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2015 Annual Performance Report

Eton 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	2,923	3,378	3,185	3,494
Less - Routine Expenditure	4 & 7	1,883	2,407	2,840	2,727
Less - Non-Routine Expenditure					
• Annuity Funded	5, 6 & 7	577	259	515	691
• Not Annuity Funded	5	26	10	3	-
Surplus (Deficit)	7	437	703	(173)	76

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		51,600	51,662	100%	20,369	39%	39%
Urban		175	175		47		
Other		125	127		14		
SunWater		9,384	9,384		8,188		
Total	328	61,284	61,348	100%	28,618	47%	47%

QCA Assumed Water Usage for Irrigation 41.3%
 QCA Assumed Water Usage for Total 55.1%

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

Water deliveries were below average due to low returns on sugar production.

Table 3 – Revenue

	2013	2014	2015	2016
	Actual	Actual	Actual	Forecast
	\$000	\$000	\$000	\$000
Irrigation	2,802	3,125	3,288	3,779
Industrial	-	6	7	-
Urban	-	9	11	-
Irrigation CSO	1,497	1,433	1,357	1,277
Revenue Transfers	(1,404)	(1,194)	(1,510)	(1,566)
Drainage	-	-	-	-
Other	29	-	3	4
Insurance Proceeds - Flood	-	-	28	-
	2,923	3,378	3,185	3,494

* 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	485	608	123	80	584	624	39	94	921	637	(284)	145	672	643	(29)	104
Operations - Electricity	255	467	212	55	381	499	119	76	458	534	76	86	655	577	(78)	113
Operations - Insurance	190	134	(56)	141	264	137	(127)	193	200	139	(61)	144	203	141	(62)	144
	930	1,209	279	77	1,229	1,260	31	98	1,579	1,311	(268)	120	1,530	1,362	(168)	112
Preventative Maintenance	443	631	188	70	644	650	5	99	740	666	(73)	111	687	676	(11)	102
Corrective Maintenance	510	444	(67)	115	534	457	(76)	117	521	469	(52)	111	509	477	(32)	107
Routine Total	1,883	2,283	400	82	2,407	2,367	(40)	102	2,840	2,446	(393)	116	2,727	2,515	(212)	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 \$268k (20%) above the QCA target. The major exceptions and highlights with operations activities for the year included:

- Insurance costs \$61k higher than target;
- Electricity costs were \$76k (14%) below the QCA target in 2015 primarily due to a decreased in water deliveries in this service contract. The under-spend on lower water deliveries was partially offset by electricity price increases being above those assumed by the QCA;
- Overtime payments for call outs to investigate and rectify pump station supply / electrical outages, and to maintain supply during periods of excessive usage;
- Increased Scheme, Asset & Property Management investigation/queries and customer relations; and
- Increased costs associated with WH&S requirements.

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

¹ Activities listed will not apply to all service contracts.

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, scour 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.

The Preventive maintenance expenditure in 2015 was \$73k (11%) above the QCA target. The major exceptions and highlights with preventative maintenance activities for the year included:

- Six Acrolein injections during the year, and the price of Acrolein has increased significantly; and
- Increased slashing costs.

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

² Activities listed will not apply to all service contracts.

- 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 \$52k (11%) above the QCA's target for 2015. The major exceptions and highlights with corrective maintenance activities for the year included:

- Increased costs related to pipeline repair locations, WH&S, and legal requirements to undertake work in road reserves;
- Expenditure on asset reliability as a result of regular condition monitoring;
- Expenditure on infrastructure to comply with WH&S safety requirements; and
- Mechanical mulching of vegetation growing on pipeline easements.

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. Notwithstanding these points, SunWater aims to limit non-routine expenditure to the QCA's targets over the 2013-17 price path in order to manage the annuity balance to reasonable levels.

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	577	568	(9)	102	259	272	13	95	475	335	(140)	142	691	706	15	98
Corrective Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	40	-	(40)	-	-	-	-	-
	577	568	(9)	102	259	272	13	95	515	335	(180)	154	691	706	15	98
Non Annuity Funded	26				10				3				-			

R&E – Annuity Funded

The annuity funded R&E direct spend was \$475k. Projects undertaken included:

- Modify Eton Acrolein Shed To Safe Standard: \$177.6k was spent in 2015 to modify the Brightley B Storage 3 Acrolein shed to improve operator access and site WHS issues.
- Refurbish 2 Discharge Valves at Victoria Plains Pump Station: \$35k was spent in 2015 to refurbish 2 Discharge Valves at Victoria Plains Pump Station due to their sealing failures.
- Refurbish Pump Station 1 Pump & Motor, Oakenden: \$48.6k was spent in 2015 in order for the Oakenden pump to be refurbished & fitted with new impellor, bearings, and seals.
- Replace Motor Pun 2 Vic Plains: \$33.0k was spent in 2015 for replacement of failed motor on Victoria Plains pump # 2.
- Refurbish Reflux Valves – Pump Station 1 & Pump Station 2, Abingdon Pump Station: \$26.7k was spent in 2015 for minor

refurbishment of reflux valve # 2 & full overhaul of reflux valve #1 at Abingdon Pump Station.

