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2016 Annual Performance Report

Upper Condamine 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

Upper Condamine WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Revenue	3	2,140	2,094	2,165	2,416	2,341
Less - Routine Expenditure	4 & 7	1,047	1,020	976	1,155	1,061
Less - Non-Routine Expenditure						
• Annuity Funded	5, 6 & 7	123	212	218	621	987
• Non Annuity Funded	5	-	-	-	-	-
Surplus (Deficit)		971	862	971	640	293

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.

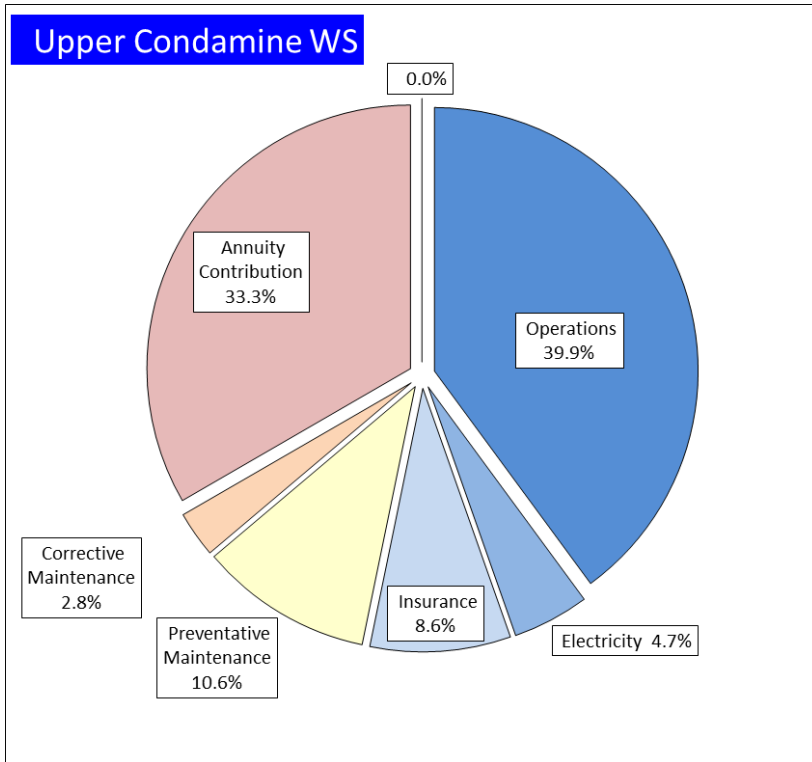


Figure 1: Breakdown of Irrigation Scheme Costs – 2016 Actual

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		0	0	0	0	0	0
2. Irrigation		30,363	7,094	23	6,734	22	95
3. Urban		3,332	3,332	100	1,730	52	52
4. Other		4	1	18	4	105	573
5. SunWater		261	105	40	64	25	61
Service Contract Total	98	33,960	10,532	31	8,532	25	81

QCA Assumed Total Water Usage 54.1%

Water deliveries for the Upper Condamine included Allocation and Risk A Water.

Revenue

Table 3 – Revenue

Upper Condamine WS		2013	2014	2015	2016	2017
		Actual	Actual	Actual	Actual	Budget
		\$000	\$000	\$000	\$000	\$000
Irrigation		1,155	1,076	951	1,040	986
Industrial		17	33	10	-	-
Urban		929	975	1,128	1,322	1,349
Irrigation CSO		30	2	-	-	-
Revenue Transfers		-	-	-	-	-
Drainage		-	-	-	-	-
Other		10	7	0	2	6
Insurance Proceeds - Flood		-	-	76	53	-
Revenue Total		2,140	2,094	2,165	2,416	2,341

Routine Expenditure

Table 4 – Routine Operating Expenditure

Upper Condamine 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	597	638	41	466	667	201	490	667	177	691	662	(29)	549	668	119	82
Electricity	104	64	(40)	80	69	(12)	79	73	(5)	81	79	(2)	79	85	5	94
Insurance	129	69	(60)	234	70	(163)	166	72	(94)	149	73	(77)	186	74	(112)	252
Operations Total	831	771	(59)	780	806	26	734	812	77	922	815	(107)	814	827	13	98
Preventative Maintenance	155	176	21	228	184	(44)	211	184	(27)	184	182	(2)	173	183	10	95
Corrective Maintenance	61	73	12	11	76	64	30	76	46	49	76	28	74	77	3	96
Routine Total	1,047	1,020	(27)	1,020	1,066	46	976	1,072	96	1,155	1,073	(82)	1,061	1,087	26	98

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;

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 just 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.

