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Annual Network Service Plan

Upper Condamine 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	30,363	11,113	11,113

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	707	710	737	717
Preventive Maintenance	176	183	184	174
Corrective Maintenance	72	73	76	68
Electricity	64	66	69	66
Total	1,019	1,032	1,066	1,025

Operations

The operations budget in 2014 is \$20k 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 in line with the QCA target in 2014 despite the announced increases in electricity prices being much higher than the 12.5% and 7% increases allowed by the QCA in 2013 and 2014. Water deliveries are expected to be below the QCA forecast in 2014 leading to a reduction in total cost however electricity costs are higher than allowed for by the QCA on a \$/ML basis. 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)
235	47	381	337	2,463	1,602

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)
549	(337)	212

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 (by 1 Jun 2014) - LESLIE DAM	Regulatory inspection must be undertaken as part of operating requirements and for compliance with dam safety condition schedules.	69
Investigate and repair leak on Discharge Pipe - Yarramalong PSTN - YARRAMALONG RISING MAIN	Excavate to determine source of leak. Rectify leak and reinstate.	66
Refurbish / Replace SWB. Includes scope, ID design manufacture and install - Scope HB #1188973 - LESLIE DAM	The original switchboard in the Warwick pumphouse is obsolete and requires replacement.	48
Clear area on the r/hand of the outlet works struct. Geofabric is to be layered, estimated 20 m3 rocks size 300 - 700 to be laid - LEMON TREE WEIR	The 2012 inspection identified that the d/s Protection works was being eroded and recommended early repair to avoid larger costs and structure damage.	26
Reprofile North Branch Yarramalong to Cecil Plains Weir	. SunWater pumps water from Yarramalong weir into the North Branch to supply irrigators and we need to periodically clear out debris, logs, Cumbungi weed and Black Wattle to maintain supply efficiency. If we don't clear, pumping costs go up as do losses and our water delivery time increases.	21
Other minor works		108
Total		337

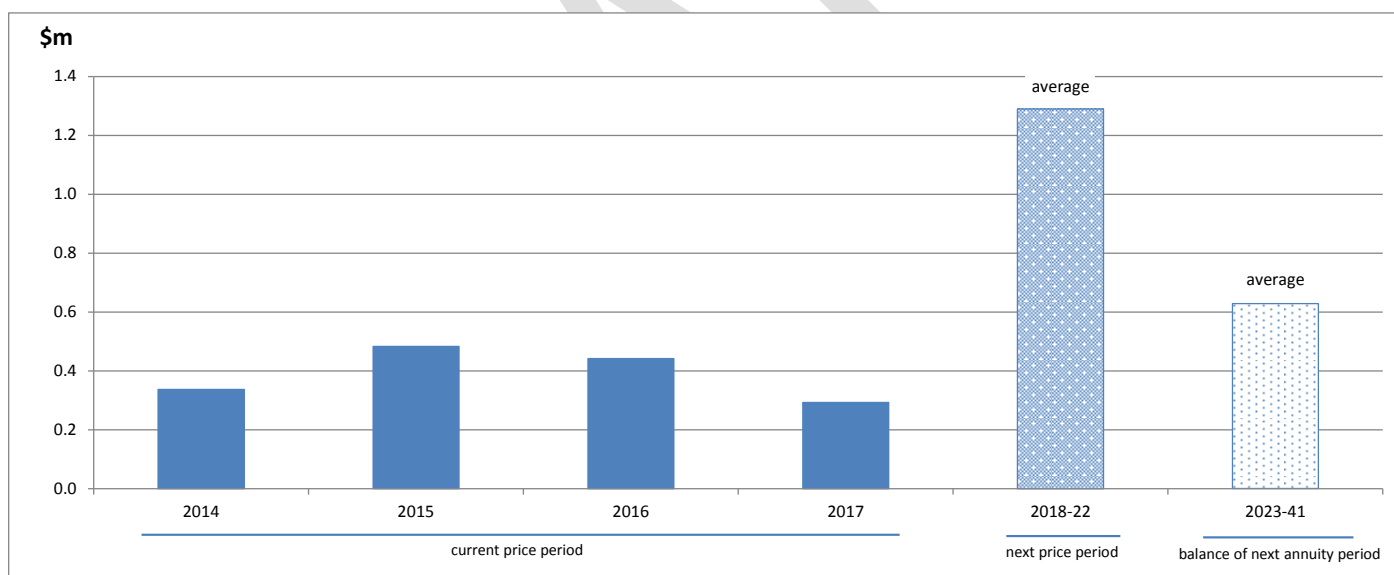
Overview of Renewals and Enhancements 2014-41

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

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 2014-17 period.

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.

Replace Cableways and Cable - Leslie Dam

Year: 2019-21

Current estimate: \$2.9m

Options analysis completed: Planned for 2014

There are a large number of electrical assets at the dam which are reaching the end of life. Condition assessment of cables will continue through an ongoing program of electrical testing to monitor ageing and deterioration to better determine replacement timelines. A 2014 condition assessment and options analysis will be tasked with reviewing all the electrical assets. It is possible that some may be "re-lived" or that logic dictates that some are replaced in an order best suited for the overall performance of the dam. 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.

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	181	163	186	180
Materials	17	27	17	23
Contractors	17	17	18	17
Other	95	129	97	141
Non-direct	397	374	419	356
Operations Total	707	710	737	717
Preventive				
Labour	55	55	57	58
Materials	3	3	3	3
Contractors	1	1	1	1
Other	0	0	0	0
Non-direct	117	124	123	112
Preventive Total	176	183	184	174
Corrective				
Labour	15	15	16	15
Materials	13	13	14	13
Contractors	10	10	11	10
Other	0	0	0	0
Non-direct	34	35	35	30
Corrective Total	72	73	76	68
Electricity	64	66	69	66
Total Operating Exp.	1,019	1,032	1,066	1,025
R&E Annuity Funded ⁵	235	47	381	337
Dam Safety and other	0	0	0	0
Grand Total	1,254	1,079	1,447	1,362

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.