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2014 Annual Performance Report

Emerald Distribution

October 2014

Table of Contents

Introduction	4
Water Usage	4
Revenue	5
Routine Expenditure	6
Operations	6
Preventive Maintenance	6
Corrective Maintenance	7
Electricity	8
Non-Routine Expenditure	9
R&E – Annuity Funded	10
Corrective Maintenance	10
Other	10
R&E – Non Annuity	10
Annuity Balance	10
Appendix –Total Expenditure by Expense Type	11

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		0	0		0		
Irrigation		83,111	96,051	116%	87,482	105%	91%
Urban		90	90	100%	0	0%	0%
Other		0	0		0		
SunWater		28,697	28,697	100%	10,257	36%	36%
Total	133	111,898	124,838	112%	97,739	87%	78%
						QCA Assumed Water Usage for Irrigation	71.7%
						QCA Assumed Water Usage for Total	74.9%

Table 3 – Revenue

Irrigation Revenue*	2,754	3,202	3,347
Drainage	346	365	355
Irrigation CSO	233	62	0
Industrial and Urban*	0	8	0
Other Revenue	33	15	8
Total Revenue	3,366	3,652	3,710

* 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.)	832	95%	1,378	153%	1,127	123%
Preventative	764	125%	966	153%	617	95%
Corrective	181	63%	370	126%	311	103%
Electricity	36	57%	161	237%	151	108%
Total Routine Expenses	1,814	99%	2,876	152%	2,206	110%

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 \$478k, or 53%, above the QCA target. The major exceptions and highlights with operation activities for the year included:

- Hire & Fuel costs for two temporary pumps \$120k;
- Scheme management & water delivery of \$250k due to:
 - Legal & Property, Scoping, Asset Management Support of \$53k
 - Labour & plant hire costs for Shed/Del Selma costs up due to the extra labour for installation, dismantling, transport of fuel, crane & plant hire, week end & after hours work to install temporary pumps;
 - Labour costs for water delivery were above budget due to high demand during peak periods.; and
 - Relieving Service manager for 3 months \$82k (includes travel, accommodation and salary).
- Insurance up by \$95k compared to QCA target; and
- Rates up by \$8k compared to QCA target.

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

¹ Activities listed will not apply to all service contracts.

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;
- 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 \$377k above the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Additional Acrolein injections required at a cost of \$105k due to weather & channel conditions;
- Meter maintenance costs higher than QCA targets due to the age of meter fleet and number of repairs, costing \$114k;
- Additional Asset Cond inspections AM I&D, costing \$44k;
- Contractor servicing costs for electronic meters and regulator gates, costing \$26k; and
- Unplanned Mechanical weed removal & de-silting of Weemah Main Channel below Capricorn Highway, costing \$23k.

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

² Activities listed will not apply to all service contracts.

- 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
 - 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 \$75k above the QCA's target for 2014. The major exception and highlight with corrective maintenance activities for the year included:

- Unplanned mechanical weed removal & de-silting of LN1_6-ED, at a cost of \$74k

Electricity

Electricity costs were \$93k above the QCA target in 2014, however the QCA set the target for 2014 artificially-low based on the QCA's forecast of Fairbairn Dam levels made in 2012. When Fairbairn Dam levels are low SunWater needs to use re-lift pumps to deliver water which incurs additional electricity costs, which the QCA didn't allow for in 2014.

The electricity cost for 2014 is in line with SunWater's original forecast for Emerald when above-average water deliveries, electricity price increases and the typical annual variation are taken into account.

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. However, 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	633		107		567	
Corrective	0		0		0	
Other	0		7		0	
Non-direct	138		52		66	
Annuity Funded Total	771	44%	165	9%	632	36%
Non-Annuity Funded						
R&E - Non-Annuity Funded	23		3		0	
Non-direct	1		5		0	
Total Non-Annuity Funded	25	n/a	8	n/a	0	n/a

R&E – Annuity Funded

The annuity funded R&E direct spend was \$107k. Projects undertaken included:

- 14NMA16 Refurbish Pump #1 Selma PUMP STATION — \$73k³ was spent in 2014 to repair the damaged pump unit after it developed severe vibration. The refurbishment was required to return the pump to acceptable condition to meet irrigation demand.
- Construct Public Safety Fences - Weemah Channel — \$26k was spent in 2014 to install the public safety fencing required as per SunWater Policy PM04. An audit of compliance in 2012 identified new sites and existing sites requiring modification to comply with the policy.
- Replace Switchyard Assets - Selma Switchyard (Substation Q) — \$16k was spent in 2014 on project management and procurement in preparation for completion of the work in 2015 FY. The switchyard assets had reached end of asset life and will be replaced as per recommendations from an option analysis and detailed scope of works completed in 2012.
- Repair/Replace Spalling Outer 4 Piers Selma — \$11k was spent in 2014 to rectify damage at the 24.1K check structure on Selma Main Channel. A condition assessment in 2012 identified concrete degradation of the piers of the check structure. Intervention was required to ensure the structural integrity of the check structure.

Corrective Maintenance

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

Other

There was \$9k of expenditure categorised as “Annuity-funded Other” in 2014.

R&E – Non Annuity

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

- Install New Offtake Start WMC (Springsure Creek Coal Mine) — \$7k was spent in 2014 to investigate the property and land tenure requirements to allow the installation of the metered offtake. The project has ceased due to the unlikelihood of the Springsure Creek Coal Mine proceeding as the owner has recently announced voluntary administration.

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	(14)	(177)	292		
Annuity Income	610	647	708	734	762
Spend	(771)	(165)	(632)		
Interest	(1)	(13)	22		
Closing Balance	(177)	292	389		

* 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	253		383		290	
Materials	3		120		15	
Contractors	0		3		3	
Other	155		232		314	
Non-direct	421		641		505	
Operations Total	832	95%	1,378	153%	1,127	123%
Preventative						
Labour	129		168		91	
Materials	184		370		167	
Contractors	220		123		179	
Other	(0)		6		8	
Non-direct	232		300		171	
Preventative Total	764	125%	966	153%	617	95%
Corrective						
Labour	52		42		73	
Materials	31		149		49	
Contractors	7		99		60	
Other	0		1		2	
Non-direct	91		80		128	
Corrective Total	181	63%	370	126%	311	103%
Electricity	36	57%	161	237%	151	108%
Total Routine Expenses	1,814	99%	2,876	152%	2,206	110%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	633		107		567	
Corrective	0		0		0	
Other	0		7		0	
Non-direct	138		52		66	
Total Annuity Funded Non-Routine	771	44%	165	9%	632	36%
TOTAL REGULATED EXPENSES	2,586		3,041		2,838	
Non-Annuity Funded						
R&E - Non-Annuity Funded	23		3		0	
Non-direct	1		5		0	
Total Non-Annuity Funded	25	n/a	8	n/a	0	n/a
TOTAL EXPENSES	2,611		3,050		2,838	