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2016 Annual Performance Report

Proserpine 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

Proserpine WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Revenue	3	2,482	2,633	2,922	3,034	3,046
Less - Routine Expenditure	4 & 7	826	1,077	1,176	938	924
Less - Non-Routine Expenditure						
• Annuity Funded	5, 6 & 7	23	84	56	553	126
• Non Annuity Funded	5	-	1	-	16	-
Surplus (Deficit)		1,633	1,470	1,691	1,527	1,996

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.

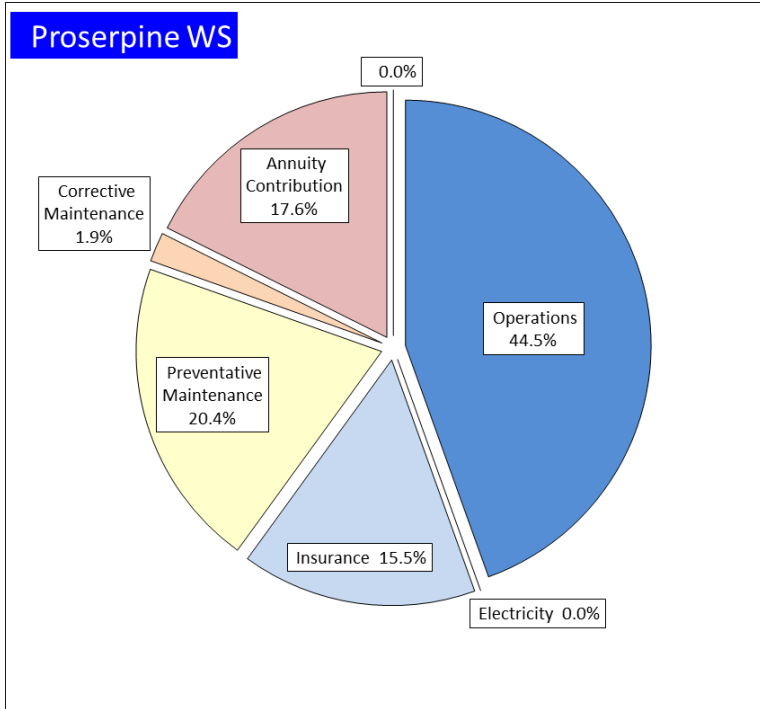


Figure 1: Breakdown of Irrigation Scheme Costs – 2016 Actual

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		550	687	125	327	60	48
2. Irrigation		40,867	55,017	135	24,275	59	44
3. Urban		10,992	11,037	100	6,145	56	56
5. SunWater		10,467	0	0	0	0	0
Service Contract Total	104	62,876	66,741	106	30,747	49	46

QCA Assumed Water Usage for Total 62.1%

Total water use is lower than the QCA assumed figure.

Revenue

Table 3 – Revenue

Proserpine WS		2013	2014	2015	2016	2017
		Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Irrigation		422	481	524	534	540
Industrial		176	224	275	280	286
Urban		1,705	1,730	1,906	2,000	2,047
Irrigation CSO		-	-	-	-	-
Revenue Transfers		-	-	-	-	-
Drainage		-	-	-	-	-
Other		180	199	204	220	174
Insurance Proceeds - Flood		-	-	14	-	-
Revenue Total		2,482	2,633	2,922	3,034	3,046

Routine Expenditure

Table 4 – Routine Operating Expenditure

Proserpine 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	525	564	39	641	588	(53)	555	589	34	507	587	80	507	595	87	85
Electricity	7	5	(2)	7	5	(1)	-	6	6	-	6	6	7	7	(1)	110
Insurance	164	88	(76)	296	89	(207)	194	91	(104)	176	92	(84)	218	94	(124)	232
Operations Total	695	656	(39)	944	682	(261)	750	686	(64)	683	686	2	733	695	(38)	105
Preventative Maintenance	48	142	95	91	148	57	232	150	(82)	233	150	(83)	150	152	2	99
Corrective Maintenance	83	52	(31)	42	53	11	194	55	(140)	22	56	34	42	56	15	74
Routine Total	826	850	24	1,077	884	(193)	1,176	890	(286)	938	892	(47)	924	903	(21)	102

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 met the QCA target.

- Insurance costs were higher than target;
- There were no electricity costs associated with this service contract.
- Labour redirected from Operations to Preventative Maintenance.

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:

² Activities listed will not apply to all service contracts.

