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Annual Network Service Plan

Proserpine 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.

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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	38,075	23,949	23,949

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	652	682	677	666
Preventive Maintenance	141	145	148	139
Corrective Maintenance	51	51	52	52
Electricity	5	6	5	10
Total	849	884	882	867

Operations

The operations budget in 2014 is below the QCA’s 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 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)
37	9	188	148	753	399

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)
200	(148)	52

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)
5yr Dam Comprehensive Inspection - PETER FAUST DAM	The five yearly comprehensive dam safety inspection will be carried in accordance with Queensland Dam Safety Management Guidelines (2002), and Dam Safety Condition Schedule 11 applied by the dam safety regulator in Queensland.	96
Other minor works		52
	Total	148

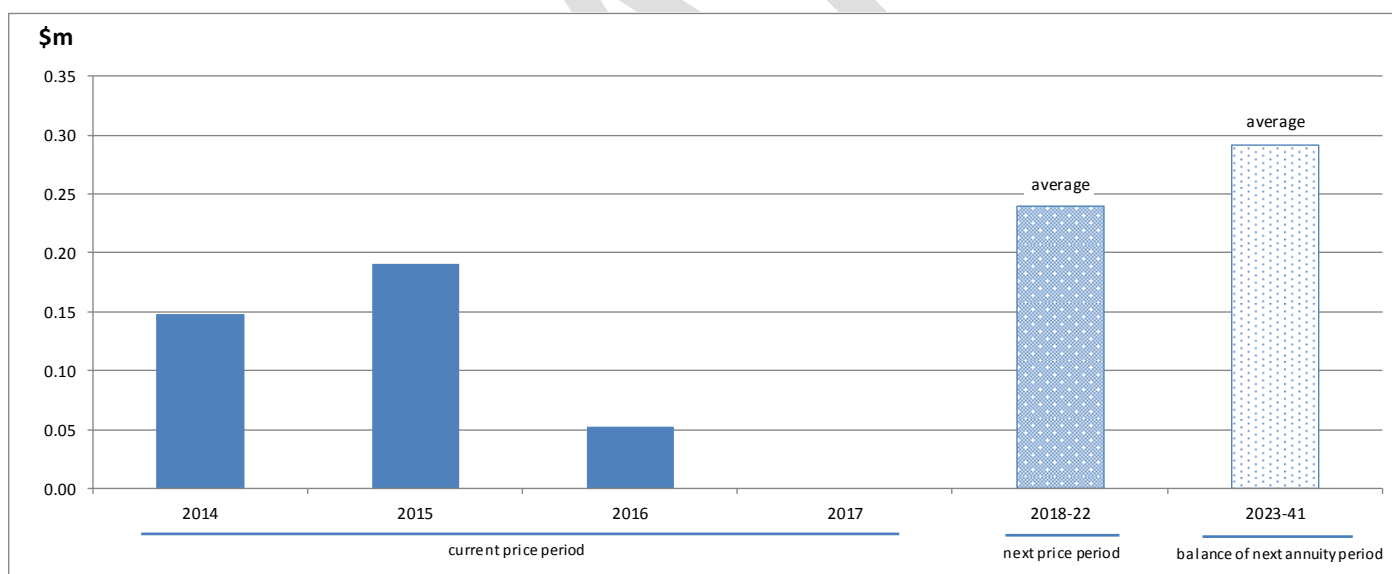
Overview of Renewals and Enhancements 2014-41

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

5yr Dam Comprehensive Inspection - Peter Faust Dam

Year: 2014

Current estimate: \$96k

Options analysis completed: No

Peter Faust Dam is a category 2 dam under Water Supply (Safety and Reliability) Act 2008. Under the Dam Safety Condition Schedule, the dam owner must carry out a comprehensive inspection of the dam in accordance with the Queensland Dam Safety Management Guidelines, therefore no options analysis is required. The previous 5 yearly comprehensive inspection was carried out in 2008. The next comprehensive inspection is due on or before the 1st day of December 2013, and on or before every fifth anniversary thereafter.

Replace PLC and SCADA system - Kelsey Creek Pipeline

Year: 2015

Current estimate: \$145k

Options analysis completed: No

Replacement of the PLC and SCADA system is planned as it is obsolete and no further support will be provided from the vendor.

Option 1 – Replace the computer of SCADA network

Option 2 – run it until failure.

Option 3 – Cancel the project

The preferred option at this stage is option 1 because the system has to be run manually by operator for 24/7 before the system is replaced. As spare parts and support from vendor will not be available, it will take sometime to design, procure and install a new system. An options analysis will be completed before implementation.

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.

5yr Dam Comprehensive Inspection - Peter Faust Dam

Year: 2019

Current estimate: \$114k

Options analysis completed: No

Peter Faust Dam is a category 2 dam under Water Supply (Safety and Reliability) Act 2008. Under the Dam Safety Condition Schedule, the dam owner must carry out a comprehensive inspection of the dam in accordance with the Queensland Dam Safety Management Guidelines, therefore no options analysis is required. This comprehensive inspection will due be on or before the 1st day of December 2018, and on or before every fifth anniversary thereafter.

Replace V-Notch Weir - Proserpine River Distribution

Year: 2022

Current estimate: \$196k

Options analysis completed: No

The condition of the V-notch weir will be updated before carrying out an options analysis on the replacement of V-notch weir based on time based replacement/renewal strategy.

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.

Replacement balance for cable and cableways - Peter Faust Dam

Year: 2032

Current estimate: \$1.2m

Options analysis completed: No

Condition assess cables through an ongoing program of electrical testing to monitor ageing and deterioration to better determine replacement timelines. An option analysis will be carried out prior to the replacement of cable and cableways based on time based replacement/renewal strategy. Options are limited to maintaining assets in service for as long as possible and then replacing on a like for like basis or using alternative distribution methods such as overhead, if this is possible or practical.

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	135	124	139	125
Materials	38	44	39	25
Contractors	38	38	39	47
Other	140	183	142	213
Non-direct	301	293	318	256
Operations Total	652	682	677	666
Preventive				
Labour	28	28	29	29
Materials	11	11	12	11
Contractors	40	40	41	40
Other	0	0	0	0
Non-direct	62	66	66	59
Preventive Total	141	145	148	139
Corrective				
Labour	5	5	5	6
Materials	14	14	14	14
Contractors	19	19	20	19
Other	0	0	0	0
Non-direct	13	13	13	13
Corrective Total	51	51	52	52
Electricity	5	6	5	10
Total Operating Exp.	849	884	882	867
R&E Annuity Funded ⁵	37	9	188	148
Dam Safety and other	0	0	0	0
Grand Total	886	893	1,070	1,015

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.