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2016 Annual Performance Report

Nogoa 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

Nogoa WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Revenue	3	4,427	4,711	5,672	5,325	5,133
Less - Routine Expenditure	4 & 7	2,222	2,058	1,966	2,004	2,350
Less - Non-Routine Expenditure						
• Annuity Funded	5, 6 & 7	559	459	1,383	523	1,432
• Non Annuity Funded	5	100	-	1	7,864	37,125
Surplus (Deficit)		1,546	2,194	2,322	(5,065)	(35,774)

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.

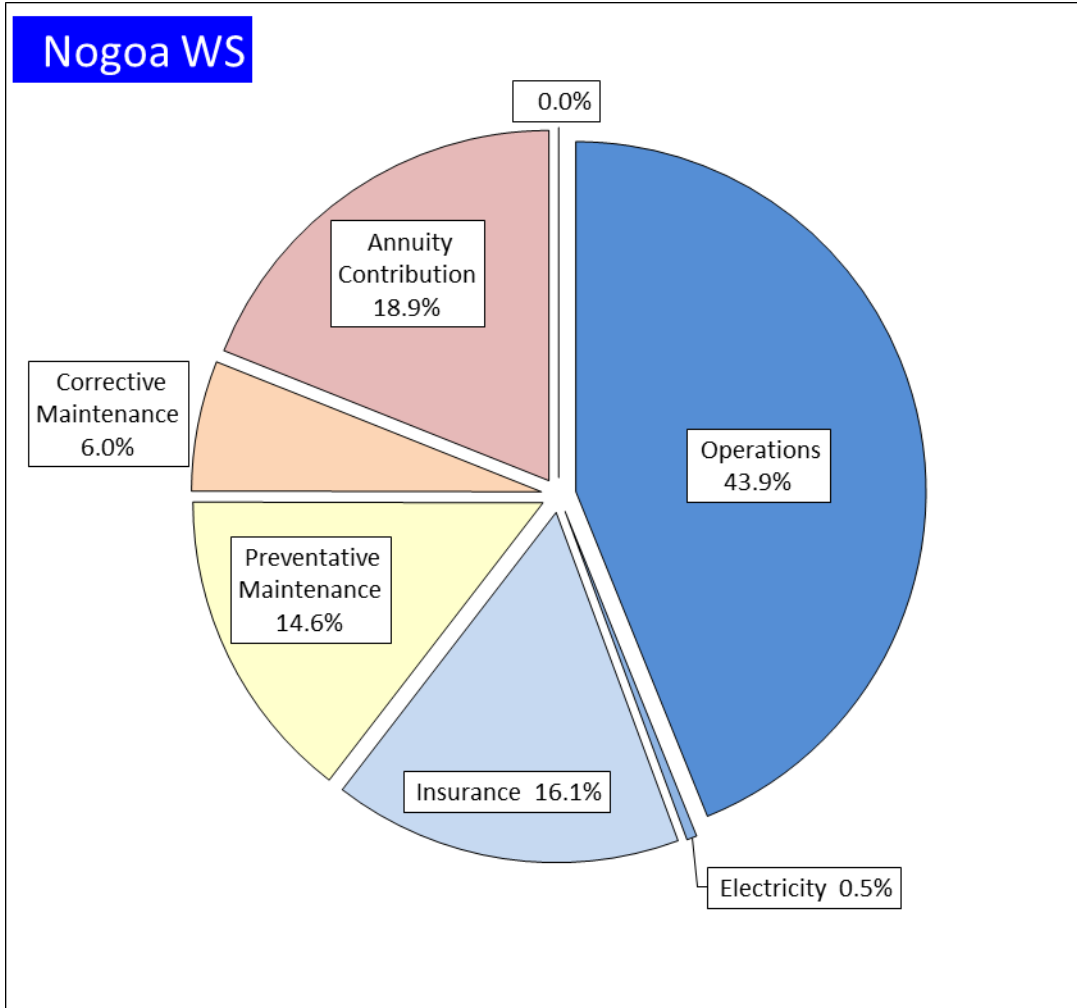


Figure 1: Breakdown of Irrigation Scheme Costs – 2016 Actual

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		29,420	26,663	91	12,306	42	46
2. Irrigation		160,132	204,613	128	159,294	99	78
3. Urban		8,548	7,794	91	6,794	79	87
4. Other		331	360	109	213	64	59
5. SunWater		32,090	30,520	95	5,239	16	17
	441	230,520	269,950	117	183,846	80	68