- 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
 - 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

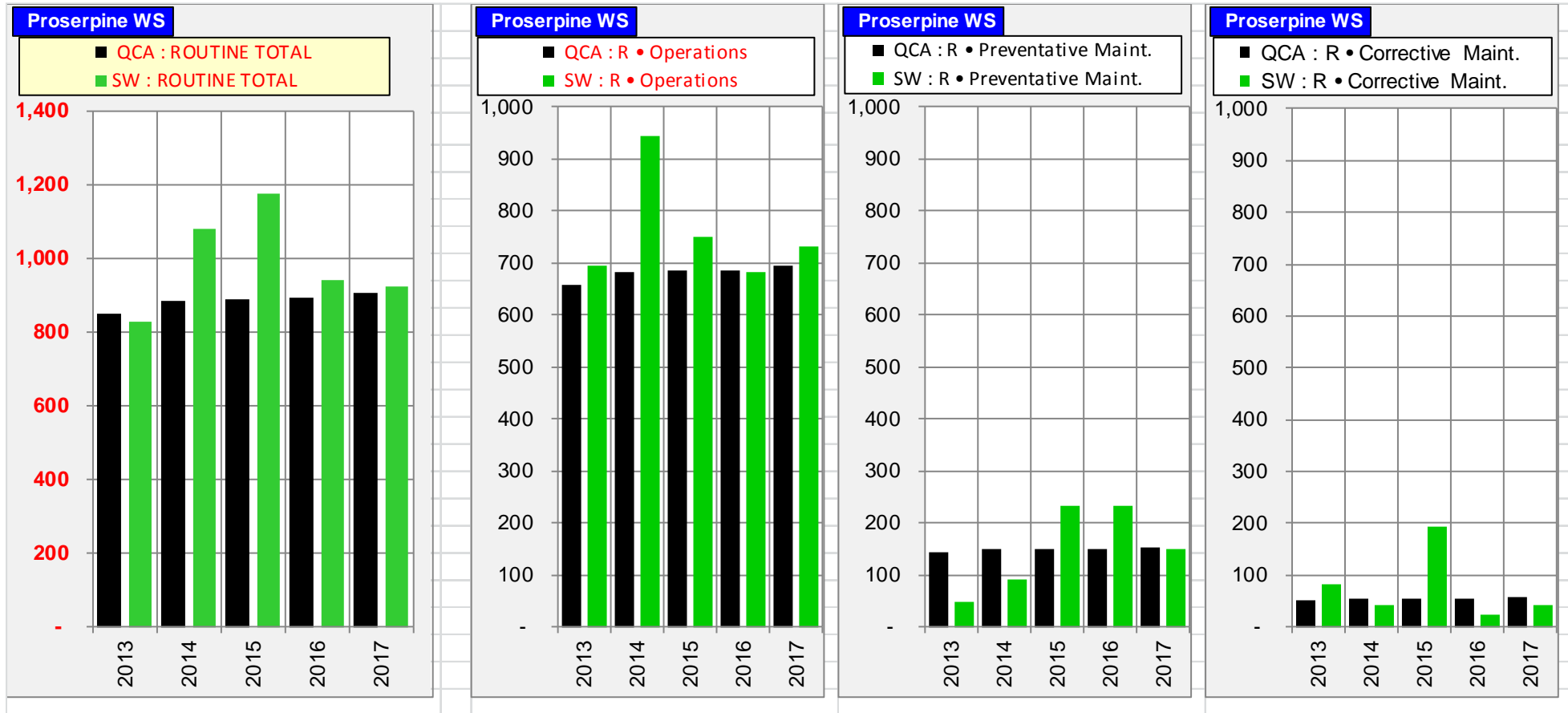
- Repair bulk water meters; and
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction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

Proserpine 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	-	-	-	-	-	-	-	-	-	1	-	(1)	13	-	(13)	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&E	23	37	13	84	188	104	56	42	(13)	552	42	(510)	113	444	331	25
Non-routine Total	23	37	13	84	188	104	56	42	(13)	553	42	(511)	126	444	318	28
Non Annuity Funded	-			1			-			16			-			

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

PROJECT	SPEND 2016
16PRO03 Clean & repair spillway chute floor PFD	279869
13PRO02 Replace SCADA and PLC - Kelsey Creek Pline - Peter Faust Dam Offtake - (2013 Scope) (2014 Supply & Install)	159313
16PRO02 Repair Pipe Leak - Kelsey Ck Pipeline (Options / Design 2016)	89171
16PRO01 Asset Revaluation - ABP - Proserpine	14541
15PRO03 Update EAP - Peter Faust Dam - Statutory Requirement	4854
16PRO04 Overhaul Hyd Units - PFD	4183

Corrective Maintenance

There was no expenditure categorised as “Corrective Maintenance”.

