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2015 Annual Performance Report

Mareeba 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	4,018	2,243	2,401	1,686
Less - Routine Expenditure	4 & 7	939	1,038	1,223	1,204
Less - Non-Routine Expenditure					
• Annuity Funded	5, 6 & 7	250	209	78	305
• Not Annuity Funded	5	(1)	3	0	-
Surplus (Deficit)	7	2,830	993	1,099	177

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		1,351	1,503		862		
Irrigation		151,412	162,598	107%	119,564	79%	74%
Urban		6,655	6,658		4,334		
SunWater		45,006	45,019		31,113		
Total	1,132	204,425	215,778	106%	155,874	76%	72%

QCA Assumed Water Usage for Irrigation 60.4%
 QCA Assumed Water Usage for Total 69.4%

Due to drier than expected weather conditions, irrigation usage was above the QCA target.

Table 3 – Revenue

	2013	2014	2015	2016
	Actual	Actual	Actual	Forecast
	\$000	\$000	\$000	\$000
Irrigation	161	132	77	21
Industrial	1,528	1,245	1,475	807
Urban	338	330	340	336
Irrigation CSO	-	-	-	-
Revenue Transfers	1,989	532	512	520
Drainage	-	-	-	-
Other	2	2	3	2
Insurance Proceeds - Flood	-	-	(6)	-
	<u>4,018</u>	<u>2,243</u>	<u>2,401</u>	<u>1,686</u>

* 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	604	698	94	87	552	728	177	76	586	728	142	81	639	723	84	88
Operations - Electricity	2	6	4	33	2	6	5	26	3	7	3	47	2	7	5	28
Operations - Insurance	180	83	(97)	216	321	85	(236)	378	211	86	(124)	244	216	88	(128)	245
Preventative Maintenance	787	788	1	100	874	819	(54)	107	800	821	21	97	856	818	(39)	105
Corrective Maintenance	136	195	59	70	148	204	56	72	314	204	(110)	154	282	201	(80)	140
Routine Total	939	1,007	68	93	1,038	1,049	11	99	1,223	1,050	(173)	116	1,204	1,044	(160)	115

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 \$21k (3%) below the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs \$124k higher than target;
- Electricity costs were \$3k below the QCA target in 2015 due to normal annual variability in electricity costs for this service contract;
- Labour re-directed from Operations to Non-Routine during the 5-yearly inspections; and
- Labour re-directed from Operations to Preventative and Corrective work.

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 \$110k (54%) above the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Some preventative maintenance inspections performed as part of the Comprehensive 5-yearly inspection; and
- Higher focus on Preventative activities and inspections.

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 \$84k above the QCA's target for 2015. The major exceptions with corrective maintenance activities for the year were:

- Public safety works including fencing and signage;
- Flow meter repairs;
- Saddle dam corrective works; and
- SCADA control work.

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 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.

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	250	-	(250)	-	209	89	(120)	236	78	-	(78)	-	305	106	(199)	288
Corrective Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	250	-	(250)	-	209	89	(120)	236	78	-	(78)	-	305	106	(199)	288
Non Annuity Funded	(1)				3				0				-			

R&E – Annuity Funded

The annuity funded R&E direct spend was \$78k, which was not budgeted for. Projects undertaken included:

- Tinaroo Falls Dam-Design & Refurbish Mesh Floor, Windows, Doors, etc. in Valve House: \$39.5 was spent in 2015 to fabricate and install new gratings/mesh floor, whirlybirds, & sections of the roof, and remove the decommissioned town water pump. Replacement of windows was excluded from the scope due to low risk of failure, asbestos contamination, and insufficient budget.
- Tinaroo Falls Dam-Clean/repair External Conduit Surface, Left (Channel) and Right (Hydro) Conduits, Irrigation Outlet: \$7.7k was spent in 2015 for scoping and procurement for site works planned in 2016.
- Replace lighting system at the Tinaroo Falls Dam Gallery: \$19.5k was spent in 2015 for inspection and scoping of the project. When the gallery lighting system was inspected by a SunWater electrical engineer in September 2014, it became evident that regardless of the existence of asbestos, the condition of the system and especially power distribution boards is very poor and does not comply with current standards. The full system requires replacement as soon as practicable by a contractor licenced to work with asbestos. Site works are planned for 2015.

Corrective Maintenance

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

Other

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

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		1,007	940	910	1,016
Net Spend	See below	(250)	(209)	(78)	(305)
Annuity Income		108	108	116	117
Interest		75	70	68	76
SunWater - Closing Balance		940	910	1,016	904
QCA - Closing Balance		706	778	952	1,034
Difference		235	132	63	(131)
Net Spend Analysis:-					
Spend	5 & 7	(250)	(209)	(78)	(305)
Insurance Proceeds Receipts					
• Prior Year		-	-	6	-
• Current Year		-	-	(6)	-
Net Spend		(250)	(209)	(78)	(305)

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

The negative figure in current year insurance proceeds indicates an insurance allocation adjustment.

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	4,018			2,243			2,401			1,686		
Routine Spend												
Operations												
Labour	143	188	45	147	194	47	141	200	60	118	207	88
Contractors	7	16	9	7	16	10	14	17	3	10	17	7
Materials	7	3	(4)	5	3	(2)	2	3	1	2	3	1
Electricity	2	6	4	2	6	5	3	7	3	2	7	5
Insurance	180	83	(97)	321	85	(236)	211	86	(124)	216	88	(128)
Other	138	78	(60)	92	79	(13)	134	80	(54)	172	82	(90)
Non-directs	310	414	104	301	436	135	295	428	133	336	414	78
	787	788	1	874	819	(54)	800	821	21	856	818	(39)
Preventative Maintenance												
Labour	38	60	22	52	62	11	93	64	(29)	70	66	(4)
Contractors	1	1	(0)	2	1	(1)	11	1	(10)	30	1	(29)
Materials	1	3	2	2	3	0	1	3	2	1	3	2
Other	24	4	(21)	0	4	3	33	4	(30)	8	4	(4)
Non-directs	72	128	56	91	134	43	175	132	(43)	172	127	(45)
	136	195	59	148	204	56	314	204	(110)	282	201	(80)
Corrective Maintenance												
Labour	3	6	3	2	6	4	11	7	(4)	7	7	(0)
Contractors	2	1	(1)	7	1	(6)	70	1	(69)	35	1	(34)
Materials	2	2	0	2	2	(0)	3	2	(1)	4	2	(2)
Other	2	2	(0)	-	2	2	1	2	1	1	2	1
Non-directs	7	13	6	4	14	9	24	14	(10)	19	13	(6)
	16	24	9	16	25	9	109	25	(84)	66	25	(41)
Routine - total	939	1,007	68	1,038	1,049	11	1,223	1,050	(173)	1,204	1,044	(160)
Non-Routine Spend												
Labour	14	-	(14)	56	13	(42)	14	-	(14)	24	19	(5)
Contractors	187	-	(187)	25	14	(11)	37	-	(37)	199	21	(178)
Materials	6	-	(6)	2	14	12	-	-	-	7	21	14
Other	7	-	(7)	19	8	(11)	0	-	(0)	6	12	6
Non-directs	36	-	(36)	107	39	(69)	28	-	(28)	68	33	(36)
Non-Routine - Total	250	-	(250)	209	89	(120)	78	-	(78)	305	106	(199)
Total Regulated Spend	1,189	1,007	(181)	1,247	1,138	(109)	1,301	1,050	(251)	1,509	1,150	(358)
Non Annuity Funded Spend	(1)			3			0			-		
Surplus (Deficit)	2,830			993			1,099			177		

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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