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2016 Annual Performance Report

Bowen Broken Bulk

October 2016

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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. SunWater has decided to also produce annual Performance Reports such as this report to show how SunWater has performed against the QCA targets for the year just completed.

SunWater revised the format for 2015 to incorporate customer feedback and to provide more detail on items such as insurance. The new format includes a summary of the annual expenditure and annual revenue to provide a snapshot of scheme performance across the year.

In line with customer feedback 2017 forecast data is also provided and compared with QCA targets.

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

Table 1 – Operating Revenue Less Spend

Bowen Broken WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Revenue	3	5,085	5,464	5,805	5,854	6,008
Less - Routine Expenditure	4 & 7	1,258	1,179	1,093	1,274	1,019
Less - Non-Routine Expenditure						
• Annuity Funded	5, 6 & 7	106	184	355	151	306
• Non Annuity Funded	5	(0)	155	449	911	-
Surplus (Deficit)		3,722	3,946	3,907	3,517	4,682

Table 1 provides an indication of the annual cash performance of the scheme. Note that the table reports total non-routine spend and does not take into account the renewals annuity. Further information is provided below in each section of this report.

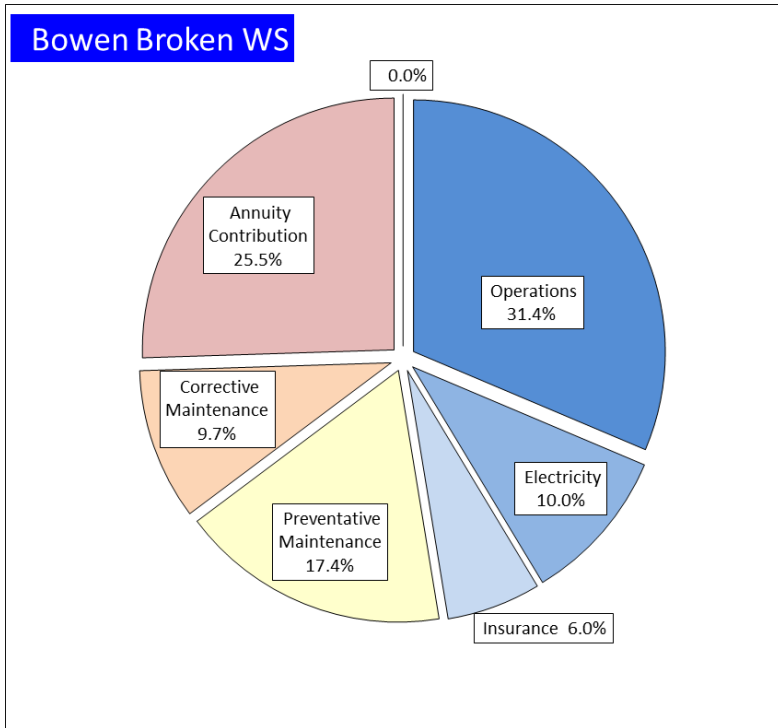


Figure 1: Breakdown of Irrigation Scheme Costs – 2016 Actual

Figure 1 shows a high level summary of scheme costs and provides an indication of where revenue from irrigation water charges is applied. The item “Annuity Contribution” refers to the component of irrigation water charges that is applied toward the renewals annuity each year. The item “Revenue Transfers” refers to the contribution towards the cost of the bulk water scheme.

Water Usage

Table 2 – 2016 Water Usage

Customer Segment	No. of Customers	Water Entitlements (ML)	Available Water (ML)	Available Water (%)	Water Deliveries (ML)	Water Deliveries (%) Against Entitlement	Water Deliveries (%) Against Available Water
1. Industrial		30,299	30,599	100	14,081	46	46
2. Irrigation		5,676	5,641	99	1,619	29	29
3. Urban		1,785	1,485	83	804	45	54
4. Other		290	368	127	229	79	62
5. SunWater		880	835	95	518	59	62
	49	38,930	38,929	100	17,251	44	44

QCA Assumed Total Water Usage 43.1%

Total water usage met the QCA estimate.

