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2016 Annual Performance Report

Bundaberg Distribution

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

Bundaberg IS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Revenue	3	9,154	12,381	10,510	12,479	10,902
Less - Routine Expenditure	4 & 7	7,907	12,782	10,160	10,477	10,430
Less - Non-Routine Expenditure						
• Annuity Funded	5, 6 & 7	1,513	811	960	1,120	2,277
• Non Annuity Funded	5	273	63	102	114	-
Surplus (Deficit)		(539)	(1,275)	(712)	768	(1,805)

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

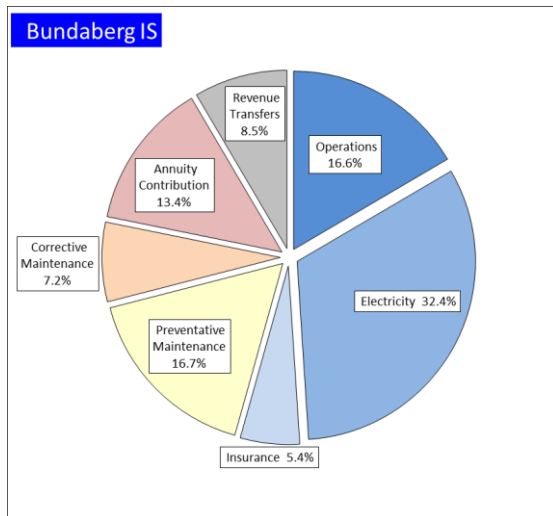


Figure 1 shows a high level summary of scheme costs and provides an indication of where revenue from irrigation water charges is applied. The item “Annuity Contribution” refers to the component of irrigation water charges that is applied toward the renewals annuity each year. The item “Revenue Transfers” 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		386	387	100	79	20	20
2. Irrigation		155,108	164,111	106	99,099	64	60
3. Urban		1,859	2,436	131	2,295	123	94
4. Other		46	46	101	17	38	37
5. SunWater		41,590	41,590	100	17,138	41	41
Service Contract Total	939	198,989	208,570	105	118,628	60	57

QCA Assumed Water Usage for Total 48.0%

Scheme water usage was above the QCA projected total usage of water entitlements.

Table 3 – Revenue

Bundaberg IS	2013	2014	2015	2016	2017
	Actual	Actual	Actual	Actual	Budget
	\$000	\$000	\$000	\$000	\$000
Irrigation	8,723	11,921	9,855	12,019	11,360
Industrial	219	96	103	93	143
Urban	564	586	609	628	556
Irrigation CSO	1,074	761	467	157	1
Revenue Transfers	(1,712)	(1,105)	(1,101)	(1,134)	(1,158)
Drainage	-	-	-	-	-
Other	286	122	114	185	-
Insurance Proceeds - Flood	-	-	463	529	-
Revenue Total	9,154	12,381	10,510	12,479	10,902

* Following feedback from customers, SunWater has unbundled bulk water charges from distribution system charges. This means that total 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). 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. The QCA established the transfer cost for irrigation supplies at the cost reflective bulk water tariff.

Routine Expenditure

Table 4 – Routine Operating Expenditure by Activity

Bundaberg IS	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	1,790	1,864	74	2,428	1,917	(511)	2,510	1,960	(550)	2,218	1,967	(251)	2,063	1,947	(116)	106
Electricity	2,425	2,958	534	5,678	3,166	(2,512)	3,356	3,387	31	4,344	3,658	(686)	4,356	3,914	(442)	111
Insurance	760	538	(221)	1,055	547	(508)	794	557	(237)	720	566	(153)	863	576	(287)	150
Operations Total	4,975	5,361	386	9,161	5,630	(3,531)	6,660	5,904	(757)	7,282	6,192	(1,090)	7,282	6,437	(844)	113
Preventative Maintenance	1,540	1,722	182	2,203	1,774	(430)	2,207	1,817	(391)	2,231	1,838	(393)	2,035	1,834	(202)	111
Corrective Maintenance	1,392	995	(397)	1,418	1,025	(393)	1,293	1,050	(243)	964	1,062	98	1,113	1,060	(53)	105
Routine Total	7,907	8,078	171	12,782	8,429	(4,353)	10,160	8,770	(1,390)	10,477	9,091	(1,385)	10,430	9,331	(1,099)	112

