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2016 Annual Performance Report

Mareeba 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

Mareeba WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Revenue	3	4,019	2,246	2,402	1,667	1,591
Less - Routine Expenditure	4 & 7	939	1,038	1,223	1,270	1,182
Less - Non-Routine Expenditure						
• Annuity Funded	5, 6 & 7	250	209	78	474	466
• Non Annuity Funded	5	(1)	3	0	-	-
Surplus (Deficit)		2,832	996	1,100	(78)	(57)

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.

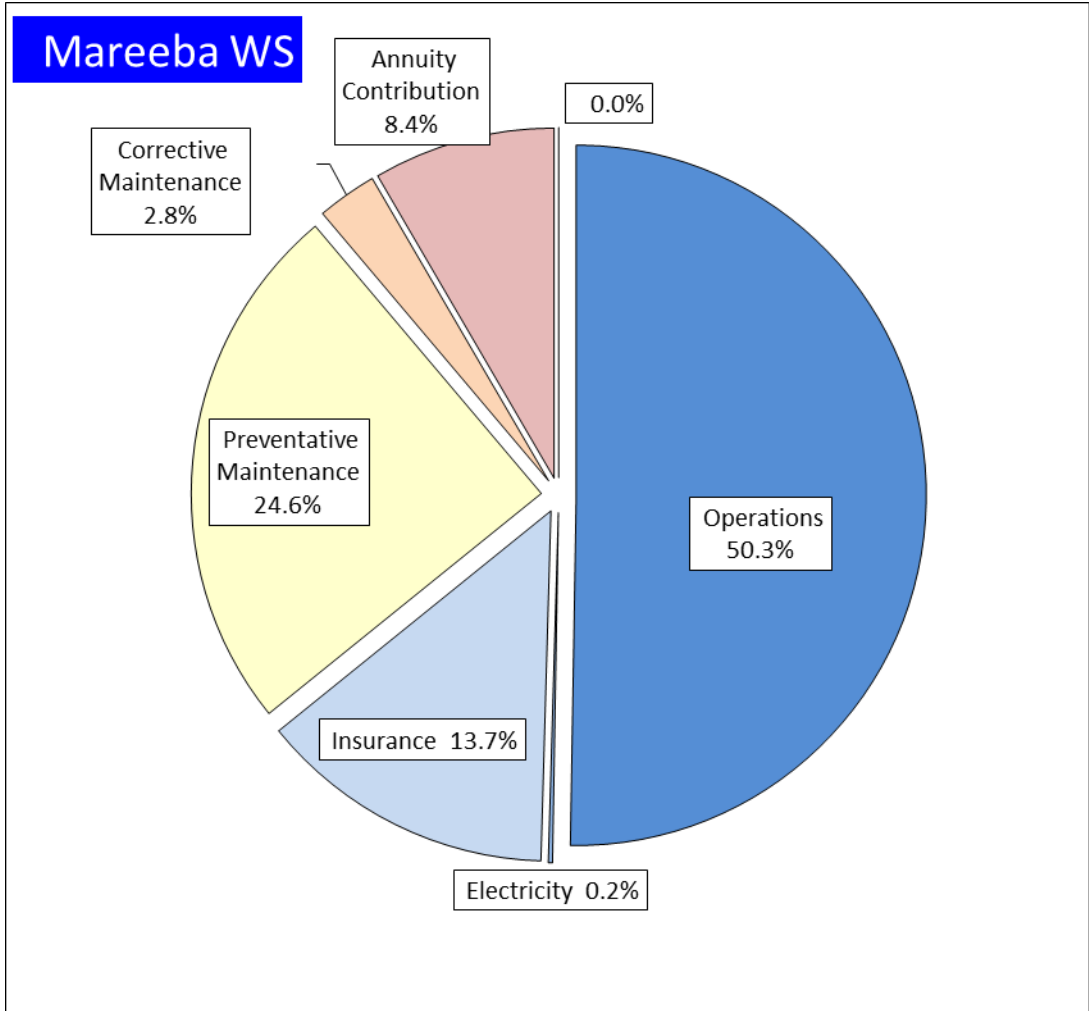


Figure 1: Breakdown of Irrigation Scheme Costs – 2016 Actual

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
1. Industrial		1,351	1,341	99	899	67	67
2. Irrigation		151,412	160,194	106	125,502	83	78
3. Urban		6,656	6,659	100	4,039	61	61
4. Other		0	0	0	0	0	0
5. SunWater		45,005	45,003	100	31,439	70	70
	1,255	204,424	213,196	104	161,879	79	76

