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# Annual Network Service Plan

## St George 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

## Disclaimer

This report has been produced by SunWater, to provide information for client use only. The information contained in this report is limited by the scope and the purpose of the study, and should not be regarded as completely exhaustive. Permission to use or quote information from this report in studies external to the Corporation must first be obtained from the Chief Executive, SunWater.

## 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](mailto:nspfeedback@sunwater.com.au)

Post: NSP Feedback  
PO Box 15536 City East  
Brisbane Qld 4002

## Past<sup>1</sup> 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	50,788	43,678	43,678

<sup>1</sup> 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 <sup>2</sup> (\$'000)
Operations	875	897	897	944
Preventive Maintenance	343	370	354	368
Corrective Maintenance	246	271	255	267
Electricity	53	45	56	60
Total	1,517	1,583	1,562	1,639

### Operations

The operations budget in 2014 is \$47k above the QCA target due mostly to insurance premiums rising significantly more than anticipated in the QCA target for insurance.

### 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.

<sup>2</sup> 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.

## Flood Damage

There has been significant flood damage incurred to the assets in this service contract. While the cost of the outstanding repairs is not known accurately, it is estimated that repairs will cost in the range of \$340k to \$630k, with the repairs to primarily occur in 2014. A proportion of these costs will be covered by insurance, however the amount to be returned is uncertain and insurance claims of this nature can take years to settle. The difference between the cost of repairs and the insurance returns will be funded from the annuity.

## Renewals and Enhancements

R&E annuity expenditure is forecast to be above target for 2014. However, over the full 5-year price period the estimated expenditure is well under 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 <sup>3</sup> (\$'000)
2,005	970	35	137	2,640	1,411

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)
405	(137)	268

Note: the figures in Table 5 do not include any allowance for any flood damage repairs that may be funded from the annuity, as discussed in the flood damage section above.

<sup>3</sup> 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**

<b>Project Title</b>	<b>Project Scope</b>	<b>2014 Draft Budget (\$'000)</b>
Repair concrete lining, reinstate rock protection & re-profile earthworks 0m to 300m _ ST GEORGE DISTRIBUTION	Erosion repairs to Thuraggi Watercourse outlet works protection (non-flood damage component).	36
Replace Failed Meter - as per AM14 & ATS 4747 _ ST GEORGE DISTRIBUTION	Customer buried MACE meter failed in-service; new 750DIA meter and arrangement required.	27
Replace failed meter as per AM14 and ATS4747 _ ST GEORGE DISTRIBUTION	Customer PA type meter failed in-service; new 600DIA meter and arrangement required.	27
13SGA01 Repair of Concrete works and headwalls - Drain Access Crossing 3_4 AC02 _ ST GEORGE DRAINAGE	Access crossing headwalls deflected and need to be reinstated, other concrete repairs required based on condition assessment.	22
Other minor works		25
Total		137

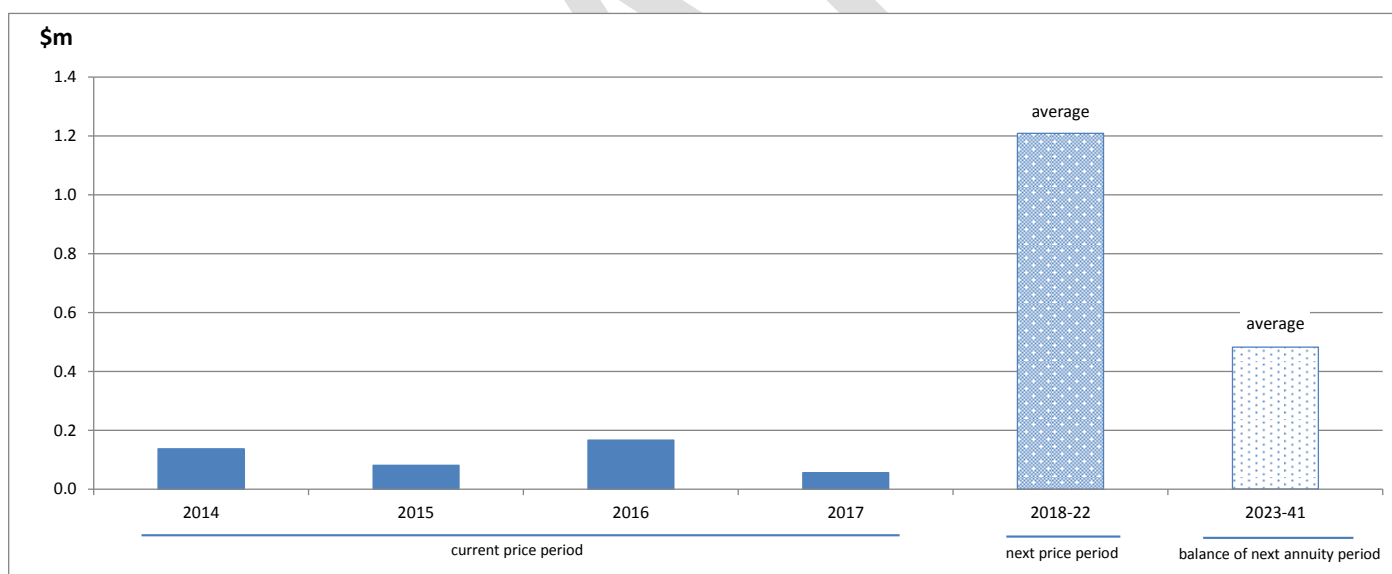
## Overview of Renewals and Enhancements 2014-41