Operations

Operational 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:

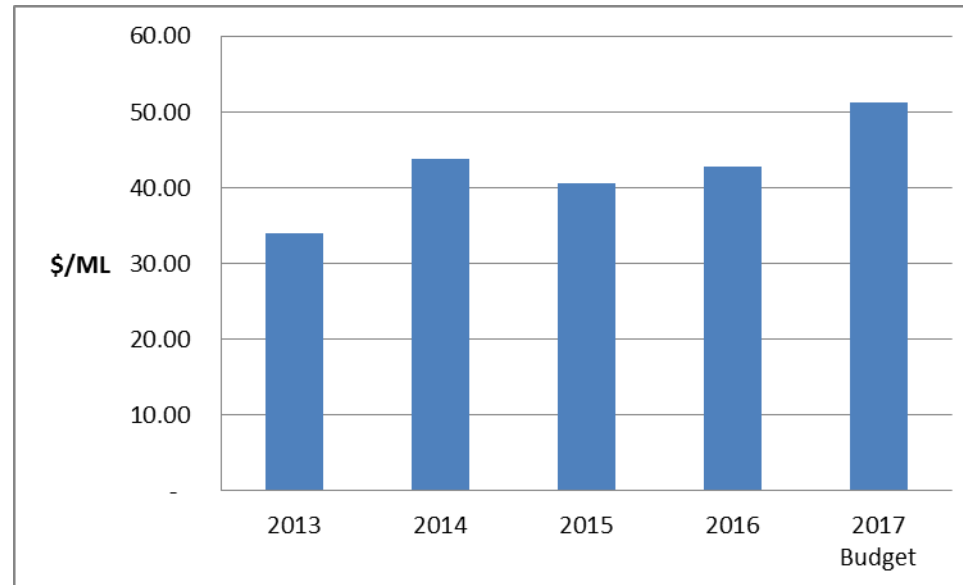
- Scheduling and delivering water, including processing water orders, releasing water, operating pump stations, regulation and monitoring of channel flows and monitoring of customer deliveries;
- Emergency responses for channel overflows and other emergency events;
- Meter reading;
- Administration of 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 in 2016 was above the QCA target. The major operation activities for the year included:

- Insurance cost above the QCA target,
- Operational costs were higher than budget due to the continued need for increased surveillance and water management activities; and
- Electricity costs.

The chart below tracks pumping cost per ML delivered across the price path based on actual and forecast data. The chart reflects the escalation of electricity prices, tariff changes and variation in volumes lifted by high cost and low cost pump stations.



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 for 2016 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:
 - 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

² Activities listed will not apply to all service contracts.