Table 3 – Revenue

Bowen Broken WS	2013	2014	2015	2016	2017
	Actual	Actual	Actual	Actual	Budget
	\$000	\$000	\$000	\$000	\$000
Irrigation	65	67	72	74	81
Industrial	4,874	4,910	5,172	5,266	5,112
Urban	-	-	-	-	-
Irrigation CSO	-	-	-	-	-
Revenue Transfers	148	472	478	503	802
Drainage	-	-	-	-	-
Other	(1)	16	9	10	12
Insurance Proceeds - Flood	-	-	74	-	-
Revenue Total	5,085	5,464	5,805	5,854	6,008

* Following feedback from customers, SunWater has unbundled bulk water charges from distribution system charges. This means that revenue figures in past performance reports and NSPs will not match those above.

Revenue Transfers represent the cost of bulk water supplies delivered through the distribution system(s) – i.e. the Collinsville pipeline. The revenue accrues to the distribution system before it is transferred to the Bulk Water Supply Scheme as a contribution to the cost of the bulk water service.

Routine Expenditure

Table 4 – Routine Operating Expenditure

Bowen Broken WS	2013			2014			2015			2016			2017			% of target
	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Budget \$000	QCA Target \$000	Variance \$000	
Operations	733	460	(273)	634	479	(155)	580	482	(98)	536	479	(57)	481	480	(1)	100
Electricity	136	116	(19)	109	125	16	177	133	(43)	171	144	(27)	65	154	89	42
Insurance	95	48	(47)	173	49	(125)	119	49	(70)	103	50	(53)	130	51	(79)	255
Operations Total	964	625	(339)	916	652	(264)	876	665	(212)	811	674	(137)	677	686	9	99
Preventative Maintenance	103	196	93	140	204	63	165	205	40	297	205	(92)	191	206	15	93
Corrective Maintenance	191	214	23	123	222	99	52	226	174	166	228	62	151	231	80	65
Routine Total	1,258	1,034	(224)	1,179	1,077	(101)	1,093	1,096	2	1,274	1,107	(168)	1,019	1,122	103	91

Operations

Operation activities include the day-to-day costs of the administration and management of the scheme, water delivery and meeting compliance obligations. Specific activities include the direct and non-direct cost of¹:

- Scheduling and delivering water, including processing water orders, releasing water, operating pump stations, regulation and monitoring of channel flows and monitoring of customer deliveries;
- Emergency responses for channel overflows and other emergency events;
- Meter reading;
- Administration of water accounts, billing and receipting payments;
- Customer management, including enquiries, complaints and maintaining the customer service help desk;
- Scheme management including licences and permits, rates, land management, planning and reporting;
- Insurance;
- Monitoring the security of infrastructure and unauthorised access and trespass; and
- Managing public relations associated with the scheme.

¹ Activities listed will not apply to all service contracts.

The operations expenditure was above the QCA target.

- Insurance costs were higher than target;
- Electricity costs were above the QCA target. Electricity usage in Bowen Broken varies from year-to-year depending heavily on the amount of pumping to Gattonvale off-stream storage;

Preventive Maintenance

Preventive maintenance is maintaining the ongoing operational performance and service capacity of physical assets to designed standard. Preventive maintenance is cyclical in nature with a typical interval of 12 months or less. Preventive maintenance activities are based on the updated work instructions developed for operating the scheme and include an estimate of the resources required to implement that scope of work. Preventive maintenance includes¹:

- Condition monitoring – the inspection, testing or measurement of physical assets to report and record its condition and performance for determination of maintenance requirements. Condition monitoring is carried out on electrical, mechanical and civil assets including pump stations (pumps, electrical motors, valves, switchboards and associated equipment), channels (regulator gates, civil works, signs, structures, etc.), drains (civil works, structures etc.), pipelines (valves, air valves, scours easements etc.), and other infrastructure;
- Servicing – planned maintenance activities normally expected to be carried out routinely on physical assets including valves, cranes, sump pumps and associated equipment; and
- Weed control – which includes the following activities:
 - Slashing channels and drains;
 - Acrolein treatment of channels;
 - Copper Sulphate treatment; and
 - Spraying and other activities to control operational and noxious weeds within channel and drainage reserves and balancing storages.