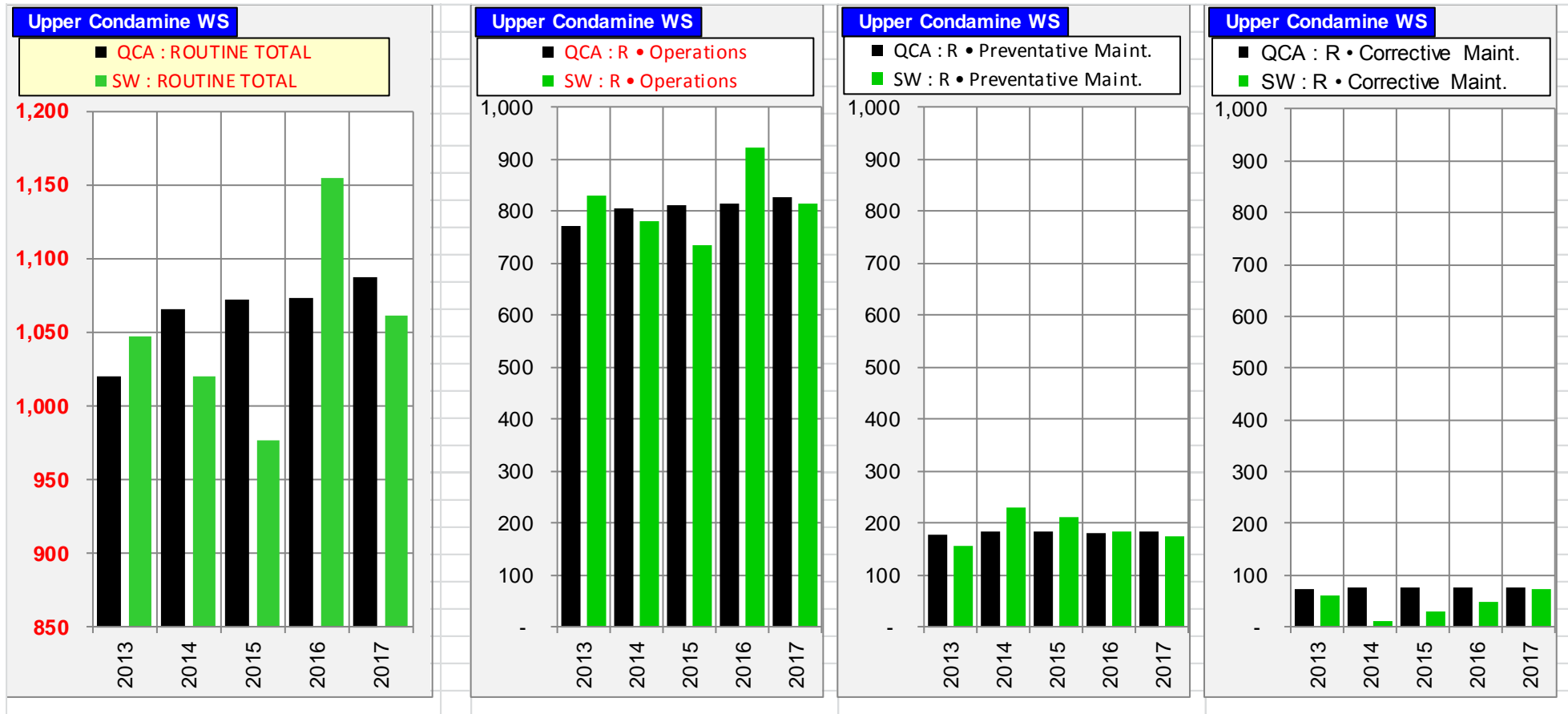
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair or correction of channel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

Corrective maintenance was 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

Upper Condamine 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	-	-	-	-	-	-	-	-	-	5	-	(5)	37	-	(37)	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	80	-	(80)	20	-	(20)	-	-	-	-	-	-	-	-	-	-
R&E	43	235	192	192	381	189	218	357	138	617	629	13	951	861	(90)	110
Non-routine Total	123	235	112	212	381	169	218	357	138	621	629	8	987	861	(127)	115
Non Annuity Funded	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

PROJECT	SPEND 2016
15UCO09 Yarramalong PSTN - Refurbishment of the Rising Main Pipeline	119249
15UCO03 Leslie Dam - Refurbish Foundation Drains (Clean out, Depth check, Pressure test)	111011
16UCO12 Leslie Dam - Refurbish Spillway Gates	66727
16UCO18 Leslie Dam - Refurbish Gate 6 Hydraulic RAMS	62556
16UCO07 Leslie Dam: Refurbish Gantry 12.5T Spillway Crane	33655
16UCO09 Asset Revaluation - IBU - Upper Condamine	28002
15UCO01 Leslie Dam - Leslie Dam - Hand over the Town Water Supply Treatment Facility .	27577
16UCO03 Leslie Dam: Study - Options analysis on replacement Town Water Supply valves (Warwick Town Offtake)	23002
15UCO08 UCO - Re-profile Channel - North Branch Natural Channel - Upper Condamine	22894
16UCO02 Upper Condamine: Replace Meters - UN02-M041 & M055,	20564
16UCO20 Leslie Dam - Refurbish 5 sets of RAM's (Gate 1 - 5)	20071
16UCO16 Yarramalong Pump Station - Refurbish Pump 1, 2 and 3	12466
16UCO01 Upper Condamine - Replace Meters - UN03	11393
16UCO13 Leslie Dam - Replace of Town Water Motor 1	10719
16UCO17 Upper Condamine - Addition of 3 rain gauge sites - Upstream Leslie Dam	9180
16UCO04 Leslie Dam - Engineering Assess and Options	8407
16UCO05 Lemon Tree Weir: Refurbish Toe Protection Works	7126
16UCO15 Yarramalong Pump Station - Undertake Condition assessment on Pumps 1, 2 and 3	6937
15UCO06 Leslie Dam - Update EAP - (Statutory Requirement)	4324
16UCO06 Leslie Dam - Refurbish Inlet Hoist (1.4T River Outlet)	4301
16UCO14 Leslie Dam - Study -Investigation into the GPS batteries / Replacement Batteries Strategy	2990
15UCO05 Leslie Dam - Replace Selectron Time Delay Relays - Main Switchboard	1795
16UCO10 Repair Guard Valves - River Supply Outlet Works - Leslie Dam	1787

