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2015 Annual Performance Report

Chinchilla Bulk

October 2015

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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 has 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 2016 forecast data is also provided and compared with QCA targets. The forecast numbers reflect a minor realignment of SunWater's internal structure, which occurred after the 2016 budget was finalised, and vary from the Final 2016 NSPs published in June 2015. The variations are attributed to non-direct cost allocations.

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

Financial Summary

Table 1 – Operating Revenue Less Spend

| | Table reference | 2013 | 2014 | 2015 | 2016 |
|--------------------------------|-----------------|--------------|--------------|--------------|----------------|
| | | Actual \$000 | Actual \$000 | Actual \$000 | Forecast \$000 |
| Operating Revenue | 3 | 207 | 200 | 197 | 202 |
| Less - Routine Expenditure | 4 & 7 | 85 | 91 | 94 | 94 |
| Less - Non-Routine Expenditure | | | | | |
| • Annuity Funded | 5, 6 & 7 | 48 | (0) | - | 12 |
| • Not Annuity Funded | 5 | - | - | - | - |
| Surplus (Deficit) | 7 | 74 | 109 | 103 | 96 |

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 smoothing impact of the renewals annuity. Further information is provided below in each section of this report.

Water Usage

Table 2 – 2015 Water Usage

| | No. of Customers | Water Entitlements | Available Water | Available Water | Water Deliveries | Water Deliveries | Water Deliveries |
|------------|------------------|--------------------|-----------------|-----------------|------------------|------------------|------------------|
| | | ML | ML | % | ML | % of Entitlement | % of Available |
| Industrial | | 290 | 165 | | 13 | | |
| Irrigation | | 2,594 | 2,645 | 102% | 1,902 | 73% | 72% |
| Urban | | 1,160 | 1,160 | | 520 | | |
| SunWater | | 5 | 79 | | 5 | | |
| Total | 42 | 4,049 | 4,049 | 100% | 2,439 | 60% | 60% |

QCA Assumed Water Usage for Irrigation 48.5%
 QCA Assumed Water Usage for Total 61.1%

Chinchilla Water Supply Scheme had an announced allocation of 100% during the 2014-15 water year.

Table 3 – Revenue

| | 2013 | 2014 | 2015 | 2016 |
|----------------------------|--------|--------|--------|----------|
| | Actual | Actual | Actual | Forecast |
| | \$000 | \$000 | \$000 | \$000 |
| Irrigation | 92 | 83 | 74 | 75 |
| Industrial | 45 | 46 | 47 | 48 |
| Urban | 68 | 71 | 74 | 77 |
| Irrigation CSO | - | - | - | - |
| Revenue Transfers | - | - | - | - |
| Drainage | - | - | - | - |
| Other | 3 | 1 | 0 | 2 |
| Insurance Proceeds - Flood | - | - | 2 | - |
| | 207 | 200 | 197 | 202 |

Routine Expenditure

Table 4 – Routine Operating Expenditure

| | 2013 | | | | 2014 | | | | 2015 | | | | 2016 | | | |
|--------------------------|-----------------|------------------|----------------|-------------|-----------------|------------------|----------------|-------------|-----------------|------------------|----------------|-------------|-------------------|------------------|----------------|-------------|
| | SW Actual \$000 | QCA Target \$000 | Variance \$000 | % of target | SW Actual \$000 | QCA Target \$000 | Variance \$000 | % of target | SW Actual \$000 | QCA Target \$000 | Variance \$000 | % of target | SW Forecast \$000 | QCA Target \$000 | Variance \$000 | % of target |
| Operations - Other | 71 | 47 | (24) | 151 | 64 | 48 | (16) | 132 | 69 | 49 | (20) | 141 | 49 | 50 | 1 | 97 |
| Operations - Electricity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Operations - Insurance | 12 | 6 | (6) | 189 | 21 | 6 | (15) | 331 | 14 | 7 | (7) | 214 | 14 | 7 | (8) | 215 |
| Preventative Maintenance | 83 | 53 | (30) | 156 | 85 | 55 | (30) | 155 | 83 | 56 | (28) | 150 | 63 | 57 | (6) | 111 |
| Corrective Maintenance | - | 8 | 8 | - | - | 9 | 9 | - | 1 | 9 | 7 | 17 | 11 | 9 | (2) | 127 |
| Routine Total | 85 | 74 | (12) | 116 | 91 | 76 | (14) | 119 | 94 | 77 | (17) | 122 | 94 | 78 | (16) | 121 |

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.