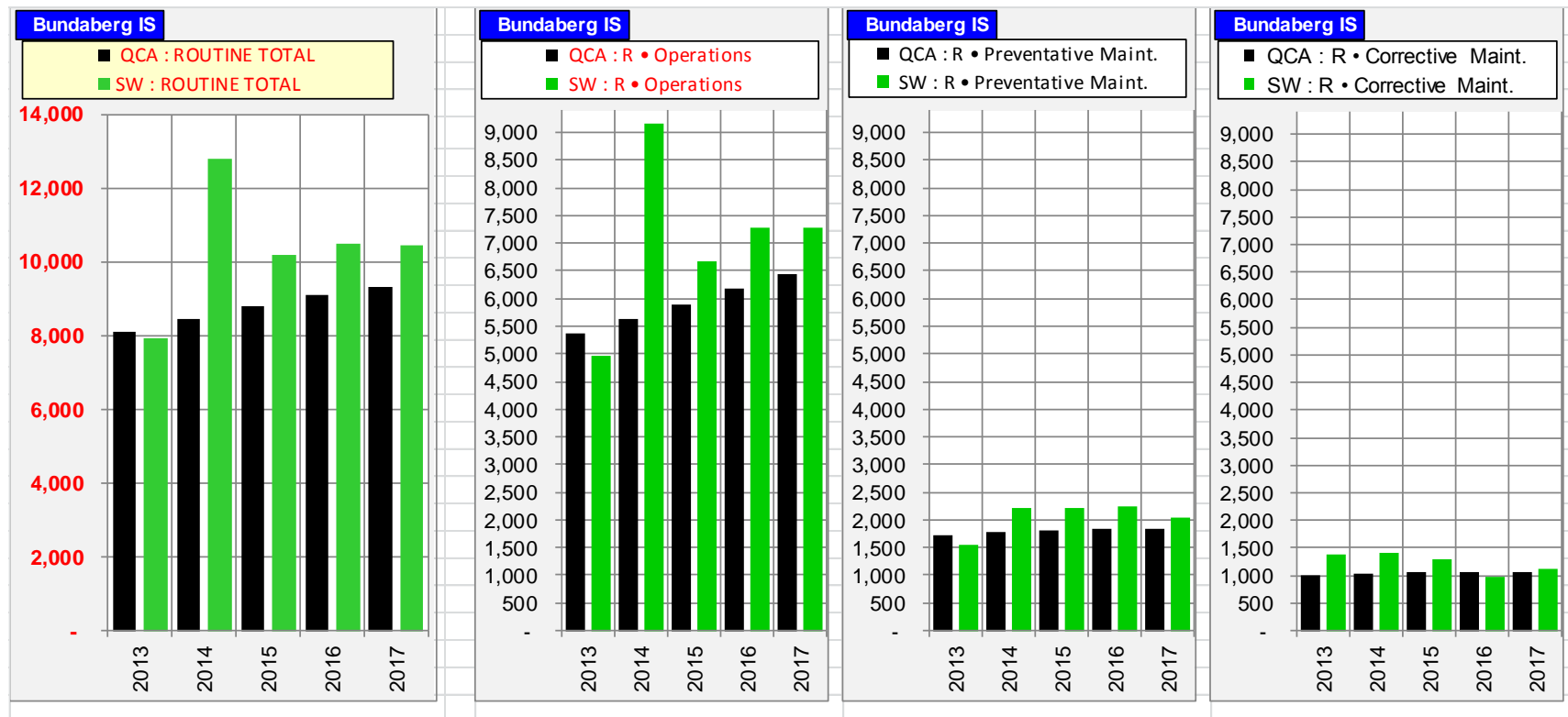
- Pipe breaks
- Repair air valves, scour valves, etc.;
- Erosion control and repair of rock protection works; and
- Repair concrete structures.
- Scheme Roads
 - Repair pot holes;
 - Grade roads; and
 - Repair, replace and paint guide posts and signs.
- Pump stations
 - Repair pumps and motors;
 - De-silt 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 for 2016.

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 electricity, Acrolein and 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.

SunWater is focusing effort on reviewing renewals profiles so that assets are maintained to the required standard with the minimum spend. This review extends to considering the key asset replacement assumptions so that the profile better reflects likely spend each year and moves away from assuming assets are replaced at end of standard life, based on their replacement costs. This is expected to reduce the renewals profile going forward and will be discussed in more detail with customers prior to the 2017 financial year.

