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2015 Annual Performance Report

St George 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	1,510	1,479	1,516	1,570
Less - Routine Expenditure	4 & 7	937	1,255	783	1,108
Less - Non-Routine Expenditure					
• Annuity Funded	5, 6 & 7	771	471	498	872
• Not Annuity Funded	5	-	-	-	-
Surplus (Deficit)	7	(198)	(247)	235	(410)

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		60	98		6		
Irrigation		71,770	84,050	117%	78,334	109%	93%
Urban		3,024	1,422		1,217		
SunWater		9,721	13,601		10,669		
Total	166	84,575	99,171	117%	90,226	107%	91%

QCA Assumed Water Usage for Irrigation 83.2%
 QCA Assumed Water Usage for Total 94.2%

Under Section 246 of the Condamine and Balonne Resource Operations Plan, St George irrigators can carry-over up to 20% of their remaining CAP. During the 2014/15 year, Beardmore Dam filled and spilled, refilling all water accounts.

Table 3 – Revenue

	2013	2014	2015	2016
	Actual	Actual	Actual	Forecast
	\$000	\$000	\$000	\$000
Irrigation	325	331	348	355
Industrial	6	6	6	6
Urban	169	175	176	180
Irrigation CSO	-	-	-	-
Revenue Transfers	998	966	1,005	1,026
Drainage	-	-	-	-
Other	13	1	1	2
Insurance Proceeds - Flood	-	-	(20)	-
	<u>1,510</u>	<u>1,479</u>	<u>1,516</u>	<u>1,570</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	495	609	113	81	727	634	(93)	115	298	637	339	47	635	633	(1)	100
Operations - Electricity	4	8	5	44	5	9	4	60	7	10	2	77	5	10	6	46
Operations - Insurance	77	41	(36)	188	139	42	(97)	333	135	42	(93)	319	138	43	(95)	321
Preventative Maintenance	576	658	82	88	871	685	(186)	127	440	689	249	64	777	687	(91)	113
Corrective Maintenance	132	139	7	95	154	145	(9)	106	18	145	128	12	87	144	57	61
Routine Total	937	1,022	85	92	1,255	1,066	(190)	118	783	1,069	286	73	1,108	1,063	(45)	104

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 \$249k (36%) below the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs \$93k higher than target;
- Electricity costs were \$2k below the QCA target in 2015 despite announced increases in electricity prices being much higher than the increases allowed for by the QCA. This is in line with normal annual variability in electricity costs for this service contract;
- Local Authority rates \$6k higher than budget;
- Operational costs \$114k higher than budget due to the installation and operation of the Low Level Pumps during the 2013-2014 water year; and
- Labour was diverted from operational work to corrective and refurbishment 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

¹ Activities listed will not apply to all service contracts.

(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, 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 \$90k (38%) above the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Preventative maintenance, which included electrical condition inspections for Beardmore Dam and Jack Taylor Weir;
- Inspection and service of flood gates Beardmore Dam;
- Inspection of cranes and winches at Beardmore Dam and Jack Taylor Weir in line with Australian Standards; and
- Annual inspections of Beardmore Dam and Jack Taylor Weir.

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;

² Activities listed will not apply to all service contracts.

- Grade roads; and
 - 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 \$128k (88%) below the QCA's target for 2014. The major exceptions and highlights with corrective maintenance activities for the year included:

- Rectification work undertaken as a result of the 2013 Annual Inspection of Beardmore Dam, including concrete patch repairs to the piers at Beardmore Dam;
- Re-profiling the right hand bank at Beardmore Dam;
- Repairs to the rock protection downstream of Jack Taylor Weir;
- Repairs to the winches at Beardmore Dam; and
- Replacement of seals on the Low Level Pumps.

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 renewals expenditure to the QCA's targets over the 2013-17 price path in order to manage the annuity balance to reasonable levels.

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	259	576	317	45	177	545	368	33	444	582	138	76	872	444	(428)	196
Corrective Maintenance	402	-	(402)	-	217	-	(217)	-	(0)	-	0	-	-	-	-	-
Other	110	-	(110)	-	77	-	(77)	-	54	-	(54)	-	-	-	-	-
	771	576	(195)	134	471	545	74	86	498	582	84	86	872	444	(428)	196
Non Annuity Funded	-				-				-				-			

R&E – Annuity Funded

The annuity funded R&E direct spend was \$444k. Projects undertaken included:

- Beardmore Dam: Beardmore Dam: Replacement of Thuraggi Bulk Meters: \$213k was spent in 2015; this project was driven by the requirement to accurately determine the flows being discharged down Thuraggi Channel. A full options study was undertaken, which considered the construction of downstream gauging stations, however engineering assessments on the level of accuracy being demanded led to the installation of two specialised electromagnetic meters being installed in the existing 1200 mm square conduits
- Beardmore Dam: Refurbish Electrical System (refer 2012 Supplementary 5 Yearly Inspection): \$24k was spent in 2015; this project was instigated by an inspection by SunWater's Senior Electrical Engineer, accompanied by the local electrician and was based on an audit of safety. Since then it was recognised that increasing the safety measures on an old and worn out electrical system may be much more expensive in the long run than replacing the whole 35 year old system. As SunWater envisaged the dam will be in place for many years to come it seemed feasible that SunWater, acting on behalf of its customers, ignore the short term fix for a longer term solution.
- Jack Taylor Weir: Undertake Electrical Safety Upgrade Including As Built Drawings: \$29k was spent in 2015; this project was instigated by an inspection by SunWater's Senior Electrical Engineer, accompanied by the local electrician and was based on

an audit of safety. Since then it was recognised that increasing the safety measures on an old and worn out electrical system may be much more expensive in the long run than replacing the whole 35 year old system. As SunWater envisaged the weir will be in place for many years to come it seemed feasible that SunWater, acting on behalf of its customers, ignore the short term fix for a longer term solution.

