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Annual Network Service Plan

Mareeba Distribution

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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	144,304	87,448	87,448

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	1,858	1,927	1,908	2,103
Preventive Maintenance	498	542	513	619
Corrective Maintenance	1,374	1,479	1,442	1,458
Electricity	337	318	360	452
Total	4,067	4,266	4,223	4,632

Operations

The operations budget in 2014 is \$195k 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 \$106k above the QCA's target for 2014 with the overrun being attributed to terrestrial and aquatic weed control.

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.

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 below target for 2014 and 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)
1,141	521	1,239	1,197	7,276	4,160

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)
1,889	(1,197)	692

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)
Replacement of PUN1 and PUN2 pumpsets (inc. IV, DV, NRV and pipework) - Price Creek PSTN - PRICE CK 'A' RELIFT PUMP STN	12MDA22 Options analysis, design, procure, supply and install new pumping units and associated valves and pipework.	348
Implement recommendations of 2013 fencing audit - WEST BARRON DISTRIBUTION	Installation of public safety fencing beside SunWater channels.	167
Repair Damaged Concrete Lining Bays - CL11 - ATHERTON DISTRIBUTION	Reinstate failing channel lining panels in Atherton Main Channel based on condition assessment.	76
Replace Channel Lining along bed approx. 40.3 - 40.9k - WEST BARRON DISTRIBUTION	Replace failed section of HDPE lining along West Barron Main Channel based on condition assessment.	64
Decomm the outlet works by anchoring the valve&pipework to the weir&filling the outlet structure with concrete (DS 2010 r - COLLINS WEIR	Decommission the river outlet works, which has failed but is not used.	43
Other minor works		499
Total		1,197

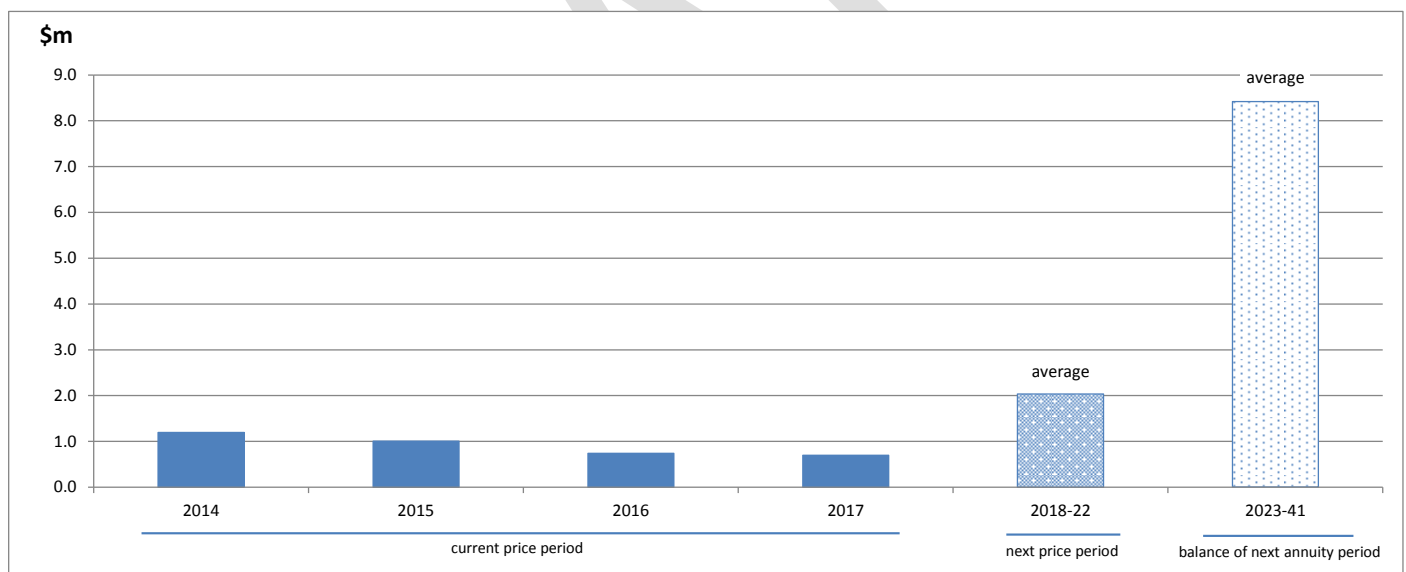
Overview of Renewals and Enhancements 2014-41

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

Replacement of PUN1 and PUN2 pumpsets - Price Ck 'A' Relift Pump Station

Year: 2014

Current estimate: \$348k

Options analysis completed: Yes

Replace the pumping plant and associated valves and pipe work due to unreliable operation and assets approaching end of life. The options analysis was carried out in 2012, followed by design, procurement in 2013 and installation in 2014.

If options analysis completed then discuss options analysis, otherwise discuss options more generally:

Option 1 – Replace existing with similar - above ground horizontally split centrifugal pump sets and vacuum priming system.

Option 2 – Replace existing with submersible pump units.

The preferred option is option 2 because of the lower capital cost and ongoing maintenance costs. Option 2 also negates the need for a dedicated vacuum priming system and suction valves.

Site audit and strategic plan for MDWSS I&D SCADA assets - MDA SCADA

Year: 2014-15

Current estimate: \$360k

Options analysis completed: No

An audit of the current SCADA system covering options for replacement is to be undertaken in 2013-14. The aim of this audit is to determine the effectiveness and suitability of the current SCADA system and establish a strategic plan to meet the future system requirements. The scope is to implement the recommendations of the audit.

Option 1 – Carry out an audit of the existing SCADA system to determine a strategic plan for the future remote operation of SunWater infrastructure assets. This audit will assess the condition of each SCADA site and identify where assets require refurbishment/replacement and detailed costs to implement. The implementation of the audit will become the scope of work for 2014-15.

Option 2 – Continue with existing SCADA system with obsolete components and unreliable operation.

The preferred option is option 1 because it outlines a way forward for SCADA communication systems in the Mareeba irrigation area and guarantees reliable remote operation of SunWater's critical infrastructure assets.

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.

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	568	471	588	552
Materials	30	55	35	15
Contractors	18	6	21	6
Other	356	496	362	562
Non-direct	945	899	976	968
Operations Total	1,917	1,927	1,982	2,103
Preventive				
Labour	149	149	153	186
Materials	98	97	101	97
Contractors	15	15	16	15
Other	0	0	0	0
Non-direct	236	281	243	321
Preventive Total	498	542	513	619
Corrective				
Labour	354	354	376	386
Materials	410	410	423	358
Contractors	31	31	32	31
Other	7	7	7	7
Non-direct	572	677	604	676
Corrective Total	1,374	1,479	1,442	1,458
Electricity	337	318	360	452
Total Operating Exp.	4,126	4,266	4,297	4,632
R&E Annuity Funded ⁵	1,141	521	1,239	1,197
Dam Safety and other	0	0	0	0
Grand Total	5,267	4,787	5,536	5,829

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.