Preventive maintenance was above the QCA's target.

Corrective Maintenance

Corrective maintenance includes activities to correct unexpected failures or to return an asset to an acceptable level of performance or condition. While these are difficult to forecast with accuracy, history has shown that such events can be expected and need to be factored into expenditure forecasts. Forecasts include provision for labour, materials and plant hire.

The corrective maintenance forecast does not include any costs of damage arising from major unexpected events, such as floods. These costs are categorised as non-routine corrective maintenance which is discussed in the following section.

There are two types of corrective maintenance – scheduled and emergency²:

- Scheduled corrective maintenance is maintenance that can be planned and scheduled, and includes:

² Activities listed will not apply to all service contracts.

- Channels
 - De-silting channels and catch drains;
 - Erosion control and repair of rock protection works;
 - Repair fencing;
 - Repair concrete structures; and
 - Repair regulator gates, control valves, etc.
- Drains
 - De-silting drains;
 - Erosion control and repair of rock protection works;
 - Repair fencing; and
 - Repair concrete structures.
- Pipelines
 - Pipe breaks
 - Repair air valves, scour valves, etc.;
 - Erosion control and repair of rock protection works; and
 - Repair concrete structures.
- Scheme Roads
 - Repair pot holes;
 - Grade roads; and
 - Repair, replace and paint guide posts and signs.
- Pump stations
 - Repair pumps and motors;
 - De-silt intake structures;
 - Repair concrete structure; and
 - Repair control building.
- Storages (balancing storages and reservoirs)
 - Repair control gates and valves;
 - Repair walls, embankments and spillways; and
 - Repair concrete structures.
- Meters
 - Repair bulk water meters; and