Table 5 – Non-Routine Expenditure

Bundaberg IS	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	6	-	(6)	1	-	(1)	5	15	10	17	195	178	-	-	-	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	835	-	(835)	139	-	(139)	18	-	(18)	178	-	(178)	601	-	(601)	-
R&E	672	879	207	671	777	106	937	1,057	120	924	756	(168)	1,676	891	(784)	188
Non-routine Total	1,513	879	(634)	811	777	(34)	960	1,071	111	1,120	952	(168)	2,277	891	(1,385)	255
Non Annuity Funded	273			63			102			114			-			

R&E – Annuity Funded

The annuity funded R&E direct spend was above QCA's target. Projects undertaken included:

PROJECT	SPEND 2016
16BIA15 Upgrade Crane Safety - Monduran PSTN 12.5T Gantry Crane	116246
16BIA09 Upgrade Fire Suppression System - Monduran Pump Station	101388
16BIA19 Refurbish Pump Unit 3 Woongarra PSTN	71909
16BIA17 Spectrum Analyses & Testing - Quart Pot Creek PSTN	59376
16BIA06 Refurbish Regulator Gate (Woodward Road) - Woongarra Main Channel	56243
15BIA52 15BIA52 Investigate Bank Instability Don Beattie PSTN	54383
16BIA11 Replace Pump Unit 2 - Abbotsford PSTN	48040
16BIA39 16BIA39 Re-locate Powerlines AC 3 WMC	45665
15BIA24 15BIA24 Refurbish Gate, paint, anodes, lift gear	43748
16BIA18 Refurbish Motor Starter - Quart Pot Creek PSTN	32172
16BIA04 Refurbish Safety Screen - BMC - SI01	31519

There were 22 other projects undertaken where spend in 2016 was < \$30K per project.

Corrective Maintenance

The annuity funded corrective maintenance spend was not budgeted. Projects undertaken were:

PROJECT	SPEND 2016
13BIA48 FD01 (2013) Flood Damage Repairs - Don Beattie PSTN	134755
16BIA22 Replace Straub Coupling Don Beattie PSTN - Rising Main (Options)(Design)(Construct)	43678

Other

There was \$17K spent in management and Legal costs dealing with Native title and land use issues.

R&E – Non Annuity

The Non-annuity funded Projects are projects where customers have funded the project. For 2016 they included:

PROJECT
16BIA37 Provide Property, Legal & Engineering Services - Woongarra W2 Pipeline
16BIA31 Upgrade meter to 200DIA - 2761m Moore Park MC
16BIA34 Install new offtake 2340m SMC
16BIA23 Install Metered Offtake - Isis Farnsfield MC @ 12720m
16BIA30 Install new customer offtake 3090m DH1
15BIA59 Install a New Meter Arrangement at 5428m on DH1
16BIA25 Install New Metered Offtake - Isis Lateral C4 C040005
16BIA24 Replace Customer Metered Offtake on Childers MC MO 0015 on CMC
16BIA35 Replace Failed Meter
16BIA36 Install New Customer Meter Outlet - Ch19 900m on BMC
15BIA48 Install new offtake 9800m Woongarra MC
15BIA55 Install new offtake 180m F9/1/1/1
15BIA57 Reconfigure offtake at 3903m FMC
15BIA56 Install new meter 752m BE3

Annuity Balance

The 2016 annuity balance is shown below.

Table 6 – Annuity Balance

Bundaberg IS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Annuity						
Opening Balance		2,485	2,605	3,601	5,288	6,883
Net Spend	See below	(1,513)	(811)	(266)	(590)	(2,277)
Annuity Contribution		1,446	1,613	1,683	1,789	1,860
Interest		186	195	270	396	516
SunWater - Closing Balance		2,605	3,601	5,288	6,883	6,982
QCA - Closing Balance		3,857	4,981	5,965	7,250	8,762
Difference		(1,252)	(1,380)	(678)	(367)	(1,780)
Net Spend Analysis						
Spend	5 & 7	(1,513)	(811)	(960)	(1,120)	(2,277)
Insurance Proceeds Receipts						
• Prior Year		-	-	231	-	-
• Current Year		-	-	463	529	-
Net Spend		(1,513)	(811)	(266)	(590)	(2,277)

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

Insurance claims for 2013 flood damage are yet to be completed. The spend in 2016 includes flood repairs to Don Beattie Pump Station.

