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2014 Annual Performance Report

Burdekin Bulk

October 2014

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Notes

All financial figures in this report are presented in nominal dollars.

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 report real dollars to nominal dollars, multiply by the following factors; these are based on the QCA's assumed inflation rate of 2.5% p.a.

Table 1 – Conversion Factors for real \$2011 to Nominal Dollars

	2013	2014	2015	2016	2017
Conversion Factor	1.051	1.077	1.104	1.131	1.160

Disclaimer

This report has been produced by SunWater, to provide information for client use only. The information contained in this report is limited by the scope and the purpose of the study, and should not be regarded as completely exhaustive. Permission to use or quote information from this report in studies external to the Corporation must first be obtained from the Chief Executive, SunWater.

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 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

Water Usage

Table 2 – 2014 Water Usage

	No. of Customers	Water Entitlements ML	Available Water ML	Available Water %	Water deliveries ML	Water deliveries % of entitlement	Water deliveries % of available
Industrial		20,214	20,214	100%	639	3%	3%
Irrigation		631,780	737,977	117%	541,693	86%	73%
Urban		10,550	10,550	100%	869	8%	8%
Other		8	73	913%	65	813%	89%
SunWater		417,040	407,658	98%	173,764	42%	43%
Total	387	1,079,592	1,176,472	109%	717,030	66%	61%

QCA Assumed Water Usage for Irrigation 80.6%

QCA Assumed Water Usage for Total 55.8%

Table 3 – Revenue

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	2,175	2,405	1,237
Drainage	0	0	0
Irrigation CSO	0	0	0
Industrial and Urban*	143	152	154
Other Revenue	52	65	51
Total Revenue	2,371	2,622	1,443

* Bulk water charges have not been unbundled from Distribution charges therefore a portion of the Distribution revenue is attributable to the Bulk service contract.

Routine Expenditure

Table 4 – Routine Operating Expenditure

	2013 SunWater Actual	% of 2013 Target	2014 SunWater Actual	% of 2014 Target	2015 SunWater Budget	% of 2015 Target
	\$'000	%	\$'000	%	\$'000	%
Operations (Excl. Elect.)	2,035	79%	2,478	92%	3,118	116%
Preventative	242	68%	245	66%	372	100%
Corrective	338	152%	326	140%	233	100%
Electricity	89	93%	100	98%	129	118%
Total Routine Expenses	2,705	83%	3,149	93%	3,852	113%

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 2014 was \$209k, or 8%, below the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs \$686k higher than target;
- Local Authority rates \$49k higher than budget; and
- Legal costs lower than previous year.

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

¹ Activities listed will not apply to all service contracts.

- (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; and
 - Spraying and other activities to control operational and noxious weeds within channel and drainage reserves.

Preventive maintenance for 2014 was \$128k below the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Higher than expected corrective maintenance meant that less preventive maintenance was performed than originally forecast;
- There will be renewed emphasis on preventive maintenance over the next few years.

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
 - 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 \$94k above the QCA's target for 2014. The major exceptions and highlights with corrective maintenance activities for the year included:

- \$128k of corrective maintenance on the Clare Weir to rectify hydraulic defects and remove debris.

Electricity

Electricity costs were \$2k below the QCA target in 2014 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.

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 2014; 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 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 SunWater Actual	% of 2013-17 Target	2014 SunWater Actual	% of 2013-17 Target	2015 SunWater Budget	% of 2013-17 Target
	\$'000	%	\$'000	%	\$'000	%
Annuity Funded						
R&E - Annuity Funded	410		260		707	
Corrective	0		0		0	
Other	10		8		0	
Non-direct	185		128		137	
Annuity Funded Total	605	23%	397	15%	844	33%
Non-Annuity Funded						
R&E - Non-Annuity Funded	237		2		0	
Non-direct	287		3		0	
Total Non-Annuity Funded	525	n/a	4	n/a	0	n/a

R&E – Annuity Funded

The annuity funded R&E direct spend was \$260k. Projects undertaken included:

- Replace HV Poles & Aerials - Burdekin Falls Dam — \$161k³ was spent in 2014 to replace power poles in the recreational facilities at Burdekin Falls Dam. A condition assessment identified that many were termite damaged and therefore posed a public safety and operational risk to people using the recreational grounds.
- Refurbish Hydraulic System— \$75k was spent in 2014 to investigate and develop refurbishment and replacement methods, procurement strategy/tender documentation, and site visits. Other Clare Weir projects such as Installation of CCTV system to monitor the hydraulic flap gates, refurbishment of Gantry Crane and Fishlock control system were included to that Scope design.
- Replace PLC - Clare Weir Fishlock — \$63k was spent in 2014 to replace the PLC'S at Clare Weir Fishlock to bring the PLC (Programmable Logical Control) to current SunWater standards and maintain operations efficiency. The previous PLC and SCADA specification was manufactured by Modicon (E984 – 258 Compact PLC). This was upgraded to Modicon M340 PLC and the SCADA system upgraded from Citect v6.1 to Citect v7.2.
- Update O&M Manual & Drawings - Clare Weir — \$33k was spent in 2014 to update the Operations and Maintenance manual for Clare Weir after the PLC upgrade. Copies of the updated manual were sent to the weir operators for their use.

Corrective Maintenance

There was no expenditure categorised as “Corrective Maintenance” in 2014.

Other

There was \$11k of “Annuity-funded Other” spend in 2014 related to non-routine scheme maintenance.

R&E – Non Annuity

The Non-annuity funded R&E direct spend included:

- Spillway Upgrade Burdekin Falls Dam— \$4k was associated with design work related to spillway upgrade.

Annuity Balance

The 2014 annuity balance is shown below.

Table 6 – Annuity Balance

	2013	2014	2015*	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	4,805	5,108	5,652		
Annuity Income	548	558	567	592	596
Spend	(605)	(397)	(844)		
Interest	360	383	423		
Closing Balance	5,108	5,652	5,798		

* 2015 figures are subject to change once actual spend is known.

³ Individual project expenditures include non-directs.

Appendix – Total Expenditure by Expense Type

Table 7 – Expenditure for Activity by Type

	2013 SunWater Actual \$'000	% of 2013 Target %	2014 SunWater Actual \$'000	% of 2014 Target %	2015 SunWater Budget \$'000	% of 2015 Target %
ROUTINE EXPENSES						
Operations						
Labour	435		432		247	
Materials	13		64		39	
Contractors	12		34		1,297	
Other	685		1,104		905	
Non-direct	891		845		629	
Operations Total	2,035	79%	2,478	92%	3,118	116%
Preventative						
Labour	45		53		27	
Materials	20		2		10	
Contractors	49		88		249	
Other	37		7		22	
Non-direct	91		95		64	
Preventative Total	242	68%	245	66%	372	100%
Corrective						
Labour	65		67		16	
Materials	56		63		50	
Contractors	77		66		127	
Other	6		2		3	
Non-direct	134		128		38	
Corrective Total	338	152%	326	140%	233	100%
Electricity	89	93%	100	98%	129	118%
Total Routine Expenses	2,705	83%	3,149	93%	3,852	113%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	410		260		707	
Corrective	0		0		0	
Other	10		8		0	
Non-direct	185		128		137	
Total Annuity Funded Non-Routine	605	23%	397	15%	844	33%
TOTAL REGULATED EXPENSES	3,310		3,546		4,695	
Non-Annuity Funded						
R&E - Non-Annuity Funded	237		2		0	
Non-direct	287		3		0	
Total Non-Annuity Funded	525	n/a	4	n/a	0	n/a
TOTAL EXPENSES	3,834		3,550		4,695	