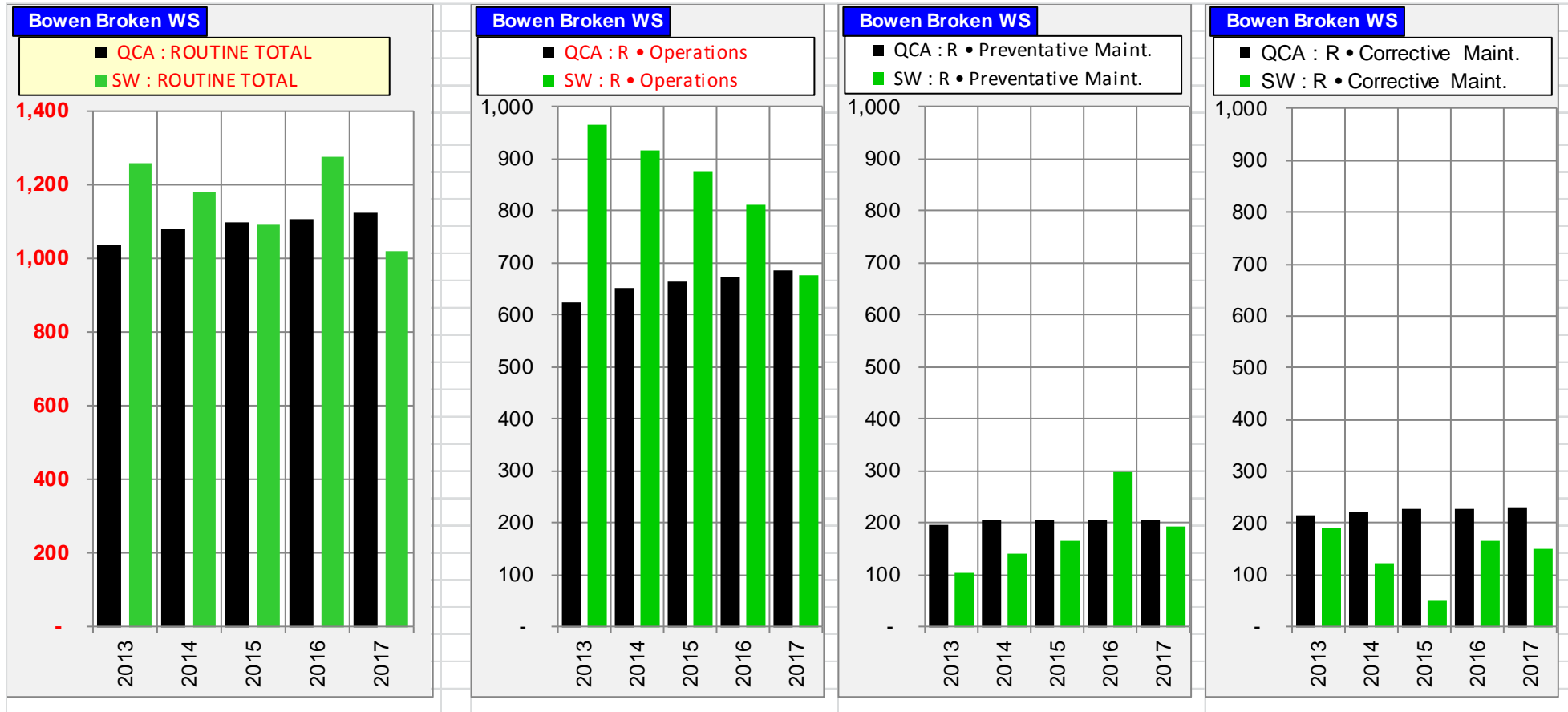
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair or correction of channel faults;
 - Repair or correction of pipeline faults; and
 - Response to theft or vandalism associated with scheme assets.

Corrective maintenance was below the QCA's target.

Routine Cost – Summary and Charts

The information in Table 4 above is re-presented in the charts below to graphically show SunWater’s performance against the QCA targets. In summary the key challenges in managing routine cost lie with reigning in input cost like insurance. Emergency Event Management costs are also an impact on the scheme, but have not been distributed at the scheme level.

Figure 2: Routine Expenditure by Activity compared to QCA Target (\$'000)



Non-Routine Expenditure

SunWater 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 renewals program, the most recent of which was completed in February 2015; items requiring immediate maintenance or replacement are included in the budget for the following year.

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 renewals. Having an annuity funding arrangement acknowledges that a long-term view of renewals spend is required to ensure adequate funding and to address issues such as inter-generational equity.

The QCA targets were set against an estimated program of works from the 2010-11 year. While this was the best estimate of expected work at the time, there has been significant project churn in the three years since this estimate was made. This can mean that, in some cases, the QCA's funding allowance for renewals work does not cover the total expenditure required to maintain asset condition to the required standard. In addition, there have been unexpected events, such as floods, that were not allowed for in the QCA's annuity funding allowance.

Table 5 – Non-Routine Expenditure

Bowen Broken WS	2013			2014			2015			2016			2017			% of target
	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Budget \$000	QCA Target \$000	Variance \$000	
Annuity Funded																
Operations	-	-	-	-	-	-	-	16	16	2	-	(2)	24	-	(24)	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	(1)	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-
R&E	107	155	48	184	170	(14)	355	250	(105)	149	227	78	282	89	(193)	317
Non-routine Total	106	155	49	184	170	(14)	355	266	(89)	151	227	76	306	89	(217)	344
Non Annuity Funded	(0)			155			449			911			-			

