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Annual Network Service Plan

Pioneer 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.

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	47,357	15,912	15,912

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	524	541	544	550
Preventive Maintenance	234	242	245	215
Corrective Maintenance	186	161	193	180
Electricity	4	4	4	5
Total	948	948	986	950

Operations

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

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

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 \$105k above target for 2014 and over the full 5-year price period the estimated expenditure is \$183k over 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)
833	779	141	246	1,729	1,912

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)
433	(246)	187

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)
Carry out RH bank stabilisation work - Marian Weir (DSI recommendation) - MARIAN WEIR	Repair and restoration work required on the right hand downstream bank of Marian Weir to repair the extensive scouring and loss of bank protection.	73
Replace damaged holding chamber gate guides Dumbleton Weir - DUMBLETON WEIR	Replacement of the impact damaged holding chamber guides so that the baulk may be installed and the Fishlock drained, repaired and operated in order to meet Fisheries Department requirements.	31
Repair left bank protection works (2010 DS recommendation) - DUMBLETON WEIR	Repair the significant area of rock loss on the downstream left bank to prevent further damage and possible undermining of the weir abutment.	29
Remove corrosion inside valve and paint. 2010 DS Rec 8.3.2 b (To be done in conjunction with 8.3.7b) - TEEMBURRA DAM	Refurbish the interior surface of the 1200mm butterfly valve and dismantling joint at Saddle Dam 2 by de-scaling and patch painting.	25
Teemburra Dam - SCADA software and battery repair/maintenance - TEEMBURRA DAM	Planned maintenance to the SCADA software and battery to keep the communications equipment in working order.	24
Other minor works		64
Total		246

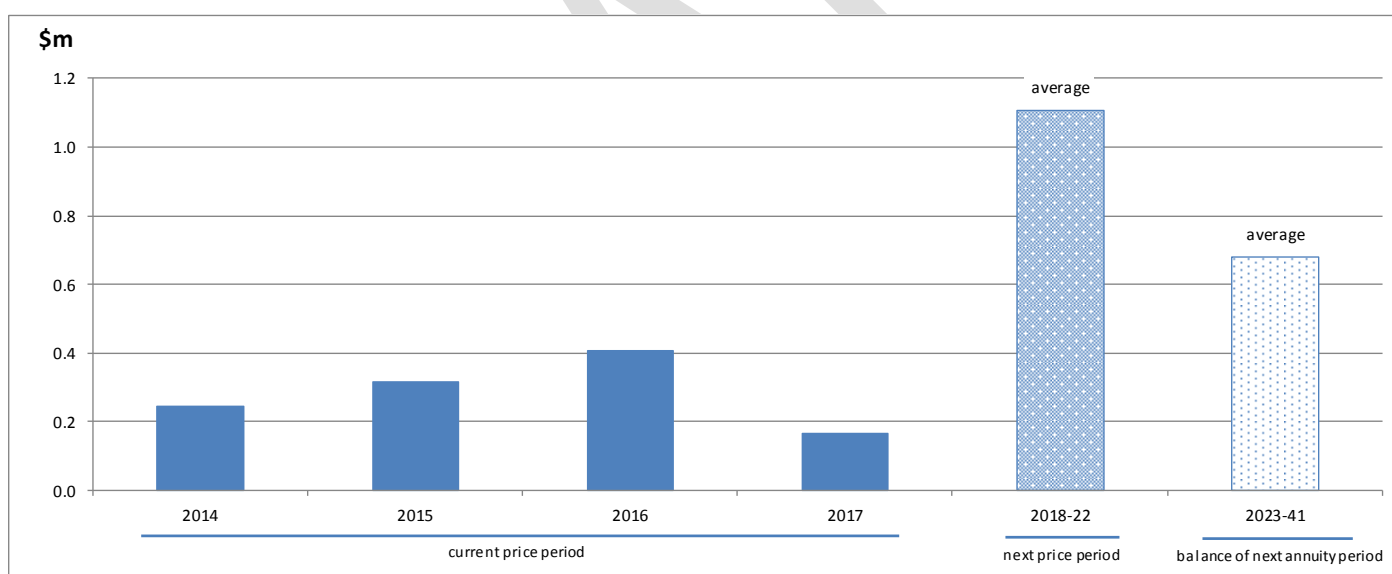
Overview of Renewals and Enhancements 2014-41

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

Note: options for replacement of the Dumbleton Weir and Mirani Weir Fabridams are being discussed with stakeholders. No allowance for these projects is included in the figures shown in this NSP.

20yr Dam Safety Review - TEEMBURRA DAM

Year: 2016

Current estimate: \$161k

Options analysis completed: No

Teemburra Dam is a category 2 referable structure and the 20 Year Dam Safety Review is required for Queensland Government Regulatory Compliance and is usually conducted in conjunction with a Five Yearly Dam Safety Inspection. Given this requirement is mandatory, an options analysis will not be completed. The Review is a procedure for systematically assessing the safety of a dam after its original construction. It is a fresh engineering assessment of the integrity of all elements of a dam. It usually incorporates the following:

A current failure impact assessment

- A detailed review of structural, hydraulic, hydrologic and geotechnical design aspects
- A review of historical operational performance
- A review of surveillance reports
- A comprehensive inspection of the dam
- A comparison of the standards used for building and upgrading the dam against current design standards.

5yr Dam Comprehensive Inspection - TEEMBURRA DAM

Year: 2016

Current estimate: \$145k

Options analysis completed: No

Teemburra Dam is a category 2 referable structure and the Five Yearly Comprehensive Dam Safety Inspection is required for Queensland Government Regulatory Compliance. Given this requirement is mandatory, an options analysis will not be completed.

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.

Enlarge Outlet Works at Marian Weir - Marian Weir

Year: 2018

Current estimate: \$1.3m

Options analysis completed: No

Enlargement of the Outlet Works to comply with ROP requirements. Options analysis will be completed closer to implementation.

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	125	110	129	117
Materials	4	13	4	13
Contractors	13	13	13	16
Other	103	149	105	168
Non-direct	279	256	293	236
Operations Total	524	541	544	550
Preventive				
Labour	68	68	71	64
Materials	6	6	6	6
Contractors	8	8	8	20
Other	7	7	7	0
Non-direct	145	153	153	125
Preventive Total	234	242	245	215
Corrective				
Labour	36	34	37	37
Materials	37	37	38	29
Contractors	34	11	35	40
Other	0	0	0	0
Non-direct	79	79	83	74
Corrective Total	186	161	193	180
Electricity	4	4	4	5
Total Operating Exp.	948	948	986	950
R&E Annuity Funded ⁵	833	779	141	246
Dam Safety and other	0	0	0	0
Grand Total	1,781	1,727	1,127	1,196

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.