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2014 Annual Performance Report

Mareeba 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		883	883	100%	979	111%	111%
Irrigation		144,879	151,682	105%	97,933	68%	65%
Urban		1,171	1,166	100%	440	38%	38%
Other		0	0		0		
SunWater		45,000	45,000	100%	22,870	51%	51%
Total	957	191,933	198,731	104%	122,222	64%	62%
						QCA Assumed Water Usage for Irrigation	60.6%
						QCA Assumed Water Usage for Total	67.1%

Table 3 – Revenue

	2013 SunWater Actual \$'000	2014 SunWater Actual \$'000	2015 SunWater Budget \$'000
Irrigation Revenue*	6,314	6,610	6,849
Drainage	0	0	0
Irrigation CSO	495	332	144
Industrial and Urban*	381	362	276
Other Revenue	16	25	5
Total Revenue	7,208	7,329	7,275

* 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.)	2,236	120%	2,280	119%	2,519	129%
Preventative	489	98%	679	132%	662	126%
Corrective	1,136	83%	1,197	83%	1,573	105%
Electricity	424	126%	412	114%	452	117%
Total Routine Expenses	4,286	105%	4,567	108%	5,207	119%

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 \$364k, or 19%, above the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs higher than target by \$254k;
- Increased Scheme, Asset & Property Management investigation/queries and customer relations; and
- Schedule/delivery costs are higher than the target as a result of an extended period of peak demand during early 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:

- 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 \$166k above the QCA's target and \$60k above budget. The major exceptions and highlights with preventive maintenance activities for the year included:

- A higher emphasis on preventative maintenance, which led to lower corrective maintenance costs; and
- Increased terrestrial and aquatic weed control.

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;
 - 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 \$245k below the QCA's target for 2014 and \$40k below budget. The major exceptions and highlights with corrective maintenance activities for the year included:

- More emphasis on weed control this year; and
- Total cost and unit cost average of pipe repairs reduced from previous year.

Electricity

Electricity costs were \$52k above the QCA target due mostly to increases in regulated electricity prices being higher than allowed for by the QCA and also higher than forecast water deliveries in the re-lift areas.

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	366		755		949	
Corrective	0		0		0	
Other	0		55		0	
Non-direct	105		282		275	
Annuity Funded Total	471	6%	1,091	15%	1,224	17%
Non-Annuity Funded						
R&E - Non-Annuity Funded	2		3		0	
Non-direct	1		5		0	
Total Non-Annuity Funded	4	n/a	9	n/a	0	n/a

R&E – Annuity Funded

The annuity funded R&E direct spend was \$755k. Projects undertaken included:

- Replace PUN1 & PUN2 Pumpsets (including IV, DV, NRV & Pipework) - Price Creek Pump Station A (2012 Scope) —

\$467k³ was spent in 2014 to finalise this project. New pumps, pipework and valving were installed along with telemetry and alarms. This pump station had reached end of asset life and was replaced as per recommendations from an option analysis completed in 2012.

- Construct Public Safety Fencing - Mareeba - West Barron — \$223k was spent in 2014 to install the public safety fencing required as per SunWater Policy PM04. An audit of compliance in 2012 identified both new and existing sites requiring modification to comply with the policy.
- Replace Isolating Valves - six sites - Mareeba — \$31k was spent in 2014 to replace four isolating valves within the scheme. Low risk isolation valves are a run to fail asset and each of the valves had failed in service. Two other valves scheduled to be done were excavated and found not to require replacement.
- Replace Scour Valves - eight sites — \$29k was spent in 2014 to procure all the valves and pipe fittings for work to be done in the dry season in 2015 FY. The scope of this project was also extended to include 13 scour valves sites due to the condition of the valves inspected. Low risk scour valves are a run to fail asset and each of the failed valves will be replaced in 2015.
- MDWSS I&D SCADA - Stage 1 — \$28k was spent in 2014 to inspect all SCADA sites and determine action required to either refurbish or replace. The site audit and strategic plan was required as the control equipment and software have reached the end of their serviceable life and are no longer supported. Significant work has been identified and will commence in 2015 FY.

Corrective Maintenance

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

Other

The “Annuity-funded Other” spend in 2014 included:

- Copper sulphate research project — \$120k was spent in 2014 to undertake a research project to do trials and testing to demonstrate a structured and quantified approach to copper sulphate use. The intention being to minimise copper residue in water courses whilst killing algae in the channel system. This is a two-year project with the objective to obtain a use permit with the APVMA. An extension has since been applied for to undertake further research.

R&E – Non Annuity

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

- Alterations to metered offtake 31m WB14_1 — \$3k was spent in 2014 to investigate and provide design, documentation and oversight to customer installation. This project was customer funded.
- Modifications to customer metered offtake 91m WB7B — \$3k was spent in 2014 to investigate and provide design, documentation and oversight to customer installation. 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	(587)	660	1,507		
Annuity Income	1,761	1,889	1,905	1,940	2,171
Spend	(471)	(1,091)	(1,224)		
Interest	(44)	49	113		
Closing Balance	660	1,507	2,301		

* 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	666		601		587	
Materials	13		4		5	
Contractors	1		1		2	
Other	446		662		892	
Non-direct	1,110		1,012		1,033	
Operations Total	2,236	120%	2,280	119%	2,519	129%
Preventative						
Labour	204		229		208	
Materials	65		107		75	
Contractors	110		127		25	
Other	1		3		0	
Non-direct	110		212		354	
Preventative Total	489	98%	679	132%	662	126%
Corrective						
Labour	266		305		401	
Materials	348		345		313	
Contractors	58		30		153	
Other	4		6		7	
Non-direct	459		512		699	
Corrective Total	1,136	83%	1,197	83%	1,573	105%
Electricity	424	126%	412	114%	452	117%
Total Routine Expenses	4,286	105%	4,567	108%	5,207	119%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	366		755		949	
Corrective	0		0		0	
Other	0		55		0	
Non-direct	105		282		275	
Total Annuity Funded Non-Routine	471	6%	1,091	15%	1,224	17%
TOTAL REGULATED EXPENSES	4,757		5,659		6,431	
Non-Annuity Funded						
R&E - Non-Annuity Funded	2		3		0	
Non-direct	1		5		0	
Total Non-Annuity Funded	4	n/a	9	n/a	0	n/a
TOTAL EXPENSES	4,760		5,667		6,431	