

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

St George 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	2,336	2,317	2,423	2,375
Less - Routine Expenditure	4 & 7	1,374	1,226	1,490	1,670
Less - Non-Routine Expenditure					
• Annuity Funded	5, 6 & 7	311	367	593	655
• Not Annuity Funded	5	-	-	-	-
Surplus (Deficit)	7	652	724	341	50

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		50,805	57,021	112%	55,437	109%	97%
SunWater		9,701	13,056		10,531		
Total	63	60,506	70,078	116%	65,968	109%	94%

QCA Assumed Water Usage for Irrigation 86.0%
 QCA Assumed Water Usage for Total 93.4%

More water was delivered on account of a large cap carry-over from the previous year, and water availability was higher due to summer stream flow.

Table 3 – Revenue

	2013	2014	2015	2016
	Actual	Actual	Actual	Forecast
	\$000	\$000	\$000	\$000
Irrigation	2,607	2,671	2,891	2,977
Industrial	18	-	-	-
Urban	-	0	-	-
Irrigation CSO	497	401	305	203
Revenue Transfers	(998)	(966)	(1,005)	(1,026)
Drainage	203	210	217	220
Other	8	0	(0)	1
Insurance Proceeds - Flood	-	-	15	-
	<u>2,336</u>	<u>2,317</u>	<u>2,423</u>	<u>2,375</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	708	826	119	86	698	849	151	82	841	868	27	97	889	874	(15)	102
Operations - Electricity	73	53	(21)	139	71	56	(15)	126	96	60	(36)	159	65	65	0	100
Operations - Insurance	73	48	(25)	151	97	49	(48)	198	74	50	(24)	148	76	51	(25)	149
Preventative Maintenance	854	927	74	92	866	954	88	91	1,011	978	(33)	103	1,030	990	(40)	104
Corrective Maintenance	457	344	(113)	133	279	354	76	79	263	363	100	72	379	368	(11)	103
Routine Total	63	247	184	26	82	254	172	32	216	260	44	83	261	262	1	100
	1,374	1,518	144	91	1,226	1,562	336	78	1,490	1,601	111	93	1,670	1,620	(51)	103

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 \$33k (3%) above the QCA target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Electricity costs were 36k (59%) above the QCA target in 2015 due mostly to increases in regulated electricity prices being higher than allowed for by the QCA and also due to increased water deliveries in this service contract through the St George Pump Station. Resultant cost over-runs are beyond SunWater's control. SunWater continues to review tariffs each year to identify the best tariffs for the expected future operations; and
- Due to higher water deliveries, we incurred higher labour costs and associated maintenance on structures and pumps.

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 \$100k (29%) below the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Reduction in weed control due to limited seasonal rainfall; and
- A significant amount of labour cost was utilised in the R&E 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:
 - 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 \$44k (17%) below the QCA's target for 2015. The major exceptions and highlights with corrective maintenance activities for the year included:

- Occurrences of breakdowns, which were lower than forecast.

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.

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.

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. At this stage it is expected 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. There have been some corrective works in this service contract to repair flood damage, however these should be able to be accommodated within 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	305	2,005	1,701	15	160	35	(125)	458	403	92	(311)	437	655	214	(442)	307
Corrective Maintenance	6	-	(6)	-	192	-	(192)	-	190	-	(190)	-	-	-	-	-
Other	-	-	-	-	16	-	(16)	-	-	-	-	-	-	-	-	-
	311	2,005	1,695	15	367	35	(333)	-	593	92	(501)	643	655	214	(442)	307
Non Annuity Funded	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

R&E – Annuity Funded

The annuity funded R&E direct spend was \$403k. Projects undertaken included:

- Install bridge signage to access crossings: \$211.1K spent in 2015: an engineering assessment of the bridge determined closure to all heavy vehicles. As a result, alternate temporary access required construction.
- Install transit time flow meter for Buckinbah Main Channel: \$127.7K spent in 2015 to install a meter to record flowrate in

Buckinbah Main Channel.