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

PROJECT	SPEND 2016
16BBR10 Enhance: Install ARMCO guardrail on Eungella Dam Crest	50485
16BBR04 Bowen River Replace Scada PC Register System and Migrate Programs	33090
16BBR11 Carry out concrete repair works in the spillway and discharge channel - Eungella Dam	22765
16BBR05 Asset Revaluation - KBB - Bowen Broken	13586
16BBR07 Investigate Root Cause of Guard Valve Functionality - Eungella Dam	10768
15BBR03 Carry out option analysis for sediment removal - Gattonvale Pump Station	6298
16BBR06 Update EAP - Eungella Dam	4854
16BBR08 Carry out ROV/Diving inspection to assess the condition of stop logs externally	4814
15BBR04 Inspection (2 Yearly) Crane - Outlet Works Winch - Eungella Dam	2365

Corrective Maintenance

There was no annuity funded Corrective Maintenance.

Other

There was one annuity funded project in Operations.

PROJECT	SPEND 2016
16BBR12 Create Material & Asset Hierarchy Standard & Task Lists - KBB	2010

R&E – Non Annuity

The Non-annuity funded R&E Project undertaken was:

PROJECT	SPEND 2016
14BBR18 Eungella Dam Safety Upgrade	911568

Annuity Balance

The 2016 annuity balance is shown below.

Table 6 – Annuity Balance

Bowen Broken WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Annuity						
Opening Balance		(2,722)	(2,708)	(2,770)	(2,870)	(2,799)
Net Spend	See below	(106)	(184)	(229)	(151)	(306)
Annuity Contribution		324	326	337	436	439
Interest		(204)	(203)	(207)	(215)	(210)
SunWater - Closing Balance		(2,708)	(2,770)	(2,870)	(2,799)	(2,877)
QCA - Closing Balance		(1,962)	(1,953)	(2,029)	(1,972)	(1,770)
Difference		(747)	(816)	(840)	(827)	(1,106)
Net Spend Analysis						
Spend	5 & 7	(106)	(184)	(355)	(151)	(306)
Insurance Proceeds Receipts						
• Prior Year		-	-	52	-	-
• Current Year		-	-	74	-	-
Net Spend		(106)	(184)	(229)	(151)	(306)

* 2017 figures are subject to change once actual spend is known.

