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2015 Annual Performance Report

Emerald Distribution

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, 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	2,403	2,884	2,911	3,022
Less - Routine Expenditure	4 & 7	1,814	2,876	2,279	2,200
Less - Non-Routine Expenditure					
• Annuity Funded	5, 6 & 7	771	165	513	380
• Not Annuity Funded	5	25	8	-	-
Surplus (Deficit)	7	(207)	(165)	119	442

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.

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
Irrigation		83,078	98,010	118%	72,467	87%	74%
Urban		90	0		0		
SunWater		28,697	28,697		610		
Total	179	111,865	126,707	113%	73,077	65%	58%

QCA Assumed Water Usage for Irrigation 71.7%
 QCA Assumed Water Usage for Total 74.9%

Scheme water usage, at 87% was over the QCA projected total usage of 74.9% of water entitlements. The number was well down on 2015 when usage was 105%.

Table 3 – Revenue

	2013	2014	2015	2016
	Actual	Actual	Actual	Forecast
	\$000	\$000	\$000	\$000
Irrigation	2,754	3,202	3,228	3,431
Industrial	-	-	-	-
Urban	-	8	12	-
Irrigation CSO	233	62	-	-
Revenue Transfers	(962)	(768)	(740)	(799)
Drainage	346	365	379	382
Other	33	15	6	8
Insurance Proceeds - Flood	-	-	27	-
	2,403	2,884	2,911	3,022

* 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

	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	682	772	90	88	1,170	794	(376)	147	875	811	(63)	108	810	815	5	99
Operations - Electricity	36	64	27	57	161	68	(93)	237	229	140	(89)	164	206	151	(55)	136
Operations - Insurance	150	104	(46)	144	208	106	(102)	196	158	108	(50)	147	162	110	(52)	148
	869	940	71	92	1,539	968	(571)	159	1,262	1,059	(203)	119	1,179	1,076	(103)	110
Preventative Maintenance	764	611	(153)	125	966	630	(337)	153	836	647	(189)	129	708	659	(49)	107
Corrective Maintenance	181	286	105	63	370	295	(75)	126	181	302	121	60	313	307	(6)	102
Routine Total	1,814	1,837	23	99	2,876	1,893	(983)	152	2,279	2,008	(271)	114	2,200	2,042	(158)	108

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 \$203k (19%) above the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance up by \$50k (47%) on QCA target;
- Electricity costs were \$89k (64%) above the QCA target in 2015. The QCA set the target for 2014 artificially-low, based on their 2012 forecast of Fairbairn Dam levels. When Fairbairn Dam levels are as low, as they were in 2014-15, SunWater is required to use re-lift pumps to deliver water. This incurs additional electricity costs, which were not allowed for in the QCA forecast; and
- labour costs for water delivery were above budget due to high demand during peak periods.

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;

¹ Activities listed will not apply to all service contracts.

- 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 for 2015 was \$189k (29%) above the QCA’s target.

- Due to a dry season & very clear water high usage of Acrolein was required during the season to ensure channel capacity was maintained. The price of Acrolein has increased by 21% since the QCA price submission & further price rises have occurred already in 2016.

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;

² Activities listed will not apply to all service contracts.

- 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 \$121k (40%) below the QCA's target for 2015, reflecting the higher preventative and operational activities associated with higher than average demand. When corrective and preventative are assessed together that are \$68k over the QCA target (Preventive Maintenance was \$836,000 QCA target was \$647,000 and Corrective Maintenance was \$181,000 QCA target was \$302,000)

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. 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.

SunWater is focusing effort on reviewing renewals profiles so that assets are maintained to the required standard with the minimum spend. This review extends to considering the key asset replacement assumptions so that the profile better reflects likely spend each year and moves away from assuming assets are replaced at end of standard life, based on their replacement costs. This is expected to reduce the renewals profile going forward and will be discussed in more detail with customers prior to the 2016 financial year.

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	771	177	(595)	437	156	246	90	63	509	523	15	97	380	203	(177)	187
Corrective Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	10	-	(10)	-	5	8	3	59	-	-	-	-
	771	177	(595)	437	165	246	81	67	513	531	18	97	380	203	(177)	187
Non Annuity Funded	25				8				-				-			

R&E – Annuity Funded

The annuity funded R&E direct spend was \$509k. Projects undertaken included:

- Replace Controls - Selma Pump Station (2015 Scope; 2016 Supply & Install): \$175k spent in 2015 on the design & procurement of new control system for Selma Pump Station. Installation & commissioning costs will fall in FY 2016.
- Replace Switchyard Assets - Selma Switchyard (Substation Q) - (2011/12 Scope): \$207k spent on the design & procurement of HV switchyard upgrade for Selma Pump Station. Project to be completed in 2016.
- 15EME06 Refurbish Pump 1 Selma Pump Station: \$69k spent in 2015 on diffuser & motor refurbishment on Pump # 1 Selma Pump Station.

Corrective Maintenance

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

Other

There was \$5k of expenditure categorised as “Annuity-funded Other” in 2015.