Appendix – Financial Reporting Overview

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

Bundaberg IS	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	9,154			12,381			10,510			12,479			10,902		
Routine Spend															
Operations															
Labour	642	681	39	863	703	(160)	864	726	(138)	752	749	(3)	748	773	25
Contractors	4	1	(3)	13	1	(12)	40	1	(39)	13	1	(12)	10	1	(9)
Materials	17	0	(17)	19	0	(19)	10	0	(10)	12	0	(12)	8	0	(8)
Electricity	2,425	2,958	534	5,678	3,166	(2,512)	3,356	3,387	31	4,344	3,658	(686)	4,356	3,914	(442)
Insurance	760	538	(221)	1,055	547	(508)	794	557	(237)	720	566	(153)	863	576	(287)
Other	43	37	(6)	80	38	(43)	103	38	(65)	102	39	(63)	51	40	(11)
Non-directs	1,084	1,146	62	1,452	1,176	(276)	1,494	1,195	(299)	1,340	1,178	(161)	1,246	1,134	(112)
	4,975	5,361	386	9,161	5,630	(3,531)	6,660	5,904	(757)	7,282	6,192	(1,090)	7,282	6,437	(844)
Preventative Maintenance															
Labour	417	496	79	547	512	(35)	555	529	(26)	573	545	(28)	565	563	(2)
Contractors	109	108	(1)	198	111	(87)	127	115	(13)	71	118	47	118	120	2
Materials	310	305	(5)	528	315	(213)	463	325	(138)	519	336	(183)	375	342	(33)
Other	4	20	16	17	21	3	95	21	(73)	70	22	(48)	45	22	(22)
Non-directs	700	793	93	914	815	(99)	968	827	(141)	998	816	(181)	933	787	(146)
	1,540	1,722	182	2,203	1,774	(430)	2,207	1,817	(391)	2,231	1,838	(393)	2,035	1,834	(202)
Corrective Maintenance															
Labour	397	285	(112)	379	294	(85)	343	304	(39)	280	313	34	342	323	(19)
Contractors	17	41	24	60	42	(17)	88	44	(44)	16	45	29	20	46	26
Materials	285	131	(154)	330	135	(195)	152	139	(13)	106	144	37	102	146	44
Other	1	83	82	9	85	76	112	88	(24)	84	91	6	90	92	2
Non-directs	692	456	(236)	639	468	(171)	598	475	(122)	477	469	(8)	559	452	(107)
	1,392	995	(397)	1,418	1,025	(393)	1,293	1,050	(243)	964	1,062	98	1,113	1,060	(53)
Routine - total	7,907	8,078	171	12,782	8,429	(4,353)	10,160	8,770	(1,390)	10,477	9,091	(1,385)	10,430	9,331	(1,099)
Non-Routine Spend															
Labour	332	136	(196)	149	134	(15)	154	191	37	184	152	(32)	280	167	(113)
Contractors	334	156	(178)	282	161	(121)	364	206	(158)	468	284	(184)	969	171	(799)
Materials	137	212	75	56	140	84	113	198	86	88	145	57	495	175	(320)
Other	155	77	(78)	60	77	17	45	108	63	37	76	40	10	94	84
Non-directs	554	297	(257)	264	265	1	285	368	83	344	295	(49)	523	284	(238)
Non-Routine - Total	1,513	879	(634)	811	777	(34)	960	1,071	111	1,120	952	(168)	2,277	891	(1,385)
Total Regulated Spend	9,420	8,957	(463)	13,592	9,206	(4,387)	11,120	9,842	(1,279)	11,596	10,043	(1,553)	12,707	10,223	(2,484)
Non Annuity Funded Spend	273			63			102			114			-		
Surplus (Deficit)	(539)			(1,275)			(712)			768			(1,805)		

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 below 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

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