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2016 Annual Performance Report

Eton 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

Eton WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Revenue	3	1,496	18,096	3,263	1,416	1,955
Less - Routine Expenditure	4 & 7	1,492	1,632	1,395	1,891	1,603
Less - Non-Routine Expenditure						
• Annuity Funded	5, 6 & 7	259	58	81	373	1,032
• Non Annuity Funded	5	4,055	9,606	2,023	-	-
Surplus (Deficit)		(4,310)	6,799	(235)	(848)	(681)

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.

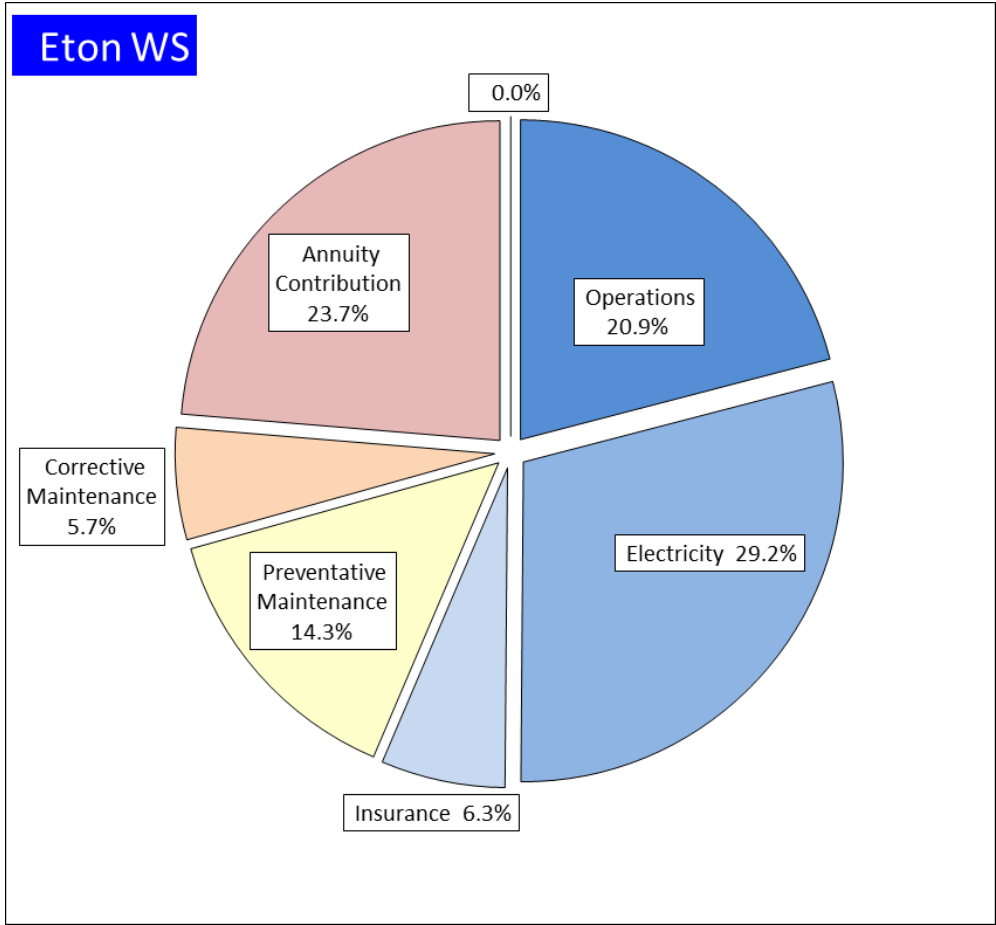


Figure 1: Breakdown of Irrigation Scheme Costs – 2016 Actual

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		100	100	100	0	0	0
2. Irrigation		52,775	52,272	99	25,262	48	48
3. Urban		176	186	106	59	34	32
4. Other		123	123	100	18	14	14
5. SunWater		9,389	9,389	100	8,575	91	91
	339	62,563	62,069	99	33,913	54	55

QCA Assumed Total Water Usage 53.5%

Note: Risk allocations have been included in the above table.