QCA Assumed Total Water Usage 83.2%

Revenue

Table 3 – Revenue

Nogoa WS		2013	2014	2015	2016	2017
		Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Irrigation		987	911	923	960	974
Industrial		1,784	2,386	2,666	2,878	2,841
Urban		432	435	428	424	289
Irrigation CSO		6	2	-	-	-
Revenue Transfers		1,170	958	921	955	1,025
Drainage		-	-	-	-	-
Other		49	19	441	108	4
Insurance Proceeds - Flood		-	-	292	-	-
Revenue Total		4,427	4,711	5,672	5,325	5,133

* 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. Also included in the revenue transfer totals are revenue transfers from SunWater's pipelines sourcing water from the Nogoa River WSS.

Routine Expenditure

Table 4 – Routine Operating Expenditure

Nogoa 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	1,388	1,686	297	1,065	1,762	697	1,135	1,763	628	1,084	1,745	660	1,390	1,759	369	79
Electricity	12	13	1	16	14	(2)	15	15	1	12	16	5	16	18	2	90
Insurance	374	198	(176)	681	201	(480)	439	205	(234)	399	208	(190)	494	212	(282)	233
Operations Total	1,774	1,897	122	1,762	1,977	216	1,589	1,983	394	1,495	1,969	475	1,899	1,989	89	96
Preventative Maintenance	244	264	20	184	276	92	195	275	81	360	273	(88)	271	275	3	99
Corrective Maintenance	204	197	(7)	113	205	92	183	206	23	149	206	57	180	208	28	86
Routine Total	2,222	2,357	135	2,058	2,458	400	1,966	2,464	498	2,004	2,448	444	2,350	2,471	121	95

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 below the QCA target.

- Insurance cost 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;
 - 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

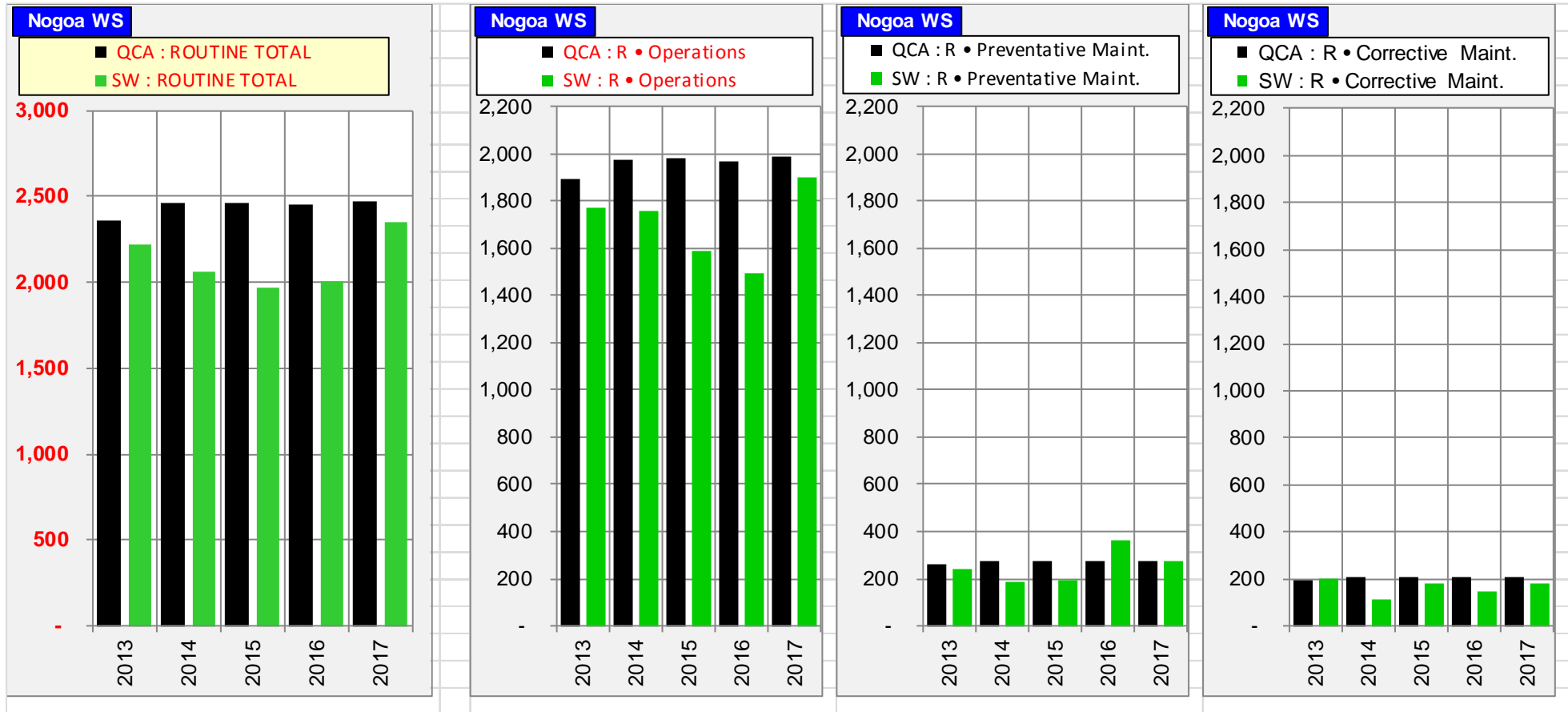
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair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