QCA Assumed Total Water Usage 69.4%
 Total water usage was above the QCA assumed target.

Revenue

Table 3 – Revenue

Mareeba WS		2013	2014	2015	2016	2017
		Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Irrigation		161	132	77	255	90
Industrial		1,528	1,245	1,475	484	613
Urban		338	330	340	345	352
Irrigation CSO		-	-	-	-	-
Revenue Transfers		1,989	532	512	537	533
Drainage		-	-	-	-	-
Other		3	5	4	46	4
Insurance Proceeds - Flood		-	-	(6)	-	-
Revenue Total		4,019	2,246	2,402	1,667	1,591

* 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). 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

Mareeba 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	% of target
Operations	604	698	94	552	728	177	586	728	142	697	723	26	664	729	64	91
Electricity	2	6	4	2	6	5	3	7	3	3	7	4	2	8	6	26
Insurance	180	83	(97)	321	85	(236)	211	86	(124)	190	88	(103)	236	89	(147)	264
Operations Total	787	788	1	874	819	(54)	800	821	21	890	818	(72)	903	826	(77)	109
Preventative Maintenance	136	195	59	148	204	56	314	204	(110)	342	201	(140)	225	203	(22)	111
Corrective Maintenance	16	24	9	16	25	9	109	25	(84)	38	25	(13)	55	25	(30)	217
Routine Total	939	1,007	68	1,038	1,049	11	1,223	1,050	(173)	1,270	1,044	(226)	1,182	1,054	(129)	112

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 below the QCA target.

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;
 - Copper Sulphate treatment; and
 - Spraying and other activities to control operational and noxious weeds within Tinaroo Falls Dam reserves.

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:
 - Channels

² Activities listed will not apply to all service contracts.

- 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.