Other

There was one project categorised as “Annuity-funded Other”.

PROJECT	SPEND 2016
16PRO07 Create Material & Asset Hierarchy Standard & Task Lists - ABP	1447

R&E – Non Annuity

There was one project categorised as “Non Annuity”.

PROJECT
PFD Road Works - Reef Catchments

Annuity Balance

The 2016 annuity balance is shown below.

Table 6 – Annuity Balance

Proserpine WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Annuity						
Opening Balance		(360)	(212)	(112)	48	(301)
Net Spend	See below	(23)	(84)	(33)	(553)	(126)
Annuity Contribution		198	200	202	201	201
Interest		(27)	(16)	(8)	4	(23)
SunWater - Closing Balance		(212)	(112)	48	(301)	(248)
QCA - Closing Balance		221	250	428	619	423
Difference		(433)	(362)	(380)	(920)	(671)
Net Spend Analysis						
Spend	5 & 7	(23)	(84)	(56)	(553)	(126)
Insurance Proceeds Receipts						
• Prior Year		-	-	9	-	-
• Current Year		-	-	14	-	-
Net Spend		(23)	(84)	(33)	(553)	(126)

* 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)**

Proserpine 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	Budget \$000	QCA Target \$000	Variance \$000
Revenue	2,482			2,633			2,922			3,034			3,046		
Routine Spend															
Operations															
Labour	135	135	(0)	167	139	(28)	120	144	23	107	148	42	117	153	36
Contractors	46	38	(9)	50	39	(12)	65	40	(25)	50	41	(9)	50	42	(8)
Materials	19	7	(12)	27	7	(19)	9	8	(1)	1	8	7	5	8	3
Electricity	7	5	(2)	7	5	(1)	-	6	6	-	6	6	7	7	(1)
Insurance	164	88	(76)	296	89	(207)	194	91	(104)	176	92	(84)	218	94	(124)
Other	60	83	23	82	85	3	120	86	(33)	92	88	(4)	112	90	(22)
Non-directs	264	301	37	316	318	2	241	311	70	257	301	45	223	301	79
	695	656	(39)	944	682	(261)	750	686	(64)	683	686	2	733	695	(38)
Preventative Maintenance															
Labour	13	28	15	20	29	9	69	30	(38)	58	31	(27)	34	32	(1)
Contractors	3	40	37	16	41	26	27	43	16	46	44	(2)	38	45	7
Materials	3	3	(0)	16	3	(13)	3	3	1	3	3	0	4	3	(1)
Other	2	8	6	1	8	7	5	9	3	3	9	6	13	9	(4)
Non-directs	26	62	36	39	66	27	128	65	(64)	123	63	(60)	61	62	1
	48	142	95	91	148	57	232	150	(82)	233	150	(83)	150	152	2
Corrective Maintenance															
Labour	13	5	(8)	4	5	2	18	6	(13)	2	6	4	4	6	2
Contractors	15	19	4	12	20	8	118	21	(98)	11	21	11	15	22	7
Materials	21	2	(19)	18	2	(16)	9	2	(7)	4	2	(2)	5	2	(3)
Other	3	12	9	0	12	12	10	13	3	1	13	13	10	14	4
Non-directs	30	13	(17)	8	13	6	39	13	(26)	4	13	9	8	13	5
	83	52	(31)	42	53	11	194	55	(140)	22	56	34	42	56	15
Routine - total	826	850	24	1,077	884	(193)	1,176	890	(286)	938	892	(47)	924	903	(21)
Non-Routine Spend															
Labour	3	6	3	28	30	2	8	7	(1)	74	7	(68)	27	74	48
Contractors	2	6	4	1	33	32	32	7	(24)	315	7	(307)	46	79	33
Materials	13	6	(7)	0	33	33	-	7	7	-	7	7	-	79	79
Other	-	3	3	4	18	14	0	4	4	11	4	(7)	5	43	39
Non-directs	5	15	10	52	73	22	16	17	1	153	16	(137)	49	167	119
Non-Routine - Total	23	37	13	84	188	104	56	42	(13)	553	42	(511)	126	444	318
Total Regulated Spend	849	887	38	1,162	1,072	(90)	1,231	932	(299)	1,492	934	(558)	1,050	1,347	297
Non Annuity Funded Spend	-			1			-			16			-		
Surplus (Deficit)	1,633			1,470			1,691			1,527			1,996		

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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