The operations expenditure in 2015 was \$28k (50%), above the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs \$7k higher than target; and
- Resources re-directed from corrective maintenance into operational and preventative duties.

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:

¹ Activities listed will not apply to all service contracts.

- 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 for 2015 was \$3k (25%) below the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Preventive maintenance costs underspent over the past few years, although these fluctuate from year to year.

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
 - 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)

² Activities listed will not apply to all service contracts.

- 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.

The corrective maintenance expenditure in 2015 was \$7k (83%), below the QCA target. The major exceptions and highlights with corrective activities for the year included:

- Installation of new signage at the weir in line with public safety requirements.

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. However, SunWater expects that the 2013-17 spend for non-routine can be controlled to meet the five-year QCA target within the framework of SunWater's Reliability Centred Maintenance (RCM) approach and risk based prioritisation.

Table 5 – Non-Routine Expenditure

| | 2013 | | | | 2014 | | | | 2015 | | | | 2016 | | | |
|---------------------------|-----------------|------------------|----------------|-------------|-----------------|------------------|----------------|-------------|-----------------|------------------|----------------|-------------|-------------------|------------------|----------------|-------------|
| | SW Actual \$000 | QCA Target \$000 | Variance \$000 | % of target | SW Actual \$000 | QCA Target \$000 | Variance \$000 | % of target | SW Actual \$000 | QCA Target \$000 | Variance \$000 | % of target | SW Forecast \$000 | QCA Target \$000 | Variance \$000 | % of target |
| Annuity Funded | | | | | | | | | | | | | | | | |
| R&E | 48 | - | (48) | - | (0) | - | 0 | - | - | 35 | 35 | - | 12 | 53 | 41 | 23 |
| Corrective Maintenance | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | 48 | - | (48) | - | (0) | - | 0 | - | - | 35 | 35 | - | 12 | 53 | 41 | 23 |
| Non Annuity Funded | | | | | | | | | | | | | | | | |
| | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

R&E – Annuity Funded

There was no expenditure categorised as “Annuity Funded” in 2015.

Corrective Maintenance

There was no expenditure categorised as “Corrective Maintenance” in 2015.

Other

There was no expenditure categorised as “Annuity-funded Other” in 2015.

R&E – Non Annuity

There was no expenditure categorised as “Non Annuity” in 2015.

Annuity Balance

The 2015 annuity balance is shown below.

Table 6 – Annuity Balance

| | Table reference | 2013 | 2014 | 2015 | 2016 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| | | Actual \$000 | Actual \$000 | Actual \$000 | Forecast \$000 |
| Annuity | | | | | |
| Opening Balance | | 103 | 68 | 77 | 90 |
| Net Spend | See below | (48) | 0 | 3 | (12) |
| Annuity Income | | 4 | 4 | 4 | 4 |
| Interest | | 8 | 5 | 6 | 7 |
| SunWater - Closing Balance | | 68 | 77 | 90 | 89 |
| QCA - Closing Balance | | 115 | 128 | 106 | 65 |
| Difference | | (47) | (51) | (16) | 24 |
| Net Spend Analysis:- | | | | | |
| Spend | 5 & 7 | (48) | 0 | - | (12) |
| Insurance Proceeds Receipts | | | | | |
| • Prior Year | | - | - | 1 | - |
| • Current Year | | - | - | 2 | - |
| Net Spend | | (48) | 0 | 3 | (12) |