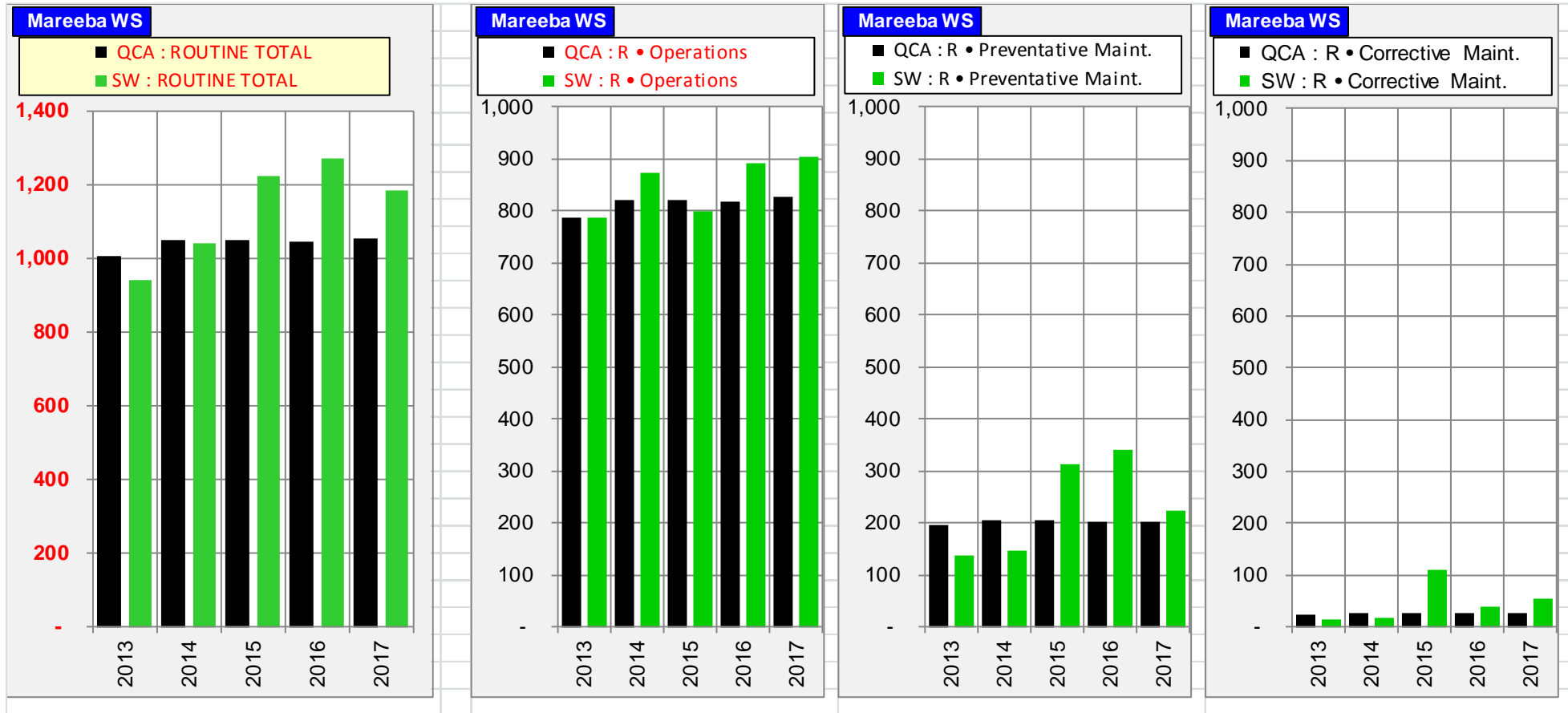
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair or correction of channel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

Corrective maintenance was above 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

Mareeba 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	% of target
Annuity Funded																
Operations	-	-	-	-	-	-	-	-	-	1	-	(1)	14	3	(11)	510
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&E	250	-	(250)	209	89	(120)	78	-	(78)	473	106	(367)	453	237	(216)	191
Non-routine Total	250	-	(250)	209	89	(120)	78	-	(78)	474	106	(368)	466	240	(226)	194
Non Annuity Funded	(1)			3			0			-			-			

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

PROJECT	SPEND 2016
12MDA57 Replace lighting system at the Tinaroo Falls Dam Gallery	373243
15TIN06 Tinaroo Falls Dam-Clean/repair External Conduit Surface - Left (Channel) and Right (Hydro) Conduits - Irrigation Outlet	45393
16TIN03 Study Extreme Hazard Mapping for EAP and Community Engagment - Tinaroo	19301
15TIN01 Refurbish Gate - Paint, Seals, Fixings - Bulkhead Gate - Irrigation Inlet - Tinaroo Falls Dam	17631
14MDA08 Tinaroo falls Dam-Design & Refurbish Mesh Floor, Windows & Doors etc Valve House	8109
16TIN02 Asset Revaluation - MBM - Mareeba	6615
15TIN07 Update EAP - Tinaroo Falls Dam (Statutory Requirement)	2536

Corrective Maintenance

There was no expenditure categorised as “Corrective Maintenance”.

Other

The “Annuity-funded Other” Projects included:

PROJECT	SPEND 2016
16TIN08 Create Material & Asset Hierarchy Standard & Task Lists - MBM	1447

R&E – Non Annuity

There was no expenditure categorised as “Non Annuity”.

Annuity Balance

The 2016 annuity balance is shown below.