Appendix – Total Expenditure by Expense Type

**Table 7 – Detailed Financial Summary
(Including Expenditure for Activity by Type)**

Bowen Broken WS	2013			2014			2015			2016			2017		
	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Budget \$000	QCA Target \$000	Variance \$000
Revenue	5,085			5,464			5,805			5,854			6,008		
Routine Spend															
Operations															
Labour	218	122	(96)	147	126	(21)	134	130	(4)	113	135	21	118	139	20
Contractors	65	30	(35)	109	31	(78)	116	32	(84)	118	33	(85)	72	33	(39)
Materials	17	6	(11)	57	6	(51)	13	7	(7)	4	7	3	9	7	(2)
Electricity	136	116	(19)	109	125	16	177	133	(43)	171	144	(27)	65	154	89
Insurance	95	48	(47)	173	49	(125)	119	49	(70)	103	50	(53)	130	51	(79)
Other	21	41	20	42	42	1	53	43	(11)	36	44	8	63	45	(18)
Non-directs	412	261	(152)	279	273	(6)	263	271	7	265	262	(4)	219	257	38
	964	625	(339)	916	652	(264)	876	665	(212)	811	674	(137)	677	686	9
Preventative Maintenance															
Labour	29	51	23	33	53	20	33	55	22	64	56	(7)	43	58	15
Contractors	16	31	15	37	32	(6)	64	33	(31)	86	34	(53)	55	34	(21)
Materials	4	6	2	7	6	(1)	1	6	5	3	6	3	5	6	1
Other	0	3	3	0	3	3	4	3	(0)	10	3	(7)	11	3	(8)
Non-directs	54	105	51	62	110	48	64	108	44	133	105	(29)	78	104	26
	103	196	93	140	204	63	165	205	40	297	205	(92)	191	206	15
Corrective Maintenance															
Labour	37	34	(3)	25	35	10	4	36	32	10	37	27	6	38	33
Contractors	55	84	29	18	87	69	34	90	55	111	92	(19)	108	94	(14)
Materials	26	17	(8)	27	18	(9)	3	19	16	3	19	16	5	19	14
Other	1	5	5	3	5	2	2	5	4	15	6	(10)	16	6	(10)
Non-directs	72	74	1	49	77	28	10	76	67	27	74	47	16	73	57
	191	214	23	123	222	99	52	226	174	166	228	62	151	231	80
Routine - total	1,258	1,034	(224)	1,179	1,077	(101)	1,093	1,096	2	1,274	1,107	(168)	1,019	1,122	103
Non-Routine Spend															
Labour	6	26	21	57	29	(28)	80	60	(20)	26	38	11	50	15	(35)
Contractors	28	29	1	30	32	2	112	33	(79)	63	41	(22)	153	16	(136)
Materials	17	29	12	-	32	32	-	33	33	-	41	41	-	16	16
Other	39	16	(24)	2	17	15	7	18	11	6	22	16	8	9	1
Non-directs	16	54	38	96	61	(35)	156	122	(34)	56	85	30	95	33	(63)
Non-Routine - Total	106	155	49	184	170	(14)	355	266	(89)	151	227	76	306	89	(217)
Total Regulated Spend	1,364	1,189	(175)	1,363	1,248	(115)	1,449	1,362	(87)	1,425	1,334	(91)	1,326	1,211	(114)
Non Annuity Funded Spend	(0)			155			449			911			-		
Surplus (Deficit)	3,722			3,946			3,907			3,517			4,682		

Non-Direct Costs Explained

Non-direct costs reflect SunWater's methodology for distributing indirect costs, local overheads and corporate overheads to each service contract. Wherever practicable labour and other costs are booked direct to service contracts, however, where this is not possible the costs accumulate in either indirect or overhead accounting cost pools and are then distributed to service contracts.

Indirect cost pools capture costs such as billing and customer support, irrigation pricing regulation, asset management (including dam safety, asset systems, channels and drainage) that have not been directly charged. They also include flood room operations including the IGEM emergency management program, water planning, hydrographic services, environmental support costs and GM Operations. These indirect costs are shared between SunWater's lines of business ie Bulk Water, Irrigation Distribution Systems, Industrial Pipeline and Facilities Management where appropriate. For example service contracts without a dam are not apportioned dam safety costs.

Local overheads are spread across service contracts managed in each locality. They include regional accommodation costs, vehicle costs, local admin support and other local labour not directly booked to activities within service contracts.

Corporate overhead costs are more generic than indirect cost and local overheads and are spread across all service contracts based on direct labour. They include the cost of HR and payroll, ICT, communications, legal and property, finance, internal audit, plus the costs of the CEO, GM Corporate and the SunWater Board of Directors, where these costs are not directly charged to activities within service contracts.

SunWater's methodology was reviewed and accepted by the QCA during the 2012 pricing review.

Notes

All financial figures in this report are presented in nominal dollars.

Although the QCA set cost targets based on assumed inflation of 2.5%, most of the financial figures in the QCA's final report on SunWater's irrigation pricing were presented in real dollars (\$2011). To convert the QCA reported real dollars to nominal dollars, multiply by the following factors; these are based on the QCA's assumed inflation rate of 2.5% p.a. For comparison, the QCA conversion factors based on assumed inflation of 2.5% are compared with conversion factors based on actual inflation as measured by the Brisbane All Groups Consumer Price Index taken in March each year.

Table 8 – Conversion Factors for real \$2011 to Nominal Dollars

	2013	2014	2015	2016	2017
QCA Conversion Factor	1.051	1.077	1.104	1.131	1.16
Accumulative March Quarter CPI	1.0494	1.0714	1.105	1.1208	1.1397

Disclaimer

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