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

### Implement recommendations from 2013 fencing audit to comply with P.M04

#### - St George Distribution

Year: 2016

Current estimate: \$99k

Options analysis completed: No

This project involves implementing SunWater Public Fencing Policy PM.04 at sites identified and risk assessed during the 2012 Fencing Audit Project. PM.04 sets out what fencing arrangements are to be used to manage identified risks. The budget estimate covers the standard fencing arrangements for the sites listed in the audit report for the St George Distribution Service Contract. Options analysis to be completed before implementation.

### Repair Access Crossing - Access Crossing AC06 - St George Distribution

Year: 2016

Current estimate: \$54k

Options analysis completed: No

Reinstate downstream headwall and protection works for access crossing AC06 of St George Main Channel. Re-assess condition assessment prior to programmed works when access available, to better define scope of works and associated budget. Options analysis to 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.

### Construct new submersible type pump station- St George Pump Station

Year: 2018-20

Current estimate: \$4.7m

Options analysis completed: Yes

Stage 1 to include:

- Build new submersible pump well on the river bank adjacent to existing pump station.
- Install new suction pipes from the new submersible pump well to the existing pump station.
- Removal and disposal of existing intake pipework and structures and rehabilitation of disturbed areas.

Stage 2 to include:

- Install new submersible pumps in the new submersible pump well.
- Install new control building including switchboards and SCADA. (Located in existing pump station)
- Remove suction pipes installed in stage 1 and replace with discharge pipes connecting to the existing rising main including new flow meters.

Option 1 – Retention of existing pump station and refurbishment of the internal equipment. Replacement of existing line shafts with new lightweight Carbon fibre type. Provision of new internal stairs case and a watertight access door at ground level.

Option 2 – Retention of existing pump station replacing the existing pumps with close-coupled pumps and motors. Replace all valves with smaller modern equivalents and provide emergency closure capability on the suction and discharge valves to secure the well against flooding.

Option 3 – Retention of existing pump station to house electrical switchboard and pump control equipment. Build a new pump station housing submersible pumps and providing room for the Shire Council’s pumps.

The preferred option is option 2 because it the most cost effective of the three options considered and that the replacement station can be built with only the minimum disruption to normal pumping operations. The Submersible Pump Station would be of a modern design with improved reliability and meet current WH&S standards.

## **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 estimated flood damage and other non-routine work funded by the annuity.

**Table 7 – Expenditure for Activity by Type<sup>4</sup>**

	2013		2014	
	QCA Target (\$'000)	SunWater Budget (\$'000)	QCA Target (\$'000)	SW Draft Budget (\$'000)
<b>Operations</b>				
Labour	290	258	299	292
Materials	55	73	56	40
Contractors	4	4	4	4
Other	52	76	53	104
Non-direct	474	486	485	504
Operations Total	875	897	897	944
<b>Preventive</b>				
Labour	91	91	94	94
Materials	16	16	17	20
Contractors	89	89	92	89
Other	0	0	0	0
Non-direct	147	174	151	165
Preventive Total	343	370	354	368
<b>Corrective</b>				
Labour	84	92	87	124
Materials	17	31	18	51
Contractors	13	22	14	344
Other	0	0	0	2
Non-direct	132	172	136	230
Corrective Total	246	317	255	751
Electricity	53	45	56	60
<b>Total Operating Exp.</b>	<b>1,517</b>	<b>1,629</b>	<b>1,562</b>	<b>2,123</b>
R&E Annuity Funded <sup>5</sup>	2,005	970	35	137
Dam Safety and other	0	0	0	0
<b>Grand Total</b>	<b>3,522</b>	<b>2,599</b>	<b>1,597</b>	<b>2,260</b>

<sup>4</sup> Nominal dollar figures can be converted to real dollars (\$2011) by dividing by the conversion factors in Table 1.

<sup>5</sup> R&E and Dam Safety are built up from the same expenditure types shown for opex, including non-directs.