Table 6 – Annuity Balance

Mareeba WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Annuity						
Opening Balance		1,007	940	910	1,016	734
Net Spend	See below	(250)	(209)	(78)	(474)	(466)
Annuity Contribution		108	108	116	117	120
Interest		75	70	68	76	55
SunWater - Closing Balance		940	910	1,016	734	443
QCA - Closing Balance		706	778	952	1,034	992
Difference		235	132	63	(300)	(549)
Net Spend Analysis						
Spend	5 & 7	(250)	(209)	(78)	(474)	(466)
Insurance Proceeds Receipts						
• Prior Year		-	-	6	-	-
• Current Year		-	-	(6)	-	-
Net Spend		(250)	(209)	(78)	(474)	(466)

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

The negative figure in 2015 year insurance proceeds indicates an insurance allocation adjustment.

Appendix – Total Expenditure by Expense Type

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

Mareeba 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	4,019			2,246			2,402			1,667			1,591		
Routine Spend															
Operations															
Labour	143	188	45	147	194	47	141	200	60	166	207	41	158	213	56
Contractors	7	16	9	7	16	10	14	17	3	8	17	9	10	18	8
Materials	7	3	(4)	5	3	(2)	2	3	1	1	3	2	3	3	(0)
Electricity	2	6	4	2	6	5	3	7	3	3	7	4	2	8	6
Insurance	180	83	(97)	321	85	(236)	211	86	(124)	190	88	(103)	236	89	(147)
Other	138	78	(60)	92	79	(13)	134	80	(54)	141	82	(59)	167	83	(84)
Non-directs	310	414	104	301	436	135	295	428	133	381	414	33	327	412	85
	787	788	1	874	819	(54)	800	821	21	890	818	(72)	903	826	(77)
Preventative Maintenance															
Labour	38	60	22	52	62	11	93	64	(29)	90	66	(23)	61	69	8
Contractors	1	1	(0)	2	1	(1)	11	1	(10)	24	1	(23)	35	1	(34)
Materials	1	3	2	2	3	0	1	3	2	3	3	0	5	3	(2)
Other	24	4	(21)	0	4	3	33	4	(30)	36	4	(32)	15	4	(11)
Non-directs	72	128	56	91	134	43	175	132	(43)	189	127	(62)	109	126	18
	136	195	59	148	204	56	314	204	(110)	342	201	(140)	225	203	(22)
Corrective Maintenance															
Labour	3	6	3	2	6	4	11	7	(4)	3	7	4	6	7	1
Contractors	2	1	(1)	7	1	(6)	70	1	(69)	25	1	(24)	25	1	(24)
Materials	2	2	0	2	2	(0)	3	2	(1)	2	2	1	5	2	(3)
Other	2	2	(0)	-	2	2	1	2	1	1	2	1	8	2	(6)
Non-directs	7	13	6	4	14	9	24	14	(10)	8	13	5	12	13	1
	16	24	9	16	25	9	109	25	(84)	38	25	(13)	55	25	(30)
Routine - total	939	1,007	68	1,038	1,049	11	1,223	1,050	(173)	1,270	1,044	(226)	1,182	1,054	(129)
Non-Routine Spend															
Labour	14	-	(14)	56	13	(42)	14	-	(14)	48	19	(29)	41	40	(1)
Contractors	187	-	(187)	25	14	(11)	37	-	(37)	310	21	(288)	322	43	(279)
Materials	6	-	(6)	2	14	12	-	-	-	0	21	21	4	43	39
Other	7	-	(7)	19	8	(11)	0	-	(0)	8	12	3	10	23	13
Non-directs	36	-	(36)	107	39	(69)	28	-	(28)	109	33	(76)	89	91	2
Non-Routine - Total	250	-	(250)	209	89	(120)	78	-	(78)	474	106	(368)	466	240	(226)
Total Regulated Spend	1,189	1,007	(181)	1,247	1,138	(109)	1,301	1,050	(251)	1,745	1,150	(594)	1,648	1,294	(355)
Non Annuity Funded Spend	(1)			3			0			-			-		
Surplus (Deficit)	2,832			996			1,100			(78)			(57)		

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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