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2014 Annual Performance Report

Upper Condamine 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		0	0		0		
Irrigation		30,314	21,897	72%	20,590	68%	94%
Urban		3,207	3,332	104%	1,610	50%	48%
Other		0	4		1		26%
SunWater		227	323	142%	0	0%	0%
Total	**98**	**33,748**	**25,556**	**76%**	**22,201**	**66%**	**87%**

QCA Assumed Water Usage for Irrigation	36.6%
QCA Assumed Water Usage for Total	54.1%

Revenue

Table 3 – Revenue

	2013 SunWater Actual $'000	2014 SunWater Actual $'000	2015 SunWater Budget $'000
Irrigation Revenue	1,155	1,076	1,009
Drainage	0	0	0
Irrigation CSO	30	2	0
Industrial and Urban	945	1,008	973
Other Revenue	6	2	2
Total Revenue	**2,135**	**2,088**	**1,984**

* 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.)	726	103%	700	95%	800	108%
Preventative	155	88%	228	124%	167	91%
Corrective	61	84%	11	15%	73	96%
Electricity	104	163%	80	117%	79	108%
Total Routine Expenses	**1,047**	**103%**	**1,020**	**96%**	**1,120**	**105%**

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]:

- 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 $37k, or 5%, below the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs $159k higher than target; and
- Local Authority rates $3k higher than 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 $44k above the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Higher levels of preventative maintenance, resulting in lower corrective maintenance costs.

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
        - Repair control building.
    - Storages (balancing storages and reservoirs)

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

        - 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 $59k below the QCA's target for 2014. The major exceptions and highlights with corrective maintenance activities for the year included:

- A higher emphasis on preventative maintenance, resulting in lower corrective maintenance costs over the year;
- Minor repairs to spillway gates 3,6 & 7 at Leslie Dam;
- Signage maintenance; and
- Repairs to the slide gate at Melrose Weir.

Electricity

Electricity costs were $12k above the QCA target in 2014 due to increases in regulated electricity prices being higher than allowed for by the QCA and also due to higher than average water deliveries through North Branch.

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	26		99		424	
Corrective	66		15		0	
Other	0		0		0	
Non-direct	31		98		112	
Annuity Funded Total	**123**	**5%**	**212**	**9%**	**536**	**22%**
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		0		0	
Non-direct	0		0		0	
Total Non-Annuity Funded	**0**	**n/a**	**0**	**n/a**	**0**	**n/a**

R&E – Annuity Funded

The annuity funded R&E direct spend was $99k. Projects undertaken included:

- Leslie Dam: Inspection (5-Yearly) Dam Safety — $57k[3] was spent in 2014 to undertake the 2014 five-yearly comprehensive inspection which is a mandatory part of SunWater's obligations in complying with the Regulator's conditions to operate. The inspection was $12K under budget as the electrical inspection was carried out as part of a concurrent project.
- Leslie Dam: Replace Main Switchboard - Right Bank — $36k was spent in 2014 to replace the main incoming switchboard on the right bank of the dam. The switchboard was part of the original dam constructed in 1965 and controlled power to the galleries, town water and assets associated with the main water supply to Warwick. The work was undertaken after a condition assessment inspection and recommendation in 2012 failed the existing switchboard due to safety issues, obsolescence and component condition.
- Leslie Dam: Electrical Study on cables, switchboards and control equipment. — $28k was spent in 2014 to undertake a full electrical condition assessment and options analysis on all the electrical assets at the dam. The main driver for the project was an upcoming replacement program which predicts (in line with industry standards) that our electrical assets should be replaced after 35 years in service. Between 2019 and 2021, this could potentially affect assets with a replacement value of $3M. The timing of the options study was coordinated with the 5-yearly condition assessment to save money and the results gave SunWater the necessary evidence to push replacement of many electrical assets out for a further ten years.
- Lemon Tree Weir: Fabrication of Bulkhead Gate and Repair Armco Gate — $26k was spent in 2014 when the Armco gate used to deliver water downstream failed in the closed position. A steel bulkhead gate system was designed and 2xNo 1.5 m wide by 4m deep bulkheads were manufactured to isolate the Armco gate from the river. A Franna crane was required for installation and the water was pumped out to allow repairs to the gate and allow water to be released to downstream customers.
- Leslie Dam: Options Study - Gate Painting Strategy and Conduit Refurbishments — $17k was spent in 2014 on full option studies on two projects recommended as part of the previous 2009 five-yearly comprehensive inspection of the dam. Methodology, product and application of materials to re-line the two Leslie Dam conduits were reported and costed at $268K for the planned 2015 works. Planned painting works on the gates at Leslie dam were analysed and a new strategy devised to defer the painting and the large capital costs associated with this work for a further few years by increasing the patch painting / maintenance / cathodic protection to retain the condition of the underlying metal.

Corrective Maintenance

The annuity funded corrective maintenance spend was $15k, excluding non-directs, which included the following activities:

- Flood damage repairs at Lemon Tree Weir — $33k was spent in 2014 to undertake repairs. SunWater replaced the missing rock protection on a like-for-like basis and replaced the warning buoy line after an analysis of the likelihood of a flood of this magnitude did not warrant upgrading the structure. As it was known the adjoining landholder was utilising SunWater's access road, an agreement was entered into whereby SunWater provided repair material and the adjoining landholder re-formed the road thereby saving SunWater considerable funds. An additional advantage removes the risk from SunWater that a poorly levelled road may, in future, affect the flow of water over the landholder's crops.

Other

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

R&E – Non Annuity

There was no expenditure categorised as "Non Annuity" in 2014.

[3] Individual project expenditures include non-directs.

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	(1,505)	(1,196)	(948)		
Annuity Income	545	549	556	578	583
Spend	(123)	(212)	(536)		
Interest	(113)	(90)	(71)		
Closing Balance	(1,196)	(948)	(999)		

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

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	194		148		195	
Materials	6		10		10	
Contractors	9		9		25	
Other	146		257		198	
Non-direct	372		275		372	
Operations Total	**726**	**103%**	**700**	**95%**	**800**	**108%**
Preventative						
Labour	53		67		56	
Materials	4		8		3	
Contractors	3		29		2	
Other	1		4		2	
Non-direct	94		120		104	
Preventative Total	**155**	**88%**	**228**	**124%**	**167**	**91%**
Corrective						
Labour	17		3		16	
Materials	7		1		17	
Contractors	2		0		6	
Other	0		1		1	
Non-direct	34		6		31	
Corrective Total	**61**	**84%**	**11**	**15%**	**73**	**96%**
Electricity	**104**	**163%**	**80**	**117%**	**79**	**108%**
Total Routine Expenses	**1,047**	**103%**	**1,020**	**96%**	**1,120**	**105%**

	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	26		99		424	
Corrective	66		15		0	
Other	0		0		0	
Non-direct	31		98		112	
Total Annuity Funded Non-Routine	**123**	**5%**	**212**	**9%**	**536**	**22%**
TOTAL REGULATED EXPENSES	**1,169**		**1,232**		**1,656**	
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		0		0	
Non-direct	0		0		0	
Total Non-Annuity Funded	**0**	**n/a**	**0**	**n/a**	**0**	**n/a**
TOTAL EXPENSES	**1,169**		**1,232**		**1,656**	