Corrective Maintenance

There was no expenditure categorised as “annuity funded corrective maintenance”.

Other

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

PROJECT	SPEND 2016
16UCO19 Create Material & Asset Hierarchy Standard & Task Lists - IBU	4740

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

Upper Condamine WS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000
Annuity						
Opening Balance		(1,505)	(1,196)	(948)	(560)	(593)
Net Spend	See below	(123)	(212)	(98)	(568)	(987)
Annuity Contribution		545	549	556	578	583
Interest		(113)	(90)	(71)	(42)	(44)
SunWater - Closing Balance		(1,196)	(948)	(560)	(593)	(1,042)
QCA - Closing Balance		(818)	(711)	(564)	(658)	(985)
Difference		(378)	(238)	4	65	(57)
Net Spend Analysis						
Spend	5 & 7	(123)	(212)	(218)	(621)	(987)
Insurance Proceeds Receipts						
• Prior Year		-	-	44	-	-
• Current Year		-	-	76	53	-
Net Spend		(123)	(212)	(98)	(568)	(987)

* 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)**

Upper Condamine 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	2,140			2,094			2,165			2,416			2,341		
Routine Spend															
Operations															
Labour	194	181	(13)	148	186	38	148	192	44	199	198	(0)	140	205	65
Contractors	9	17	9	9	18	8	28	19	(9)	22	19	(3)	115	19	(96)
Materials	6	9	2	10	9	(1)	3	9	6	4	10	6	3	10	7
Electricity	104	64	(40)	80	69	(12)	79	73	(5)	81	79	(2)	79	85	5
Insurance	129	69	(60)	234	70	(163)	166	72	(94)	149	73	(77)	186	74	(112)
Other	17	34	18	23	35	12	25	36	10	38	36	(2)	31	37	6
Non-directs	372	397	26	275	419	143	285	411	126	429	399	(30)	260	397	137
	831	771	(59)	780	806	26	734	812	77	922	815	(107)	814	827	13
Preventative Maintenance															
Labour	53	55	2	67	57	(10)	64	59	(5)	56	61	5	54	63	9
Contractors	3	1	(2)	29	1	(28)	9	1	(8)	9	1	(8)	19	1	(18)
Materials	4	3	(1)	8	3	(5)	7	3	(4)	2	3	1	3	3	0
Other	1	-	(1)	4	-	(4)	11	-	(11)	2	-	(2)	2	-	(2)
Non-directs	94	117	22	120	123	3	120	120	1	115	116	2	95	115	21
	155	176	21	228	184	(44)	211	184	(27)	184	182	(2)	173	183	10
Corrective Maintenance															
Labour	17	15	(2)	3	16	13	7	16	10	2	17	15	17	17	0
Contractors	2	10	8	0	11	10	5	11	6	26	11	(15)	6	11	5
Materials	7	10	3	1	11	10	5	11	6	14	11	(2)	14	11	(3)
Other	0	3	3	1	3	2	1	3	3	1	3	3	5	3	(1)
Non-directs	34	34	(1)	6	35	30	13	35	22	6	34	27	31	33	2
	61	73	12	11	76	64	30	76	46	49	76	28	74	77	3
Routine - total	1,047	1,020	(27)	1,020	1,066	46	976	1,072	96	1,155	1,073	(82)	1,061	1,087	26
Non-Routine Spend															
Labour	15	32	18	55	60	5	42	53	10	99	97	(2)	128	144	16
Contractors	34	62	29	18	77	59	59	54	(6)	232	132	(100)	495	150	(345)
Materials	41	49	7	35	68	32	33	59	26	22	117	95	68	160	92
Other	2	3	1	6	15	10	1	56	55	52	51	(1)	44	82	38
Non-directs	31	88	57	98	161	62	83	135	52	216	232	16	253	324	72
Non-Routine - Total	123	235	112	212	381	169	218	357	138	621	629	8	987	861	(127)
Total Regulated Spend	1,169	1,255	85	1,232	1,446	215	1,194	1,428	234	1,776	1,702	(74)	2,048	1,947	(101)
Non Annuity Funded Spend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus (Deficit)	971	-	-	862	-	-	971	-	-	640	-	-	293	-	-

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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