

SunWater Limited
Level 10, 179 Turbot Street
PO Box 15536 City East
Brisbane Queensland 4002
www.sunwater.com.au
ACN 131 034 985



2015 Annual Performance Report

Eton Bulk

October 2015

Table of Contents

Introduction	3
Financial Summary	4
Water Usage	4
Revenue	5
Routine Expenditure	6
Operations	6
Preventive Maintenance	6
Corrective Maintenance	7
Non-Routine Expenditure	9
R&E – Annuity Funded	9
Corrective Maintenance	9
Other	10
R&E – Non Annuity	10
Annuity Balance	10
Appendix – Total Expenditure by Expense Type	11
Notes.....	12

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	1,496	18,093	3,263	1,591
Less - Routine Expenditure	4 & 7	1,492	1,632	1,395	1,749
Less - Non-Routine Expenditure					
• Annuity Funded	5, 6 & 7	259	58	81	586
• Not Annuity Funded	5	4,055	9,606	2,023	-
Surplus (Deficit)	7	(4,310)	6,796	(235)	(744)

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
Industrial		100	100		0		
Irrigation		52,772	52,392	99%	20,533	39%	39%
Urban		176	176		47		
Other		126	128		14		
SunWater		9,389	9,389		8,192		
Total	332	62,563	62,185	99%	28,785	46%	46%

QCA Assumed Water Usage for Irrigation 41.3%

QCA Assumed Water Usage for Total 53.5%

Note: Risk allocations have been included in the above table.

Water usage is in line with the QCA's estimate.

Table 3 – Revenue

	2013	2014	2015	2016
	Actual	Actual	Actual	Forecast
	\$000	\$000	\$000	\$000
Irrigation	7	29	(390)	23
Industrial	-	2	1	1
Urban	41	2	0	0
Irrigation CSO	-	-	-	-
Revenue Transfers	1,404	1,194	1,510	1,566
Drainage	-	-	-	-
Other	44	16,866	2,108	1
Insurance Proceeds - Flood	-	-	35	-
	1,496	18,093	3,263	1,591

* 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.

* The Other Revenue for 2014 includes the \$16.85m grant from the Government for Kinchant Dam spillway upgrade.

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	579	462	(117)	125	501	481	(20)	104	579	485	(94)	119	625	482	(143)	130
Operations - Electricity	261	231	(30)	113	417	247	(170)	169	307	264	(43)	116	248	285	37	87
Operations - Insurance	198	78	(120)	254	307	79	(228)	387	172	81	(91)	212	176	82	(94)	214
	1,038	771	(267)	135	1,225	808	(418)	152	1,058	829	(228)	128	1,049	849	(199)	123
Preventative Maintenance	310	438	128	71	310	456	146	68	253	459	206	55	460	459	(2)	100
Corrective Maintenance	144	304	160	47	98	317	219	31	84	320	235	26	240	321	81	75
Routine Total	1,492	1,513	21	99	1,632	1,580	(52)	103	1,395	1,608	213	87	1,749	1,629	(120)	107

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 \$228k (28%) above the QCA target. The major highlights with operations activities for the year included:

- Insurance costs \$91k higher than target;
- Electricity costs were \$43k (16%) above the QCA target in 2015 primarily due to increases in regulated electricity prices being higher than allowed for by the QCA and also due to normal year-to-year variability; and
- Operational labour costs higher than budget due to labour focused on surveillance and deliveries.

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

¹ Activities listed will not apply to all service contracts.

- 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 \$206k (45%) below the QCA’s target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Some preventative work was unable to be completed due to operational constraints around water harvesting; and
- New Preventative maintenance plans are being developed for assets.

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

² Activities listed will not apply to all service contracts.

- 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 \$235k (74%) below the QCA's target for 2015. The major exceptions and highlights with corrective maintenance activities for the year included:

- Non-routine work negating the need for corrective maintenance on many assets; and
- Labour and contractor availability pushed some corrective works to 2016.

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	259	201	(58)	129	52	75	23	70	65	394	329	16	586	577	(10)	102
Corrective Maintenance	(1)	-	1	-	6	-	(6)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	16	17	1	95	-	7	7	-
	<u>259</u>	<u>201</u>	<u>(58)</u>	<u>129</u>	<u>58</u>	<u>75</u>	<u>16</u>	<u>78</u>	<u>81</u>	<u>411</u>	<u>330</u>	<u>20</u>	<u>586</u>	<u>584</u>	<u>(2)</u>	<u>100</u>
Non Annuity Funded	<u>4,055</u>				<u>9,606</u>				<u>2,023</u>				<u>-</u>			

R&E – Annuity Funded

The annuity funded R&E direct spend was \$65k. Projects undertaken included:

- Replace Switchboard - Mirani Pump Station 1 (2012 scope; 2013 design & tender; 2015 Options Analysis): The switchboard and associated components were very old and required replacement or refurbishment. As this is a major project, an options analysis was carried out.
- Relocate Gauging Station from Intake Tower to Improve Accessibility - Kinchant Dam HW Gauging Station: The access to the Gauging Station was difficult, requiring a boat and causing WH&S concerns. This issue was eliminated by relocating it.
- Update Emergency Action Plan - Kinchant Dam (Statutory Requirement): \$11k was spent in 2015 to update the Kinchant Dam Emergency Action Plan to incorporate recommendations from the Flood Commission of Enquiry and other improvements identified by relevant stakeholders. This includes but is not limited to changes in communication contacts, upgrading details and action plans, and organisational structure.

