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2015 Annual Performance Report

Lower Mary 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, 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	185	360	357	440
Less - Routine Expenditure	4 & 7	209	112	91	330
Less - Non-Routine Expenditure					
• Annuity Funded	5, 6 & 7	38	23	135	442
• Not Annuity Funded	5	-	5	9	-
Surplus (Deficit)	7	(61)	219	122	(331)

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		70	70		0		
Irrigation		19,327	22,372	116%	6,540	34%	29%
Urban		120	120		65		
SunWater		10,892	8,252		1,222		
Total	169	30,409	30,814	101%	7,827	26%	25%

QCA Assumed Water Usage for Irrigation 34.5%

QCA Assumed Water Usage for Total 33.0%

Irrigation use was slightly below the QCA assumed usage. Total water use for the scheme was below the QCA assumed usage.

Table 3 – Revenue

	2013	2014	2015	2016
	Actual	Actual	Actual	Forecast
	\$000	\$000	\$000	\$000
Irrigation	127	144	176	268
Industrial	5	6	6	6
Urban	(115)	111	85	87
Irrigation CSO	29	14	-	-
Revenue Transfers	135	81	71	74
Drainage	-	-	-	-
Other	4	5	10	5
Insurance Proceeds - Flood	-	-	8	-
	185	360	357	440

* 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	126	192	67	65	76	201	124	38	64	201	136	32	202	198	(3)	102
Operations - Electricity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operations - Insurance	71	9	(61)	755	27	10	(18)	286	18	10	(8)	183	18	10	(8)	185
	197	202	5	97	104	210	107	49	82	210	128	39	220	208	(12)	106
Preventative Maintenance	8	73	66	10	5	77	72	6	6	77	71	7	86	76	(10)	114
Corrective Maintenance	4	12	8	34	4	13	9	30	3	13	10	26	24	13	(10)	180
Routine Total	209	288	79	73	112	300	187	37	91	300	209	30	330	297	(33)	111

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 \$128k (61%) below the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs \$8k higher than target;
- No electricity costs for this service contract in 2015; and
- Operational costs lower than budget as a result of continued stream flows and reduced operational requirements to manage the scheme. For example, monthly inspection efforts are reduced when the barrage/s are spilling as the structure is not visible and unable to be thoroughly inspected.

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,

¹ Activities listed will not apply to all service contracts.

- 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 \$71k (93%) below the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- The maintenance plan for this scheme was under review in 2014/15 and a number of maintenance activities were rescheduled resulting in an under-spend in this year's budget.

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:
 - Scheme Roads
 - Repair pot holes;
 - Grade roads; and
 - Repair, replace and paint guide posts and signs.
 - 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:
 - Response to theft or vandalism associated with scheme assets.

Corrective maintenance was \$10k (74%) below the QCA's target for 2015, as there was less corrective maintenance required in the scheme than expected for this year.

² Activities listed will not apply to all service contracts.

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.

Overall, the 2013-17 non-routine spend will exceed the five-year QCA target. There has been significant corrective works in this service contract to repair flood damage and more repairs to be completed in 2015. Corrective works are unplanned and were not allowed for in the QCA's targets.

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	9	11	2	84	10	12	2	83	122	23	(100)	536	158	-	(158)	-
Corrective Maintenance	28	-	(28)	-	13	-	(13)	-	13	-	(13)	-	284	-	(284)	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	38	11	(27)	343	23	12	(11)	192	135	23	(112)	593	442	-	(442)	-
Non Annuity Funded	-				5				9				-			

R&E – Annuity Funded

The annuity funded R&E direct spend was \$122k. Projects undertaken included:

- Reinstate downstream rock protection at Mary Barrage: This project was to reinstate the downstream rock protection of the spillway at Mary River Barrage after it was flood damaged as a result of the February 2013 floods. Following the floods the rock protection was washed downstream exposing the clay zones underneath. An options analysis was undertaken and identified that a like for like replacement was most advantageous. The works were completed in December 2014.

Corrective Maintenance

The annuity funded corrective maintenance spend was \$13k, which was not budgeted for. Projects undertaken included:

- FD01 (2013) Reinstate Upstream Rock Protection - Mary River Barrage: Work so far was to investigate the options and need to reinstate upstream rock protection at Mary Barrage after flooding. Due to high water levels, an accurate scope of works has not yet been prepared.
- FD01 (2015) Post Flood Inspection - Mary River Barrage: This project was for Post Flood Inspections at Mary River Barrage.

