

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

Macintyre Brook 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	1,140	1,207	1,152	1,188
Less - Routine Expenditure	4 & 7	759	866	737	1,095
Less - Non-Routine Expenditure					
• Annuity Funded	5, 6 & 7	65	354	225	306
• Not Annuity Funded	5	-	-	-	-
Surplus (Deficit)	7	316	(13)	191	(213)

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		217	217		0		
Irrigation		17,112	11,273	66%	7,804	46%	69%
Urban		202	1,757		229		
Other		6,400	6,400		478		
SunWater		1,066	8,416		2,647		
Total	101	24,997	28,063	112%	11,158	45%	40%

QCA Assumed Water Usage for Irrigation 69.5%
 QCA Assumed Water Usage for Total 81.1%

Good rainfall was received in the Inglewood area during December (82mm) and January (113mm), reducing the required water in the Macintyre Brook area. Temporary transfers to the Border Rivers were kept to a minimum due to low planting in that area.

Table 3 – Revenue

	2013	2014	2015	2016
	Actual	Actual	Actual	Forecast
	\$000	\$000	\$000	\$000
Irrigation	813	663	662	1,028
Industrial	2	258	254	2
Urban	107	113	75	76
Irrigation CSO	217	173	127	80
Revenue Transfers	-	-	-	-
Drainage	-	-	-	-
Other	2	-	11	2
Insurance Proceeds - Flood	-	-	24	-
	<u>1,140</u>	<u>1,207</u>	<u>1,152</u>	<u>1,188</u>

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	407	648	241	63	328	676	348	48	303	674	371	45	662	669	7	99
Operations - Electricity	2	2	(0)	127	3	2	(1)	177	4	2	(2)	227	3	2	(1)	162
Operations - Insurance	133	71	(62)	186	241	73	(168)	332	155	74	(81)	210	158	75	(83)	211
Preventative Maintenance	541	720	179	75	571	750	179	76	462	750	288	62	823	746	(77)	110
Corrective Maintenance	207	190	(17)	109	243	199	(44)	122	261	198	(63)	132	229	196	(33)	117
Routine Total	10	37	27	27	51	39	(12)	132	14	39	25	36	43	38	(5)	113
	759	948	189	80	866	988	122	88	737	987	250	75	1,095	980	(115)	112

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 \$288k (38%) below the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs \$81k higher than target;
- Electricity costs were \$2k above the QCA target in 2015 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
- Lower operation costs for the year offset higher maintenance costs.

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 \$63k (32%) above the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Normal preventative maintenance activities, including condition monitoring of all radial gates and weirs in the scheme; and
- Patch painting of all gates.

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;

² Activities listed will not apply to all service contracts.

- 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 \$25k (64%) below the QCA's target for 2015. The major exceptions and highlights with corrective maintenance activities for the year included:

- Major repairs that were required to the Gantry Crane; and
- Repairs to bore pump and town water supply system.

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	14	297	283	5	337	188	(150)	180	221	-	(221)	-	306	183	(123)	167
Corrective Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	51	29	(22)	174	17	-	(17)	-	3	-	(3)	-	-	-	-	-
	65	327	262	20	354	188	(166)	189	225	-	(225)	-	306	183	(123)	167
Non Annuity Funded	-				-				-				-			

R&E – Annuity Funded

The annuity funded R&E direct spend in 2015 was \$221k, which was not budgeted for. Projects included:

- Coolmunda Dam, Replace Crest Seal, Spillway Gate 6 (2010 DS Rec 6.3.13a): The crest seal on gate 6 was identified as being in poor condition during the 5-yearly inspection in 2009 which recommended that all seven crest seals be replaced within five years. SunWater has tempered that recommendation and is replacing seals once they become a threat to operations. The worst seal (Gate No 2) was replaced two years ago. Gate 6 had the next worst seal. We believe that we will not have to replace another for a couple of years; however that may change if we get some large flood events through the catchment (\$88k).
- Coolmunda Dam - Repair Paint Coating on Spillway Gates 3, 5 & 6: The coating on the downstream side of these three gates were ground then patch-painted to repair rust spots and cover up bare metal. SunWater is adopting this methodology to try and push out the recommended full repainting of the gates as the three gates would cost something in the order of \$270k. The project cost less than the final figure (\$34k) with the additional funds being spent fixing corrosion and repainting of the bulkhead gate guides. This was undertaken opportunistically as the storage was at a historic low level and we already had a team and all the gear on site for the gate job. This produced a fantastic result at an optimum cost.
- Macintyre Brook Meters - Replacement of broken Meter: \$24k was spent on four meters in the Macintyre Brook Bulk Service contract which were identified as broken. On average, a replacement meter installation will cost \$6k each if we need to

install pipework and meters to the new Australian standards. SunWater is obligated to work to standards and is also obligated to repair / replace broken meters in a timely fashion.