- Balonne River: Install new Gauging Station at Warroo, upstream of Beardmore Dam: \$26k was spent in 2015; this project was subject to a business case which is being delivered by the hydraulics section, however the thrust of the project is to give an early warning alert should anything ever go wrong at the dam. Currently, if there was a sudden uncontrolled discharge from the dam, there would be no warning mechanism if the discharge was not physically observed, until the water arrived at Jack Taylor Weir. It is noted that Jack Taylor Weir is downstream of the township of St George.
- Beardmore Dam - Replacement of lighting and conduits in dam Gallery: \$40k was spent in 2015; as the lighting wiring is over 30 years old. When the system failed in one area, SunWater had the option of replacing one section and accepting that we had water ingress in the galleries which would cause further outage periods or replacing the whole system. The latter was more favourable particularly when we could remove a safety hazard (Asbestos covers) at the same time.
- Jack Taylor Weir: Replace Emergency Hoist Mechanism (DS Recommendation 2011): \$27k was spent in 2015; as the emergency hoist unit was over 50 years old and posed a real and recognised danger to operators with unprotected components and fast moving parts. Additionally, the mechanism for engaging the winches had no clutch and this used to 'jump' the emergency hoist when engaging and also put a lot of pressure on the winches. The new unit is hydraulic and all safety concerns have been addressed.

Corrective Maintenance

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

Other

The "Annuity-funded Other" spend in 2015 was \$54k, which was not budgeted for. Projects included:

- Beardmore Dam - Management of January Flood Event and 18 May event on different order: \$53k spent in 2015 for this operational project. If it floods, we are required to have attendance at the dam. Depending how long the flood lasts (how long the gates are open) we may be monitoring the situation 24 hours per day.

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

	Table reference	2013	2014	2015	2016
		Actual \$000	Actual \$000	Actual \$000	Forecast \$000
Annuity					
Opening Balance	See below	128	(8)	154	382
Net Spend		(771)	(471)	(424)	(872)
Annuity Income		625	634	640	649
Interest		10	(1)	12	29
SunWater - Closing Balance		(8)	154	382	188
QCA - Closing Balance		1,258	1,442	1,608	1,934
Difference		<u>(1,267)</u>	<u>(1,287)</u>	<u>(1,226)</u>	<u>(1,746)</u>
Net Spend Analysis:-					
Spend	5 & 7	(771)	(471)	(498)	(872)
Insurance Proceeds Receipts					
• Prior Year		-	-	94	-
• Current Year		-	-	(20)	-
Net Spend		<u>(771)</u>	<u>(471)</u>	<u>(424)</u>	<u>(872)</u>

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

Insurance claims on repairs to Beardmore Dam and Thuraggi Water Course as a result of floods are still pending. The negative figure in current year insurance proceeds indicates an insurance proceeds 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	1,510			1,479			1,516			1,570		
Routine Spend												
Operations												
Labour	155	154	(1)	173	159	(14)	83	164	81	152	169	17
Contractors	4	16	13	35	17	(18)	24	17	(6)	48	18	(30)
Materials	3	65	62	161	67	(94)	5	69	64	1	71	70
Electricity	4	8	5	5	9	4	7	10	2	5	10	6
Insurance	77	41	(36)	139	42	(97)	135	42	(93)	138	43	(95)
Other	6	29	23	13	30	17	9	30	22	24	31	7
Non-directs	328	345	17	345	362	17	177	357	180	409	344	(65)
	576	658	82	871	685	(186)	440	689	249	777	687	(91)
Preventative Maintenance												
Labour	75	69	(6)	66	71	5	97	73	(24)	59	76	17
Contractors	12	3	(9)	22	3	(19)	24	3	(21)	19	3	(16)
Materials	5	6	1	17	6	(11)	2	6	4	8	6	(2)
Other	1	3	2	6	3	(2)	20	3	(16)	12	3	(8)
Non-directs	137	145	8	120	153	33	182	150	(32)	145	145	(1)
	229	225	(4)	230	235	6	325	235	(90)	243	232	(11)
Corrective Maintenance												
Labour	36	42	6	47	43	(3)	2	45	43	18	46	28
Contractors	10	3	(7)	15	3	(13)	6	3	(4)	13	3	(10)
Materials	13	3	(10)	8	3	(5)	3	3	(0)	5	3	(2)
Other	7	3	(4)	0	3	3	2	3	2	6	3	(3)
Non-directs	66	89	22	84	94	9	4	92	87	45	88	44
	132	139	7	154	145	(9)	18	145	128	87	144	57
Routine - total	937	1,022	85	1,255	1,066	(190)	783	1,069	286	1,108	1,063	(45)
Non-Routine Spend												
Labour	166	74	(92)	68	71	4	102	91	(11)	79	73	(6)
Contractors	71	249	178	63	179	116	175	107	(67)	493	78	(415)
Materials	86	49	(38)	140	66	(74)	1	98	97	41	78	37
Other	146	1	(145)	71	32	(39)	23	53	30	39	41	3
Non-directs	301	204	(98)	130	197	67	198	232	34	220	173	(48)
Non-Routine - Total	771	576	(195)	471	545	74	498	582	84	872	444	(428)
Total Regulated Spend	1,708	1,598	(110)	1,726	1,611	(116)	1,281	1,651	370	1,980	1,507	(473)
Non Annuity Funded Spend	-			-			-			-		
Surplus (Deficit)	(198)			(247)			235			(410)		

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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