Corrective Maintenance

There was no expenditure categorised as "Corrective Maintenance" in 2015.

Other

The "Annuity-funded Other" spend in 2015 was \$16k. Projects undertaken included:

- Investigate salt scalds downstream of Kinchant Dam: A geotechnical investigation was carried out following issues raised by landholders concerning salt scalds on their properties.

R&E – Non Annuity

The Non-annuity funded R&E spend in 2015 was \$2,023k. Projects included:

- Dam Safety Upgrade - Kinchant Dam Embankment (2010 Investigation works & preliminary core investigation; 2013 & 2014 site works): The purpose of the dam safety upgrade is to improve the flood capacity and moderate the societal risk to an acceptable level, to meet the regulatory requirement. Structural modifications involve the raising of filter zones in the mid-section, installation of pressure relief wells, and improved drainage to manage uplift pressures through the foundations.

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		(2,207)	(2,071)	(1,717)	(1,296)
Net Spend	See below	(259)	(58)	(24)	(586)
Annuity Income		560	568	573	587
Interest		(165)	(155)	(129)	(97)
SunWater - Closing Balance		(2,071)	(1,717)	(1,296)	(1,392)
QCA - Closing Balance		(1,582)	(1,207)	(1,135)	(1,218)
Difference		(489)	(509)	(160)	(175)
Net Spend Analysis:-					
Spend	5 & 7	(259)	(58)	(81)	(586)
Insurance Proceeds Receipts					
• Prior Year		-	-	22	-
• Current Year		-	-	35	-
Net Spend		(259)	(58)	(24)	(586)

* 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	1,496			18,093			3,263			1,591		
Routine Spend												
Operations												
Labour	174	125	(49)	148	129	(20)	134	133	(2)	115	137	22
Contractors	28	23	(5)	28	24	(4)	95	25	(71)	120	25	(95)
Materials	6	6	(1)	8	6	(2)	7	6	(1)	10	6	(4)
Electricity	261	231	(30)	417	247	(170)	307	264	(43)	248	285	37
Insurance	198	78	(120)	307	79	(228)	172	81	(91)	176	82	(94)
Other	30	28	(2)	37	29	(8)	76	29	(47)	80	30	(50)
Non-directs	341	281	(60)	281	294	13	266	292	26	299	284	(16)
	1,038	771	(267)	1,225	808	(418)	1,058	829	(228)	1,049	849	(199)
Preventative Maintenance												
Labour	79	103	23	69	106	37	55	109	54	50	113	63
Contractors	64	95	30	87	98	11	86	101	15	245	104	(141)
Materials	10	8	(2)	22	8	(14)	2	9	7	6	9	3
Other	2	10	8	1	11	10	3	11	8	24	11	(13)
Non-directs	154	222	67	130	233	103	107	229	122	135	221	86
	310	438	128	310	456	146	253	459	206	460	459	(2)
Corrective Maintenance												
Labour	33	63	29	21	65	44	5	67	61	5	69	64
Contractors	18	42	24	18	43	25	65	45	(20)	180	46	(134)
Materials	26	25	(1)	18	26	8	0	27	26	15	27	12
Other	2	37	35	1	39	38	1	40	39	17	41	24
Non-directs	65	137	72	40	144	104	13	142	129	23	137	114
	144	304	160	98	317	219	84	320	235	240	321	81
Routine - total	1,492	1,513	21	1,632	1,580	(52)	1,395	1,608	213	1,749	1,629	(120)
Non-Routine Spend												
Labour	42	33	(9)	18	6	(12)	23	68	45	47	93	46
Contractors	109	37	(72)	5	28	24	11	68	57	396	108	(288)
Materials	4	37	33	0	7	7	3	67	64	2	102	100
Other	6	20	14	3	16	13	1	37	36	7	61	54
Non-directs	98	74	(24)	32	17	(15)	43	170	127	134	220	86
Non-Routine - Total	259	201	(58)	58	75	16	81	411	330	586	584	(2)
Total Regulated Spend	1,751	1,714	(37)	1,691	1,655	(36)	1,476	2,019	543	2,335	2,213	(122)
Non Annuity Funded Spend	4,055			9,606			2,023			-		
Surplus (Deficit)	<u>(4,310)</u>			<u>6,796</u>			<u>(235)</u>			<u>(744)</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

This report has been produced by SunWater, to provide information for client use only. The information contained in this report is limited by the scope and the purpose of the study, and should not be regarded as completely exhaustive. Permission to use or quote information from this report in studies external to the Corporation must first be obtained from the Chief Executive, SunWater.