Water usage is in line with the QCA's estimate.

Table 3 – Revenue

Eton WS		2013	2014	2015	2016	2017
		Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Irrigation		7	29	(390)	(158)	347
Industrial		-	2	1	1	-
Urban		41	2	0	0	0
Irrigation CSO		-	-	-	-	-
Revenue Transfers		1,404	1,194	1,510	1,535	1,605
Drainage		-	-	-	-	-
Other		44	16,869	2,108	38	2
Insurance Proceeds - Flood		-	-	35	-	-
Revenue Total		1,496	18,096	3,263	1,416	1,955

* 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.

* The Other Revenue for 2014 includes the \$16.85m grant from the Government for Kinchant Dam spillway upgrade.

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

Eton 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	579	462	(117)	501	481	(20)	579	485	(94)	519	482	(37)	542	483	(59)	112
Electricity	261	231	(30)	417	247	(170)	307	264	(43)	723	285	(438)	320	305	(15)	105
Insurance	198	78	(120)	307	79	(228)	172	81	(91)	156	82	(74)	193	84	(109)	230
Operations Total	1,038	771	(267)	1,225	808	(418)	1,058	829	(228)	1,398	849	(548)	1,055	872	(183)	121
Preventative Maintenance	310	438	128	310	456	146	253	459	206	353	459	105	350	463	113	76
Corrective Maintenance	144	304	160	98	317	219	84	320	235	140	321	181	198	324	126	61
Routine Total	1,492	1,513	21	1,632	1,580	(52)	1,395	1,608	213	1,891	1,629	(262)	1,603	1,659	56	97

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. and

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 below 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

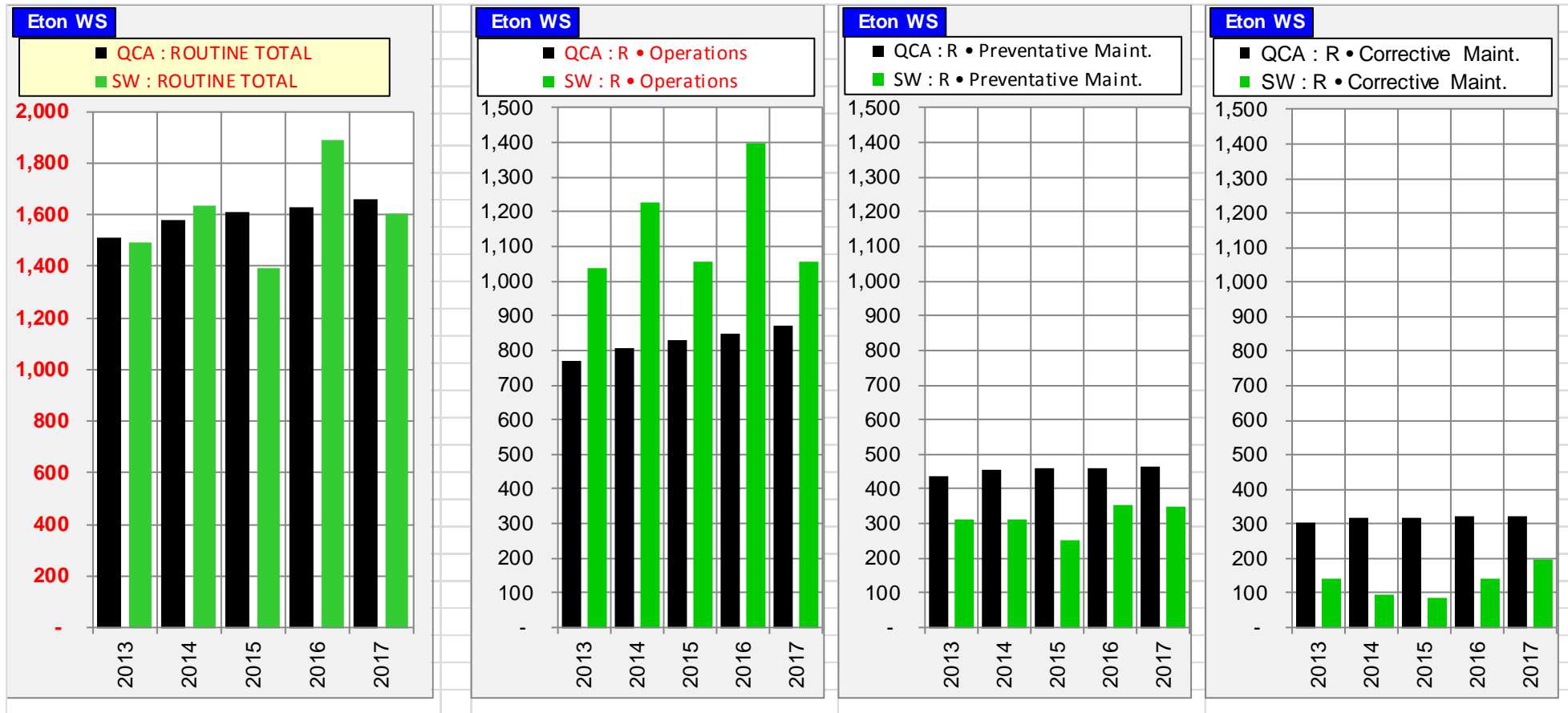
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair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

