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2014 Annual Performance Report

Callide 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

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		3,772	3,634	96%	3,568	95%	98%
Irrigation		18,323	16,625	91%	9,026	49%	54%
Urban		2,207	2,003	91%	1,207	55%	60%
Other		0	0		0		
SunWater		2	9	450%	6	300%	67%
Total	**138**	**24,304**	**22,271**	**92%**	**13,807**	**57%**	**62%**

QCA Assumed Water Usage for Irrigation	36.1%
QCA Assumed Water Usage for Total	52.0%

Revenue

Table 3 – Revenue

	2013 SunWater Actual $'000	2014 SunWater Actual $'000	2015 SunWater Budget $'000
Irrigation Revenue	243	361	347
Drainage	0	0	0
Irrigation CSO	51	21	0
Industrial and Urban	981	781	838
Other Revenue	1	0	4
Total Revenue	**1,276**	**1,163**	**1,188**

* 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.)	761	123%	978	153%	834	130%
Preventative	264	95%	216	74%	246	84%
Corrective	46	127%	52	138%	42	111%
Electricity	9	132%	12	162%	10	132%
Total Routine Expenses	**1,080**	**115%**	**1,257**	**129%**	**1,132**	**116%**

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 of[1]:

- Schedule and deliver water including processing water orders, releasing water, operating pump stations, regulation and monitoring of channel flows and monitoring of customer deliveries;
- Emergency response 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
- Manage public relations associated with the scheme.

The operations expenditure in 2014 was $978k, which is 53% above the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs $323k higher than target; and
- Operational costs are slightly above budget.

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 includes[1]:

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

Preventive maintenance for 2014 was $76k below the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Servicing and maintenance on the radial gates at Callide Dam;
- Dam and weir inspections; and
- Crane and hoist servicing.

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 emergency[2]:

- 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;
        - Repair concrete structure; and

[2] Activities listed will not apply to all service contracts.

        - 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 $14k above the QCA's target for 2014. The major exceptions and highlights with corrective maintenance activities for the year included:

- Repairs to the access roads at Callide Dam; and
- Hoist and crane repairs.

Electricity

Electricity costs were $5k above the QCA target in 2014 which is due to electricity price increases being much higher than the increases allowed for by the QCA and due to normal annual variability in electricity costs for this service contract. Callide electricity costs can vary by +/-$3k from year-to-year and in total represent around 1% of total routine costs.

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.

Overall, the 2013-17 non-routine spend will exceed the five-year QCA target. There has been significant corrective works in this service contract to repair flood damage; corrective works are unplanned and were not allowed for in the QCA's targets.

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	54		464		259	
Corrective	250		1,264		2	
Other	0		160		0	
Non-direct	227		612		225	
Annuity Funded Total	**530**	**19%**	**2,500**	**92%**	**486**	**18%**
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		5		0	
Non-direct	0		1		0	
Total Non-Annuity Funded	**0**	**n/a**	**6**	**n/a**	**0**	**n/a**

R&E – Annuity Funded

The annuity funded R&E direct spend was $464k. Projects undertaken included:

- Install Vibrating Wire Piezometers - Callide Dam — $296k[3] was spent in 2014. Callide Dam experienced its first major filling in 2011 and for the first time, the reservoir level reached the full supply level. Operators observed damp areas/seepage and then reported their observations to SunWater design engineers. The design engineers decided to install vibrating wire piezometers to monitor the pressure in the embankment against the water level. From the collected data, the designer can then recommend further steps if required to address the seepage issue. In the 2014 Financial Year, a recommendation to reduce the Callide Dam Full Supply Level into 215.1 m AHD was given and until this time data is still being collected from the piezometers and monitored to verify if the original Full Supply Level (216 m AHD) can be restored.
- A total of $408k relates to the handover of the Callide Dam recreational facilities to the Banana Shire Council. Responsibility for recreational facilities was a legacy issue for SunWater which incurred significant costs and ongoing risks. SunWater policy is to handover these facilities to Councils, because they are better placed to manage these facilities. The costs cover bringing the facilities up to an acceptable handover condition, and legal costs involved in the transfer process, which included a one-off payment to Council as compensation for ongoing liabilities. The hand-over of the facilities will reduce annual operating costs by $30k-$50k per annum.

Corrective Maintenance

The annuity funded corrective maintenance spend was $1,264k, excluding non-directs. This encompassed:

- FD01 (2013) Flood Damage Repairs at Callide Dam - left gate (floating chamber) — $1,669k was spent in 2014. During the floods in January 2013, the Callide Dam Radial gates operated abnormally during the drain down phase sustaining damage to the spillway structure and the automatic gate operation mechanism. In response to this event, SunWater undertook emergency investigative works to identify the cause for the abnormal operation and subsequent damage. Once the cause of the malfunction was identified, repairs were undertaken including a comprehensive inspection of the spillway and gate arrangement. This job was done successfully at a cost $ 1,684,354.

Other

The "Annuity-funded Other" spend of $168K is related to the handover of the Callide Dam recreational facilities, which is discussed above.

R&E – Non Annuity

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

- Install new customer meter — $3k was spent in 2014. This is a customer funded project.
- Install new 100mm meter for customer in Callide Regulated — $3k was spent in 2014. This is a customer funded project.

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	(658)	(867)	(3,061)		
Annuity Income	371	370	370	374	380
Spend	(530)	(2,500)	(486)		
Interest	(49)	(65)	(229)		
Closing Balance	(867)	(3,061)	(3,406)		

* 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	% of 2013 Target	2014 SunWater Actual	% of 2014 Target	2015 SunWater Budget	% of 2015 Target
	$'000	%	$'000	%	$'000	%
ROUTINE EXPENSES						
Operations						
Labour	159		162		125	
Materials	9		1		5	
Contractors	15		8		21	
Other	274		493		373	
Non-direct	304		314		311	
Operations Total	**761**	**123%**	**978**	**153%**	**834**	**130%**
Preventative						
Labour	85		73		74	
Materials	12		7		8	
Contractors	6		6		21	
Other	(0)		2		4	
Non-direct	162		127		139	
Preventative Total	**264**	**95%**	**216**	**74%**	**246**	**84%**
Corrective						
Labour	3		6		12	
Materials	6		15		5	
Contractors	30		17		3	
Other	0		2		0	
Non-direct	6		13		22	
Corrective Total	**46**	**127%**	**52**	**138%**	**42**	**111%**
Electricity	**9**	**132%**	**12**	**162%**	**10**	**132%**
Total Routine Expenses	**1,080**	**115%**	**1,257**	**129%**	**1,132**	**116%**

	2013 SunWater Actual	% of 2013-17 Target	2014 SunWater Actual	% of 2013-17 Target	2015 SW Budget	% of 2013-17 Target
	$'000	%	$'000	%	$'000	%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	54		464		259	
Corrective	250		1,264		2	
Other	0		160		0	
Non-direct	227		612		225	
Total Annuity Funded Non-Routine	**530**	**19%**	**2,500**	**92%**	**486**	**18%**
TOTAL REGULATED EXPENSES	**1,610**		**3,756**		**1,618**	
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		5		0	
Non-direct	0		1		0	
Total Non-Annuity Funded	**0**	**n/a**	**6**	**n/a**	**0**	**n/a**
TOTAL EXPENSES	**1,610**		**3,762**		**1,618**	