Corrective Maintenance

The annuity funded corrective maintenance spend was \$190k, excluding non-directs, and included the following activities:

- FD01 (2012) Repair Large Washouts: \$137.9K spent in 2015 to repair large washouts and erosion damage at numerous locations along Thuraggi Diversion Channel caused by flooding in 2012.
- FD01 (2012) Re-profile 300 to 7700m: \$24K spent in 2015 to repair and reinstate the earthworks to original design in the initial section of Thuraggi Diversion Channel due to flood damage caused in 2012.

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		(1,506)	(1,528)	(1,605)	(1,881)
Net Spend	See below	(311)	(367)	(562)	(655)
Annuity Income		402	405	407	424
Interest		(113)	(114)	(120)	(141)
SunWater - Closing Balance		(1,528)	(1,605)	(1,881)	(2,253)
QCA - Closing Balance		(3,461)	(3,351)	(3,287)	(3,323)
Difference		1,933	1,745	1,406	1,070
Net Spend Analysis:-					
Spend	5 & 7	(311)	(367)	(593)	(655)
Insurance Proceeds Receipts					
• Prior Year		-	-	15	-
• Current Year		-	-	15	-
Net Spend		(311)	(367)	(562)	(655)

* 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	2,336			2,317			2,423			2,375		
Routine Spend												
Operations												
Labour	228	290	61	201	299	98	304	309	5	308	319	11
Contractors	2	4	2	32	4	(28)	5	4	(1)	4	5	1
Materials	92	19	(72)	104	20	(84)	3	21	18	60	21	(39)
Electricity	73	53	(21)	71	56	(15)	96	60	(36)	65	65	0
Insurance	73	48	(25)	97	49	(48)	74	50	(24)	76	51	(25)
Other	4	39	35	19	41	22	19	42	23	19	43	24
Non-directs	382	474	92	341	485	144	510	492	(18)	499	487	(12)
	854	927	74	866	954	88	1,011	978	(33)	1,030	990	(40)
Preventative Maintenance												
Labour	136	91	(45)	82	94	12	59	97	38	108	100	(8)
Contractors	65	89	24	25	92	67	63	95	32	64	98	34
Materials	26	6	(20)	31	6	(24)	15	7	(8)	12	7	(5)
Other	0	10	10	4	11	6	21	11	(10)	18	11	(7)
Non-directs	230	147	(83)	136	151	15	105	153	48	177	151	(26)
	457	344	(113)	279	354	76	263	363	100	379	368	(11)
Corrective Maintenance												
Labour	20	84	64	23	87	64	40	90	50	78	92	14
Contractors	1	13	12	6	14	8	74	14	(60)	46	15	(31)
Materials	9	7	(1)	15	7	(8)	13	8	(5)	5	8	3
Other	0	10	10	0	11	11	18	11	(7)	5	11	6
Non-directs	33	132	99	38	136	98	72	138	66	127	136	8
	63	247	184	82	254	172	216	260	44	261	262	1
Routine - total	1,374	1,518	144	1,226	1,562	336	1,490	1,601	111	1,670	1,620	(51)
Non-Routine Spend												
Labour	35	258	223	39	6	(33)	57	12	(45)	34	38	4
Contractors	157	846	688	217	7	(210)	390	12	(377)	298	41	(257)
Materials	9	768	759	3	7	4	36	36	(0)	242	41	(200)
Other	39	37	(2)	37	4	(34)	(7)	7	14	-	23	23
Non-directs	70	96	26	72	12	(60)	117	25	(92)	81	70	(11)
Non-Routine - Total	311	2,005	1,695	367	35	(333)	593	92	(501)	655	214	(442)
Total Regulated Spend	1,685	3,523	1,839	1,593	1,597	4	2,083	1,693	(390)	2,326	1,833	(493)
Non Annuity Funded Spend	-			-			-			-		
Surplus (Deficit)	652			724			341			50		

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	-

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