Nogoa 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	(445)	-	445	41	15	(26)	31	-	(31)	(122)	-	122	27	-	(27)	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	91	-	(91)	239	-	(239)	22	-	(22)	-	-	-	-	-	-	-
R&E	913	108	(804)	179	288	109	1,330	482	(848)	645	258	(387)	1,405	887	(518)	158
Non-routine Total	559	108	(451)	459	303	(156)	1,383	482	(901)	523	258	(265)	1,432	887	(545)	161
Non Annuity Funded	100			-			1			7,864			37,125			

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

PROJECT	SPEND 2016
15NMA14 Review of Environmental Authority, Work Instructions and Training - Fairbairn Sewage	77011
16NMA07 Replace Water Line - Saddle Dam 5 - Fairbairn Dam	76712
15NMA23 Design & Construct Seepage Measuring Weir FD	75442
16NMA05 Replace PC and Conversion of SCADA - Bingeegang Weir	73582
11NMA08 Fairbairn Dam WTP Tank and Pipe Replacement	72860
13NMA02 Rectify Rock Face Stability - Fairbairn Dam Outlet Works 2 Bridge adjacent to Weemah Inlet Tower (Investigate 2013)	70221
15NMA18 Replace Switchboard, Float Switches and Meter Box - Caravan Park - Fairbairn Dam	68244
16NMA13 Install gauging equipment to FD	50574
14NMA04 Inspection - 5 Year Supplementary - Fairbairn Dam	40304
16NMA14 Replace Meter Program (2 per year) - FD	19392
16NMA04 Asset Revaluation - LBN - Nogoia Mackenzie	13327
15NMA03 Inspection (2 Yearly) Crane - Hoists on Gates - Fairbairn Dam	8358
16NMA02 Investigate Validity of Piezometer Data - Fairbairn Dam	6242
16NMA09 Replace Clarifier Inlet Valves and Clarifier Outlet Pipework - Fairbairn Dam TWS Treated Water	4617
16NMA08 Sand Blast & Repaint Clarifier Tanks - Fairbairn TWS Treated Wate	4540
16NMA03 Fairbairn Dam - Improve Access to Deformation Settlement Points	3594
15NMA11 Update EAP - Fairbairn Dam (Statutory Requirement)	2536
15NMA19 Upgrade/replace a meter -Kairoo Station	357

Corrective Maintenance

There was expenditure categorised as “Annuity Funded Corrective Maintenance”.

Other

The 'Annuity Funded Other' Projects included:

PROJECT	SPEND 2016
16NMA17 PIPA Claims and Coronial Inquest - Bedford Weir	13359
16NMA19 Create Material & Asset Hierarchy Standard & Task Lists - LBN	2903

R&E – Non Annuity

The "Non Annuity" Projects included:

PROJECT	SPEND 2016
16NMA16 Fairbairn Dam Improvement Program Stage 1	7858543
16NMA15 STUDY: Access easement for Fairbairn Dam	3884
15NMA22 New Installation - Nogoia	782
16NMA18 Replace meter	422

Annuity Balance

The 2016 annuity balance is shown below.