Eton 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	17	1	10	7	(3)	31	-	(31)	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	(1)	-	1	6	-	(6)	-	-	-	-	-	-	-	-	-	-
R&E	259	201	(58)	52	75	23	65	394	329	363	577	214	1,002	568	(434)	176
Non-routine Total	259	201	(58)	58	75	16	81	411	330	373	584	211	1,032	568	(465)	182
Non Annuity Funded	4,055			9,606			2,023			-			-			

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

PROJECT	SPEND 2016
12ETO01 Replace Switchboard - Mirani Pstn 1 (2012 Scope) (2013 Design & Tender) (Options Analysis 2015) (Tender & Replace	86849
16KIN07 Study Extreme Hazard Mapping for EAP and Community Engagment - Kinchant Dam	70152
16KIN11 Mirani Diversion Channel - reprofile channel	57466
16KIN13 Mirani PSTN3 - Refurbish transformer 2 and fill both transformers 1 &2 with FR3 plant based oil	29413
16KIN16 Clean drains (pore pressure holes) in the spillway apron and foundation	28339
16KIN15 Refurbish Mirani PSTN1 Control Building - Mirani	26548
16KIN12 Mirani PSTN3 - Replace Switchboard, PLC, SCADA and Common Control and Upgrade SCADA (Options 2016, Design & Te	24904
16KIN06 Asset Revaluation - KBE - Eton	11957
15KIN02 Relocate Gauging Station from Intake Tower to Improve Accessibility - Kinchant Dam HW Gauging Station	9449
16KIN14 Investigate and recommend future management options for reoccurring mud boils at Kinchant Dam	9357
16KIN08 Update EAP - Statutory Requirement - Kinchant Dam	4854
15KIN01 Inspection (2 Yearly) Crane - Inlet Tower Hoist - Kinchant Dam	2728
16KIN09 Mirani Pump Operation at Lower River Levels Solution (Options 2016)	923

Corrective Maintenance

There was no expenditure categorised as “Corrective Maintenance”.

Other

The “Annuity-funded Other” projects included.

PROJECT	SPEND 2016
15KIN06 Investigate salt scalds d/s Kinchant Dam	6774
16KIN17 Create Material & Asset Hierarchy Standard & Task Lists - KBE	3372

R&E – Non Annuity

There was no expenditure categorised as “Non-annuity funded R&E”.

Annuity Balance

The 2016 annuity balance is shown below.