* 2016 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)**

| | 2013 | | | 2014 | | | 2015 | | | 2016 | | |
|---------------------------------|-----------------|------------------|----------------|-----------------|------------------|----------------|-----------------|------------------|----------------|-------------------|------------------|----------------|
| | 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 Forecast \$000 | QCA Target \$000 | Variance \$000 |
| Operating Revenue | 207 | | | 200 | | | 197 | | | 202 | | |
| Routine Spend | | | | | | | | | | | | |
| Operations | | | | | | | | | | | | |
| Labour | 21 | 11 | (10) | 16 | 11 | (5) | 19 | 12 | (7) | 11 | 12 | 1 |
| Contractors | 1 | 5 | 4 | 1 | 5 | 4 | 2 | 5 | 4 | 2 | 6 | 4 |
| Materials | - | 2 | 2 | 0 | 2 | 1 | - | 2 | 2 | 1 | 2 | 1 |
| Electricity | - | - | - | - | - | - | - | - | - | - | - | - |
| Insurance | 12 | 6 | (6) | 21 | 6 | (15) | 14 | 7 | (7) | 14 | 7 | (8) |
| Other | 5 | 5 | (0) | 16 | 5 | (11) | 12 | 5 | (6) | 7 | 5 | (2) |
| Non-directs | 43 | 24 | (20) | 30 | 25 | (5) | 37 | 25 | (12) | 28 | 25 | (3) |
| | 83 | 53 | (30) | 85 | 55 | (30) | 83 | 56 | (28) | 63 | 57 | (6) |
| Preventative Maintenance | | | | | | | | | | | | |
| Labour | 1 | 4 | 3 | 2 | 4 | 2 | 3 | 4 | 1 | 6 | 5 | (1) |
| Contractors | - | - | - | - | - | - | - | - | - | - | - | - |
| Materials | - | - | - | 0 | - | (0) | - | - | - | - | - | - |
| Other | - | 0 | 0 | - | 0 | 0 | 0 | 0 | (0) | - | 0 | 0 |
| Non-directs | 2 | 8 | 6 | 3 | 9 | 5 | 6 | 9 | 2 | 15 | 8 | (6) |
| | 3 | 12 | 10 | 5 | 13 | 8 | 10 | 13 | 3 | 21 | 13 | (8) |
| Corrective Maintenance | | | | | | | | | | | | |
| Labour | - | 3 | 3 | - | 3 | 3 | 0 | 3 | 2 | 3 | 3 | (0) |
| Contractors | - | - | - | - | - | - | - | - | - | - | - | - |
| Materials | - | 1 | 1 | - | 1 | 1 | 0 | 1 | 0 | 1 | 1 | 0 |
| Other | - | - | - | - | - | - | - | - | - | - | - | - |
| Non-directs | - | 5 | 5 | - | 5 | 5 | 1 | 5 | 4 | 7 | 5 | (2) |
| | - | 8 | 8 | - | 9 | 9 | 1 | 9 | 7 | 11 | 9 | (2) |
| Routine - total | 85 | 74 | (12) | 91 | 76 | (14) | 94 | 77 | (17) | 94 | 78 | (16) |
| Non-Routine Spend | | | | | | | | | | | | |
| Labour | 0 | - | (0) | - | - | - | - | 5 | 5 | 0 | - | (0) |
| Contractors | 44 | - | (44) | - | - | - | - | 2 | 2 | 4 | - | (4) |
| Materials | - | - | - | - | - | - | - | 16 | 16 | 7 | - | (7) |
| Other | - | - | - | - | - | - | - | 1 | 1 | - | - | - |
| Non-directs | 3 | - | (3) | (0) | - | 0 | - | 12 | 12 | 1 | 53 | 52 |
| Non-Routine - Total | 48 | - | (48) | (0) | - | 0 | - | 35 | 35 | 12 | 53 | 41 |
| Total Regulated Spend | 133 | 74 | (59) | 91 | 76 | (14) | 94 | 113 | 18 | 106 | 131 | 25 |
| Non Annuity Funded Spend | | | | | | | | | | | | |
| Surplus (Deficit) | 74 | | | 109 | | | 103 | | | 96 | | |

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 following 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 | 1.0510 | 1.0770 | 1.1040 | 1.1310 | 1.1600 |
| Accumulative March Quarter CPI | 1.0494 | 1.0714 | 1.1050 | 1.1208 | - |

Disclaimer

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