Following the flood event associated with Tropical Cyclone Marcia in February 2015, the structure was inspected for any resulting damage. Some damage was identified including damage to the downstream rock protection, scour of the left bank and some damage to metal items on the right bank structure.

Other

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

R&E – Non Annuity

The Non-annuity funded R&E spend in 2015 was \$9k. Projects included:

- Install new customer meter @Lot1/SP201773, Tinana Creek: This is a customer funded new metered river offtake. The project includes design and supply of a new AS4747 compliant meter which is installed by the customer. Upon completion of the installation by the customer, certification by an approved certifier is provided to SunWater.
- Install New Customer Meter @ Lot44/WBAR632, Mary River: This is a customer funded new metered river offtake. The project includes design and supply of a new AS4747 compliant meter which is installed by the customer. Upon completion of the installation by the customer, certification by an approved certifier is provided to SunWater.

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		(1,210)	(1,228)	(1,233)	(1,342)
Net Spend	See below	(38)	(23)	(127)	(442)
Annuity Income		110	110	110	110
Interest		(91)	(92)	(92)	(101)
SunWater - Closing Balance		(1,228)	(1,233)	(1,342)	(1,775)
QCA - Closing Balance		(1,240)	(1,235)	(1,240)	(1,224)
Difference		12	2	(102)	(551)
Net Spend Analysis:-					
Spend	5 & 7	(38)	(23)	(135)	(442)
Insurance Proceeds Receipts					
• Prior Year		-	-	-	-
• Current Year		-	-	8	-
Net Spend		(38)	(23)	(127)	(442)

* 2016 figures are subject to change once actual spend is known.

Insurance claims on repairs to scheme infrastructure as a result of floods are still pending.

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	185			360			357			440		
Routine Spend												
Operations												
Labour	41	56	16	25	58	33	15	60	45	43	62	19
Contractors	0	0	(0)	3	0	(2)	15	0	(14)	46	1	(45)
Materials	0	1	1	0	1	1	0	1	1	2	2	0
Electricity	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	71	9	(61)	27	10	(18)	18	10	(8)	18	10	(8)
Other	5	5	1	4	5	1	6	5	(1)	5	6	0
Non-directs	80	129	49	44	135	91	29	133	105	107	129	22
	197	202	5	104	210	107	82	210	128	220	208	(12)
Preventative Maintenance												
Labour	2	22	20	2	23	21	1	24	23	11	25	14
Contractors	-	1	1	-	1	1	-	1	1	47	1	(46)
Materials	1	-	(1)	-	-	-	-	-	-	-	-	-
Other	0	0	0	-	0	0	3	0	(2)	-	1	1
Non-directs	4	50	45	3	52	49	2	51	49	28	50	21
	8	73	66	5	77	72	6	77	71	86	76	(10)
Corrective Maintenance												
Labour	1	2	0	1	2	1	1	2	1	5	2	(3)
Contractors	-	-	-	-	-	-	-	-	-	8	-	(8)
Materials	0	5	5	1	5	4	1	5	4	-	5	5
Other	-	1	1	1	1	1	0	1	1	-	2	2
Non-directs	3	4	2	2	5	3	1	5	3	11	4	(7)
	4	12	8	4	13	9	3	13	10	24	13	(10)
Routine - total	209	288	79	112	300	187	91	300	209	330	297	(33)
Non-Routine Spend												
Labour	7	2	(5)	5	0	(5)	20	6	(14)	45	-	(45)
Contractors	0	2	2	8	0	(8)	25	1	(24)	212	-	(212)
Materials	19	2	(17)	1	0	(1)	46	1	(45)	60	-	(60)
Other	1	1	0	0	0	(0)	3	1	(2)	2	-	(2)
Non-directs	11	4	(6)	9	12	2	41	13	(28)	123	-	(123)
Non-Routine - Total	38	11	(27)	23	12	(11)	135	23	(112)	442	-	(442)
Total Regulated Spend	246	299	52	135	312	176	226	323	96	771	297	(474)
Non Annuity Funded Spend	-			5			9			-		
Surplus (Deficit)	<u>(61)</u>			<u>219</u>			<u>122</u>			<u>(331)</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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