- Refurbish Main Switchboard & Control - Mt Alice Pump Station: \$49k was spent in 2015 on options study for Mt Alice Pump Station switchboard & control refurbishment.
- Replace vacuum priming system Brightley: \$17.6k was spent in 2015 for purchase & installation of two Nash 43SX110VRK0A0 SX10 Vacuum Pumps on the priming system of Brightly Pump Station.
- Replace the Reflux Valve at Brightley 1 Pump Station on pump 1 due to leaking internally at a cost of \$16.6K.
- Replaced the solar panel supports for Scada monitoring sites on the Oakenden Main Channel at a cost of \$20K.

Corrective Maintenance

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

Other

The annuity funded other spend in in 2015 was \$40k. Projects included:

- Regulating Gate Incident: \$40.3k was spent on legal costs associated with the investigation and management of an incident at a regulating gate on the Oakenden Main Channel.

R&E – Non Annuity

The Non-annuity funded R&E direct spend was \$3k, and included:

- Replace Damaged Valve: This project was created for capitalisation of meter outlet repair work on Marwood main channel, which was completed under corrective maintenance.

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		(223)	(300)	(42)	71
Net Spend	See below	(577)	(259)	(469)	(691)
Annuity Income		517	539	585	596
Interest		(17)	(22)	(3)	5
SunWater - Closing Balance		(300)	(42)	71	(19)
QCA - Closing Balance		(10)	256	525	454
Difference		(289)	(298)	(454)	(473)
Net Spend Analysis:-					
Spend	5 & 7	(577)	(259)	(515)	(691)
Insurance Proceeds Receipts					
• Prior Year		-	-	18	-
• Current Year		-	-	28	-
Net Spend		(577)	(259)	(469)	(691)

* 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	2,923			3,378			3,185			3,494		
Routine Spend												
Operations												
Labour	173	224	51	209	231	22	332	238	(93)	251	246	(5)
Contractors	1	4	3	2	4	2	2	4	2	1	4	3
Materials	4	2	(2)	4	2	(2)	3	2	(1)	1	2	1
Electricity	255	467	212	381	499	119	458	534	76	655	577	(78)
Insurance	190	134	(56)	264	137	(127)	200	139	(61)	203	141	(62)
Other	13	3	(9)	16	3	(12)	15	4	(12)	7	4	(4)
Non-directs	295	375	80	353	383	30	570	389	(180)	411	387	(24)
	930	1,209	279	1,229	1,260	31	1,579	1,311	(268)	1,530	1,362	(168)
Preventative Maintenance												
Labour	103	153	50	137	158	20	149	163	14	154	168	14
Contractors	67	97	31	93	101	8	116	104	(12)	104	107	3
Materials	89	130	41	176	134	(42)	189	138	(51)	155	143	(12)
Other	0	2	1	2	2	(0)	18	2	(16)	15	2	(13)
Non-directs	184	249	65	237	256	19	268	260	(8)	259	257	(3)
	443	631	188	644	650	5	740	666	(73)	687	676	(11)
Corrective Maintenance												
Labour	108	92	(16)	116	95	(20)	104	98	(5)	110	101	(9)
Contractors	68	92	24	54	95	41	83	98	16	80	101	21
Materials	145	92	(53)	164	95	(68)	63	98	35	55	101	46
Other	1	13	12	2	14	11	86	14	(72)	78	14	(64)
Non-directs	187	153	(34)	198	158	(40)	186	160	(25)	186	159	(28)
	510	444	(67)	534	457	(76)	521	469	(52)	509	477	(32)
Routine - total	1,883	2,283	400	2,407	2,367	(40)	2,840	2,446	(393)	2,727	2,515	(212)
Non-Routine Spend												
Labour	13	78	65	43	47	5	59	58	(0)	89	126	37
Contractors	496	199	(297)	87	52	(36)	226	65	(160)	237	137	(100)
Materials	19	82	63	44	52	7	72	64	(9)	185	137	(48)
Other	1	48	47	11	28	17	43	35	(8)	18	75	57
Non-directs	49	161	113	74	93	20	116	113	(3)	163	231	68
Non-Routine - Total	577	568	(9)	259	272	13	515	335	(180)	691	706	15
Total Regulated Spend	2,460	2,851	391	2,666	2,639	(27)	3,355	2,781	(574)	3,418	3,221	(197)
Non Annuity Funded Spend	26			10			3			-		
Surplus (Deficit)	437			703			(173)			76		

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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