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2014 Annual Performance Report

Lower Mary Distribution

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	20	100%	0	0%	0%
Irrigation		9,952	9,952	100%	9,329	94%	94%
Urban		0	0		0		
Other		0	0		0		
SunWater		4,892	4,912	100%	3,651	75%	74%
Total	78	14,864	14,864	100%	12,980	87%	87%

QCA Assumed Water Usage for Irrigation 42.3%

QCA Assumed Water Usage for Total 42.6%

Table 3 – Revenue

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	592	917	749
Drainage	0	0	0
Irrigation CSO	753	753	751
Industrial and Urban*	2	2	2
Other Revenue	3	7	9
Total Revenue	1,350	1,680	1,512

* 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.)	221	88%	529	204%	308	117%
Preventative	176	73%	159	64%	261	103%
Corrective	146	98%	229	149%	135	86%
Electricity	200	136%	504	320%	420	249%
Total Routine Expenses	744	94%	1,422	174%	1,124	134%

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 \$264k, or 104%, above the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs \$41k higher than target;
- Schedule/delivery costs higher than budgeted as a result of an extended dry period and peak irrigation demand during early 2014;
- Increased scheme operational costs associated with operational constraints with the Bidwell storage and numerous Ergon Faults at Walker Point Pump Station; and
- Additional costs associated with critical water management arrangements during the latter part of 2013 and the early part of 2014.

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:

¹ Activities listed will not apply to all service contracts.

- 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:
 - Spraying and other activities to control operational and noxious weeds within channel and drainage reserves.
 - Slashing channel berms and balancing storages

Preventive maintenance for 2014 was \$89k below the QCA’s target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Slightly higher than expected corrective maintenance resulting in less preventive maintenance performed than originally forecast;
- Some emergency mechanical weed control performed as corrective to ensure continued supply during a high demand period from the Bidwell storage , Walker Point section.

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 regulator gates, control valves, etc.
 - Pipelines
 - Repair air valves, scour valves, etc.;
 - Erosion control and repair of rock protection works; and
 - Repair concrete structures.
 - Scheme Roads
 - Repair pot holes;
 - Repair, replace and paint guide posts and signs.
 - Pump stations
 - 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.

² Activities listed will not apply to all service contracts.

- 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 exceptions and highlights with corrective maintenance activities for the year included:

- Channel and balancing storage mechanical de-weeding during the scheduled closedown period;
- Regulator gate maintenance, patch paint, adjust operation; and
- Increased Pump servicing for all pump stations due to higher than normal irrigation demand.

Electricity

Electricity costs were \$347k above the QCA target in 2014 primarily due to increased water deliveries in the Lower Mary distribution system and also due to increases in regulated electricity prices being higher than allowed for by the QCA. Resultant cost over-runs are beyond SunWater's control.

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	73		17		36	
Corrective	63		(1)		0	
Other	0		0		0	
Non-direct	56		1		18	
Annuity Funded Total	191	82%	17	7%	53	23%
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		5		0	
Non-direct	0		2		0	
Total Non-Annuity Funded	0	n/a	7	n/a	0	n/a

R&E – Annuity Funded

The annuity funded R&E direct spend was \$17k. Projects undertaken included:

- Replace Flow Meter 7511m on WPMC — \$18k³ was spent in 2014 to replace a failed flow meter. Flow meters are a run-to-fail asset. The meter at this site was upgraded to an electromagnetic flow meter as per SunWater’s metering strategy.

Corrective Maintenance

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

Other

There was no expenditure categorised as “Annuity-funded Other” in 2014.

R&E – Non Annuity

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

- Install New 100mm Meter Outlet for customer - Ch388m on C1 Maryborough — \$7k was spent in 2014 to design and construct a new metered off take. This project was customer funded.

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	(462)	(241)	177		
Annuity Income	447	452	458	466	468
Spend	(191)	(17)	(53)		
Interest	(35)	(18)	13		
Closing Balance	(241)	177	595		

* 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	78		154		77	
Materials	2		19		2	
Contractors	0		0		0	
Other	13		102		95	
Non-direct	128		254		134	
Operations Total	221	88%	529	204%	308	117%
Preventative						
Labour	57		52		88	
Materials	14		10		12	
Contractors	15		10		10	
Other	0		3		2	
Non-direct	90		85		149	
Preventative Total	176	73%	159	64%	261	103%
Corrective						
Labour	46		64		35	
Materials	23		47		27	
Contractors	1		9		10	
Other	0		2		3	
Non-direct	76		107		60	
Corrective Total	146	98%	229	149%	135	86%
Electricity	200	136%	504	320%	420	249%
Total Routine Expenses	744	94%	1,422	174%	1,124	134%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	73		17		36	
Corrective	63		(1)		0	
Other	0		0		0	
Non-direct	56		1		18	
Total Annuity Funded Non-Routine	191	82%	17	7%	53	23%
TOTAL REGULATED EXPENSES	935		1,438		1,178	
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		5		0	
Non-direct	0		2		0	
Total Non-Annuity Funded	0	n/a	7	n/a	0	n/a
TOTAL EXPENSES	935		1,445		1,178	