.

Based on risk and condition assessment in 2011, this project has been pushed out based on criticality and risk as well as customer expectations (via the NSP).

When the detailed planning commences, it is probable that overall savings would be made in set-up and travel costs by combining this project to occur at the same time as the gabion mattress project.

Options analysis will be completed closer to the implementation.

Inspect and repair damage and corrosion - Neil Turner Weir

Year: 2020

Current estimate: \$15k

Options analysis completed: No

Damage periodically occurs to both the protection works and to the splitter piers and this project also address corrosion on the outlet works and the outlet works sluice valve.

Options analysis will be completed closer to the implementation.

5yr Dam Comprehensive Inspection - Neil Turner Weir

Year: 2020

Current estimate: \$26k

Options analysis completed: No

Refer 2015 project of same description.

We must conduct annual and 5 yearly inspections on our weir assets to ensure that the asset will be able to perform its designed function.

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.

Refurbish rock mattresses, gabions - Neil Turner Weir

Year: 2028

Current estimate: \$77k

Options analysis completed: No

Refer 2018 project. In long term financial planning for the scheme, the best engineering estimate of how often you need to do major refurbishments to assets are used. We estimate that we will need to perpetually refurbish the rock protection mattresses every 10 years.

Obviously this is re-assessed as each successive 5 yearly plan draws nearer.

Options analysis will be completed closer to the implementation.

Replace Trash Racks/Screens - Neil Turner Weir

Year: 2035

Current estimate: \$67k

Options analysis completed: No

This is a replacement item at the end of life. Analysis completed before the next price review will confirm the optimal estimates in terms of the value and timing of this project.

Refurbish rock mattresses, gabions - Neil Turner Weir

Year: 2038

Current estimate: \$99k

Options analysis completed: No

Refer 2028 Project of same description.

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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	5	5	5	7
Materials	1	1	1	0
Contractors	0	0	0	0
Other	7	10	7	14
Non-direct	11	11	12	14
Operations Total	24	27	25	35
Preventive				
Labour	2	2	3	2
Materials	0	0	0	0
Contractors	0	0	0	0
Other	0	0	0	0
Non-direct	5	6	5	5
Preventive Total	7	8	8	7
Corrective				
Labour	0	0	0	0
Materials	0	0	0	0
Contractors	0	0	0	0
Other	0	0	0	0
Non-direct	1	0	1	0
Corrective Total	1	0	1	0
Electricity	0	0	0	0
Total Operating Exp.	32	35	34	42
R&E Annuity Funded ⁵	0	0	0	0
Dam Safety and other	0	0	0	0
Grand Total	32	35	34	42

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.