- Coolmunda Dam: Refurbish / Replace Spindle (and Valve?) on conduit filling line: When operating the outlet works, the extended shaft (spindle) broke on the filling line valve during operation. SunWater has the option of employing divers to replace the spindle as is, however it was found that the existing 150mm valve was 48 years old and had never been inspected as it was permanently under water. As we had operations people and inspectors going inside the conduit connected to the filling line, a new system was designed to keep people safe, and the filling line and valve were decommissioned and filled with grout, at a cost of \$28k.
- Coolmunda Dam - Alterations to Crane to make legally compliant (Rope lengths 2.5 turns at full extension): The Coolmunda Crane did not meet Australian Standards. When it lifts the lower bulkhead gate in place, there are less than 2.5 turns on the drum. We had an option of replacing the ropes and drums which would have cost in excess of \$60k, however instead we had two extension pieces manufactured and certified which cost \$9k instead.

Corrective Maintenance

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

Other

The "Annuity-funded Other" spend in 2015 was \$3k, and encompassed the following project:

- Coolmunda Dam - Handover of Recreation Facilities: \$3k was spent in 2015 towards handing over the recreational facilities to Council. This is an ongoing project designed to both reduce SunWater's exposure to risk in managing assets which are not part of our core function while still potentially allowing the community access to recreationally beneficial areas of parks and picnic areas. The costs involve bringing the facilities up to an acceptable handover condition and legal works involved in the transfer. If the recreation facilities are fully handed over to Council, SunWater's operating costs will be reduced by approximately \$80k per annum.

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

		2013	2014	2015	2016
	Table reference	Actual \$000	Actual \$000	Actual \$000	Forecast \$000
Annuity					
Opening Balance		(1,915)	(1,870)	(2,110)	(2,182)
Net Spend	See below	(65)	(354)	(171)	(306)
Annuity Income		253	254	258	266
Interest		(143)	(140)	(158)	(163)
SunWater - Closing Balance		(1,870)	(2,110)	(2,182)	(2,385)
QCA - Closing Balance		(1,722)	(1,785)	(1,661)	(1,703)
Difference		(148)	(325)	(521)	(683)
Net Spend Analysis:-					
Spend	5 & 7	(65)	(354)	(225)	(306)
Insurance Proceeds Receipts					
• Prior Year		-	-	29	-
• Current Year		-	-	24	-
Net Spend		(65)	(354)	(171)	(306)

* 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	1,140			1,207			1,152			1,188		
Routine Spend												
Operations												
Labour	122	190	68	98	196	98	83	203	120	137	209	73
Contractors	10	17	7	7	17	10	27	18	(10)	127	18	(108)
Materials	2	6	4	2	6	5	1	7	6	3	7	4
Electricity	2	2	(0)	3	2	(1)	4	2	(2)	3	2	(1)
Insurance	133	71	(62)	241	73	(168)	155	74	(81)	158	75	(83)
Other	10	17	7	14	18	4	12	18	6	20	18	(1)
Non-directs	263	417	155	207	438	231	180	429	249	376	416	40
	541	720	179	571	750	179	462	750	288	823	746	(77)
Preventative Maintenance												
Labour	71	59	(12)	80	61	(18)	82	63	(19)	48	65	17
Contractors	2	2	(0)	8	2	(7)	14	2	(12)	54	2	(52)
Materials	4	3	(1)	12	3	(9)	5	3	(2)	4	3	(1)
Other	0	1	1	2	1	(1)	8	1	(7)	4	1	(3)
Non-directs	130	125	(5)	141	132	(9)	152	129	(23)	120	125	5
	207	190	(17)	243	199	(44)	261	198	(63)	229	196	(33)
Corrective Maintenance												
Labour	3	11	8	4	12	7	2	12	10	12	12	0
Contractors	-	-	-	36	-	(36)	7	-	(7)	-	-	-
Materials	1	2	2	1	2	1	2	2	0	2	2	0
Other	-	-	-	-	-	-	-	-	-	-	-	-
Non-directs	6	24	17	9	25	16	3	25	21	29	24	(6)
	10	37	27	51	39	(12)	14	39	25	43	38	(5)
Routine - total	759	948	189	866	988	122	737	987	250	1,095	980	(115)
Non-Routine Spend												
Labour	20	33	12	56	22	(34)	37	-	(37)	40	36	(4)
Contractors	-	160	160	185	79	(106)	94	-	(94)	134	23	(111)
Materials	9	32	23	2	26	24	18	-	(18)	15	28	13
Other	2	11	9	3	2	(1)	1	-	(1)	11	13	2
Non-directs	34	90	56	109	59	(50)	74	-	(74)	106	83	(23)
Non-Routine - Total	65	327	262	354	188	(166)	225	-	(225)	306	183	(123)
Total Regulated Spend	824	1,274	451	1,220	1,175	(45)	962	987	25	1,401	1,163	(238)
Non Annuity Funded Spend	-			-			-			-		
Surplus (Deficit)	316			(13)			191			(213)		

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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