Table 6 – Annuity Balance

Nogoa WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Annuity						
Opening Balance		(853)	(1,033)	(1,115)	(1,781)	(1,969)
Net Spend	See below	(559)	(459)	(1,037)	(523)	(1,432)
Annuity Contribution		443	454	455	468	470
Interest		(64)	(77)	(84)	(133)	(147)
SunWater - Closing Balance		(1,033)	(1,115)	(1,781)	(1,969)	(3,077)
QCA - Closing Balance		(1,193)	(1,131)	(1,242)	(1,125)	(1,626)
Difference		159	16	(538)	(844)	(1,452)
Net Spend Analysis						
Spend	5 & 7	(559)	(459)	(1,383)	(523)	(1,432)
Insurance Proceeds Receipts						
• Prior Year		-	-	54	-	-
• Current Year		-	-	292	-	-
Net Spend		(559)	(459)	(1,037)	(523)	(1,432)

* 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)**

Nogoa 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	4,427			4,711			5,672			5,325			5,133		
Routine Spend															
Operations															
Labour	350	485	135	279	500	221	257	516	259	251	533	281	342	550	208
Contractors	176	67	(110)	93	69	(24)	220	71	(149)	125	73	(52)	251	75	(177)
Materials	64	27	(37)	21	28	7	30	29	(1)	11	30	19	21	30	9
Electricity	12	13	1	16	14	(2)	15	15	1	12	16	5	16	18	2
Insurance	374	198	(176)	681	201	(480)	439	205	(234)	399	208	(190)	494	212	(282)
Other	66	47	(19)	112	48	(65)	99	49	(51)	112	50	(62)	107	51	(56)
Non-directs	733	1,060	328	560	1,117	557	528	1,098	569	585	1,059	474	669	1,054	385
	1,774	1,897	122	1,762	1,977	216	1,589	1,983	394	1,495	1,969	475	1,899	1,989	89
Preventative Maintenance															
Labour	75	78	2	63	80	17	61	83	22	105	86	(19)	78	88	10
Contractors	20	7	(14)	6	7	0	9	7	(2)	21	7	(13)	50	7	(43)
Materials	2	7	5	1	7	6	0	8	7	11	8	(3)	-	8	8
Other	3	7	4	2	7	6	11	7	(4)	9	7	(2)	5	8	2
Non-directs	143	165	22	111	174	62	113	170	57	214	164	(50)	138	163	25
	244	264	20	184	276	92	195	275	81	360	273	(88)	271	275	3
Corrective Maintenance															
Labour	50	45	(5)	22	47	25	35	48	13	24	50	26	39	52	12
Contractors	28	23	(5)	25	24	(1)	54	25	(30)	51	25	(26)	53	26	(28)
Materials	20	20	0	23	21	(3)	12	21	10	0	22	22	7	22	15
Other	6	10	4	1	10	9	14	10	(3)	25	11	(14)	9	11	2
Non-directs	100	98	(2)	42	104	61	68	102	33	49	98	49	71	98	26
	204	197	(7)	113	205	92	183	206	23	149	206	57	180	208	28
Routine - total	2,222	2,357	135	2,058	2,458	400	1,966	2,464	498	2,004	2,448	444	2,350	2,471	121
Non-Routine Spend															
Labour	204	18	(186)	81	46	(35)	283	73	(211)	122	45	(78)	195	148	(47)
Contractors	165	20	(145)	93	61	(32)	517	89	(428)	222	44	(178)	807	155	(652)
Materials	150	20	(130)	69	47	(22)	5	78	73	42	44	2	1	155	154
Other	(368)	11	379	67	24	(43)	72	43	(29)	(105)	30	134	47	89	42
Non-directs	407	39	(368)	148	125	(24)	506	200	(306)	241	95	(146)	381	340	(41)
Non-Routine - Total	559	108	(451)	459	303	(156)	1,383	482	(901)	523	258	(265)	1,432	887	(545)
Total Regulated Spend	2,781	2,465	(316)	2,517	2,761	244	3,350	2,946	(404)	2,526	2,706	179	3,782	3,358	(424)
Non Annuity Funded Spend	100			-			1			7,864			37,125		
Surplus (Deficit)	1,546			2,194			2,322			(5,065)			(35,774)		

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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