R&E – Non Annuity

There was no expenditure categorised as “Non-annuity funded R&E” in 2015.

Annuity Balance

The 2015 annuity balance is shown below.

Table 6 – Annuity Balance

		2013	2014	2015	2016
	Table reference	Actual \$000	Actual \$000	Actual \$000	Forecast \$000
Annuity					
Opening Balance		(14)	(177)	292	554
Net Spend	See below	(771)	(165)	(468)	(380)
Annuity Income		610	647	708	734
Interest		(1)	(13)	22	41
SunWater - Closing Balance		(177)	292	554	948
QCA - Closing Balance		560	1,003	1,255	1,880
Difference		(737)	(711)	(701)	(931)
Net Spend Analysis:-					
Spend	5 & 7	(771)	(165)	(513)	(380)
Insurance Proceeds Receipts					
• Prior Year		-	-	18	-
• Current Year		-	-	27	-
Net Spend		(771)	(165)	(468)	(380)

* 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	<u>2,403</u>			<u>2,884</u>			<u>2,911</u>			<u>3,022</u>		
Routine Spend												
Operations												
Labour	253	281	28	383	290	(92)	307	300	(8)	295	309	14
Contractors	-	-	-	3	-	(3)	3	-	(3)	3	-	(3)
Materials	3	4	1	120	4	(116)	-	4	4	2	4	2
Electricity	36	64	27	161	68	(93)	229	140	(89)	206	151	(55)
Insurance	150	104	(46)	208	106	(102)	158	108	(50)	162	110	(52)
Other	5	17	12	24	18	(6)	47	18	(29)	29	19	(10)
Non-directs	421	470	49	641	482	(158)	517	489	(27)	481	483	2
	<u>869</u>	<u>940</u>	<u>71</u>	<u>1,539</u>	<u>968</u>	<u>(571)</u>	<u>1,262</u>	<u>1,059</u>	<u>(203)</u>	<u>1,179</u>	<u>1,076</u>	<u>(103)</u>
Preventative Maintenance												
Labour	129	111	(18)	168	115	(53)	164	119	(46)	134	123	(11)
Contractors	220	171	(49)	123	176	53	137	182	44	120	188	68
Materials	184	130	(54)	370	134	(236)	245	139	(106)	190	143	(47)
Other	(0)	6	6	6	6	(0)	5	6	1	33	6	(27)
Non-directs	232	193	(39)	300	198	(101)	285	202	(84)	231	200	(31)
	<u>764</u>	<u>611</u>	<u>(153)</u>	<u>966</u>	<u>630</u>	<u>(337)</u>	<u>836</u>	<u>647</u>	<u>(189)</u>	<u>708</u>	<u>659</u>	<u>(49)</u>
Corrective Maintenance												
Labour	52	66	14	42	68	26	33	71	38	76	73	(3)
Contractors	7	65	58	99	67	(32)	61	70	8	60	72	12
Materials	31	34	3	149	35	(114)	16	36	19	20	37	17
Other	0	10	10	1	10	9	11	11	(0)	31	11	(20)
Non-directs	91	111	20	80	114	34	60	116	56	126	114	(12)
	<u>181</u>	<u>286</u>	<u>105</u>	<u>370</u>	<u>295</u>	<u>(75)</u>	<u>181</u>	<u>302</u>	<u>121</u>	<u>313</u>	<u>307</u>	<u>(6)</u>
Routine - total	<u>1,814</u>	<u>1,837</u>	<u>23</u>	<u>2,876</u>	<u>1,893</u>	<u>(983)</u>	<u>2,279</u>	<u>2,008</u>	<u>(271)</u>	<u>2,200</u>	<u>2,042</u>	<u>(158)</u>
Non-Routine Spend												
Labour	67	23	(44)	30	45	15	100	117	16	20	40	20
Contractors	421	25	(396)	22	50	27	199	120	(79)	277	56	(221)
Materials	19	25	6	4	50	46	26	171	145	35	27	(8)
Other	126	14	(113)	57	27	(30)	8	59	50	-	15	15
Non-directs	138	90	(49)	52	75	23	180	65	(115)	48	65	17
Non-Routine - Total	<u>771</u>	<u>177</u>	<u>(595)</u>	<u>165</u>	<u>246</u>	<u>81</u>	<u>513</u>	<u>531</u>	<u>18</u>	<u>380</u>	<u>203</u>	<u>(177)</u>
Total Regulated Spend	<u>2,586</u>	<u>2,014</u>	<u>(572)</u>	<u>3,041</u>	<u>2,139</u>	<u>(902)</u>	<u>2,792</u>	<u>2,539</u>	<u>(253)</u>	<u>2,580</u>	<u>2,245</u>	<u>(335)</u>
Non Annuity Funded Spend	<u>25</u>			<u>8</u>			<u>-</u>			<u>-</u>		
Surplus (Deficit)	<u>(207)</u>			<u>(165)</u>			<u>119</u>			<u>442</u>		

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	1.0510	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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