Table 6 – Annuity Balance

Eton WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Annuity						
Opening Balance		(2,207)	(2,071)	(1,717)	(1,296)	(1,179)
Net Spend	See below	(259)	(58)	(24)	(373)	(1,032)
Annuity Contribution		560	568	573	587	623
Interest		(165)	(155)	(129)	(97)	(88)
SunWater - Closing Balance		(2,071)	(1,717)	(1,296)	(1,179)	(1,676)
QCA - Closing Balance		(1,582)	(1,207)	(1,135)	(1,218)	(1,253)
Difference		(489)	(509)	(160)	39	(423)
Net Spend Analysis						
Spend	5 & 7	(259)	(58)	(81)	(373)	(1,032)
Insurance Proceeds Receipts						
• Prior Year		-	-	22	-	-
• Current Year		-	-	35	-	-
Net Spend		(259)	(58)	(24)	(373)	(1,032)

* 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)**

Eton 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	1,496			18,096			3,263			1,416			1,955		
Routine Spend															
Operations															
Labour	174	125	(49)	148	129	(20)	134	133	(2)	122	137	15	133	141	8
Contractors	28	23	(5)	28	24	(4)	95	25	(71)	69	25	(44)	76	26	(50)
Materials	6	6	(1)	8	6	(2)	7	6	(1)	2	6	4	10	6	(4)
Electricity	261	231	(30)	417	247	(170)	307	264	(43)	723	285	(438)	320	305	(15)
Insurance	198	78	(120)	307	79	(228)	172	81	(91)	156	82	(74)	193	84	(109)
Other	30	28	(2)	37	29	(8)	76	29	(47)	40	30	(10)	75	30	(45)
Non-directs	341	281	(60)	281	294	13	266	292	26	286	284	(2)	248	280	31
	1,038	771	(267)	1,225	808	(418)	1,058	829	(228)	1,398	849	(548)	1,055	872	(183)
Preventative Maintenance															
Labour	79	103	23	69	106	37	55	109	54	76	113	37	57	116	59
Contractors	64	95	30	87	98	11	86	101	15	104	104	0	154	106	(48)
Materials	10	8	(2)	22	8	(14)	2	9	7	3	9	6	7	9	2
Other	2	10	8	1	11	10	3	11	8	6	11	5	23	11	(12)
Non-directs	154	222	67	130	233	103	107	229	122	164	221	58	109	220	111
	310	438	128	310	456	146	253	459	206	353	459	105	350	463	113
Corrective Maintenance															
Labour	33	63	29	21	65	44	5	67	61	17	69	52	3	71	68
Contractors	18	42	24	18	43	25	65	45	(20)	80	46	(34)	150	47	(103)
Materials	26	25	(1)	18	26	8	0	27	26	0	27	27	10	28	18
Other	2	37	35	1	39	38	1	40	39	2	41	39	20	42	22
Non-directs	65	137	72	40	144	104	13	142	129	41	137	96	15	136	121
	144	304	160	98	317	219	84	320	235	140	321	181	198	324	126
Routine - total	1,492	1,513	21	1,632	1,580	(52)	1,395	1,608	213	1,891	1,629	(262)	1,603	1,659	56
Non-Routine Spend															
Labour	42	33	(9)	18	6	(12)	23	68	45	66	93	27	152	66	(85)
Contractors	109	37	(72)	5	28	24	11	68	57	170	108	(62)	575	54	(521)
Materials	4	37	33	0	7	7	3	67	64	2	102	100	-	262	262
Other	6	20	14	3	16	13	1	37	36	2	61	59	13	26	13
Non-directs	98	74	(24)	32	17	(15)	43	170	127	134	220	87	292	159	(133)
Non-Routine - Total	259	201	(58)	58	75	16	81	411	330	373	584	211	1,032	568	(465)
Total Regulated Spend	1,751	1,714	(37)	1,691	1,655	(36)	1,476	2,019	543	2,264	2,213	(51)	2,636	2,227	(409)
Non Annuity Funded Spend	4,055			9,606			2,023			-			-		
Surplus (Deficit)	(4,310)			6,799			(235)			(848)			(681)		

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

Disclaimer

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