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2013 Annual Performance Report

Burdekin Bulk

October 2013

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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 this annual Performance Report to show how SunWater 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 - 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		17,547	17,547	100%	5,909	34%	34%
Irrigation		634,473	634,645	100%	404,332	64%	64%
Urban		10,533	10,325	98%	916	9%	9%
Other		8	11	138%	64	798%	581%
SunWater		417,031	417,730	100%	108,934	26%	26%
Total	397	1,079,592	1,080,258	100%	520,154	48%	48%

QCA Assumed Water Usage for Irrigation 80.6%

QCA Assumed Water Usage for Total 55.8%

Routine Expenditure

Table 3 – Routine Operating Expenditure

	2013 SunWater Actual	% of 2013 Target	2013-17 to date Actual	% of 2013-17 Target	2013-17 QCA Target
	\$'000	%	\$'000	%	\$'000
Operations (Excl. Elect.)	2,035	79%	2,035	15%	13,310
Preventative	242	68%	242	13%	1,847
Corrective	338	152%	338	29%	1,158
Electricity	89	93%	89	16%	552
Total Routine Expenses	2,705	83%	2,705	16%	16,867

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 include¹:

- Schedule and deliver water including processing water orders, monitoring of storage levels, releasing water, and managing river flows;
- Flood operations including emergency preparedness and implementation of Emergency Action Plans for the dam;
- Water quality monitoring including water quality sampling and monitoring of blue green algae;
- Compliance including ROP reporting and BOM reporting;
- Meter Reading;
- Administration of water accounts, billing and receipting payments;
- Customer management including enquiries and complaints and maintaining the customer service help desk;
- Environmental management including operation of fishways, reporting fish deaths, monitoring or noxious weeds, pests and contaminated land;
- Scheme management including licences and permits, rates, land management, planning and reporting;
- Insurance costs;
- Monitoring the security of assets and unauthorised access and trespass; and
- Manage public relations associated with the scheme.

The operations expenditure in 2013 was \$541k below the QCA target. The major exceptions and highlights with operation activities for the year included:

- Less operational work required during the first three months of the financial year due to unseasonal wet weather which meant storages were spilling.
- Higher than expected corrective maintenance meant that less operations work was performed over the year.
- Insurance is \$281k higher than budget.
- Legal costs and safety costs were lower in 2013 compared to the average cost allowed for in the QCA target. These costs vary from year to year depending on events.

Asset Management costs were lower than the QCA target due to a number of staff vacancies, labour being re-directed to distribution corrective work and costs being distributed through indirect charges rather than direct to service contract. Works not performed due to flooding or resource levels will carry on to direct costs next financial year.

¹ Activities listed will not apply to all service contracts.

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 updated work instructions developed for operating the scheme and include an estimate of the resources required to implement that scope of work. Preventive maintenance includes²:

- Condition monitoring: The inspection, testing or measurement of physical assets to report and record its condition and performance for determination of preventive maintenance requirements. Assets which the condition is monitored regularly include pumps, electrical motors, valves, gates, switchboards, embankment, spillway, outlet works and associated equipment;
- 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 is undertaken as part of preventative maintenance. This includes mowing, spraying and other activities to control weeds within the scheme.

Preventive maintenance was \$115k below the QCA's target for 2013. The major exceptions and highlights with preventative maintenance activities for the year included:

- Higher than expected corrective maintenance meant that less preventive maintenance was performed than originally forecast.
- Weed control was not required in the Giru Benefitted Area.

Corrective Maintenance

Corrective maintenance includes activities to correct unexpected failures or to return an asset to an acceptable level of performance or condition. While corrective maintenance is difficult to forecast with accuracy, such activities 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 (maintenance that can be routinely planned and scheduled)
 - Dams
 - Repair of control gates and valves
 - Repair walls, embankments and spillways
 - Repair of concrete structures
 - Weirs
 - Repair of control gates and valves
 - Repair walls and embankments
 - Repair of concrete structures
 - Repair of fishways
 - Barrages
 - Repair of control gates and valves
 - Repair walls, embankments
 - Repair of concrete structures
 - Repair of fishways
 - Roads
 - Repair of pot holes

² Activities listed will not apply to all service contracts.

- Grade roads
 - Repair, replace and paint guide posts and signs
- Gauging Stations
 - Repair of instrumentation
 - De-silt gauging weirs
 - Repair concrete structure
 - Repair instrumentation hut
- Meters
 - Repair bulk water meters
 - Repair customer meters
- Emergency maintenance is maintenance that has to be carried out immediately to restore normal operation, to restore supply to customers or to meet a regulatory obligation (e.g. rectify a safety hazard). Emergency maintenance includes:
 - Repair or correction of control valve faults and other equipment
 - Response to theft or vandalism associated with scheme assets

Corrective maintenance was \$115k above the QCA's target for 2013. The major exceptions and highlights with corrective maintenance activities for the year included:

- Investigation and corrective maintenance after Clare weir flap gate failure.
- Recommissioning of Clare weir post flood.
- Bypass line installation for failed potable water tank at Burdekin Falls Dam.

Electricity

Electricity costs were \$6k less than the QCA target in 2013 despite increases in regulated electricity prices being higher than the 12.5% increase allowed by the QCA for 2013. This is in line with normal annual variability in electricity 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 2013; 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 are unexpected events, such as floods, that are not allowed for in the QCA's annuity funding allowance. Notwithstanding these points, SunWater aims to limit renewals expenditure to the QCA's targets over the 2013-17 price path in order to manage the annuity balance to reasonable levels.

Table 4 – Non-Routine Expenditure

	2013 SunWater Actual	% of 2013-17 Target	2013-17 to date Actual	% of 2013-17 Target	2013-17 QCA Target
	\$'000	%	\$'000	%	\$'000
Annuity Funded					
R&E - Annuity Funded	410		410		1,566
Corrective	0		0		0
Other	10		10		9
Non-direct	185		185		1,012
Annuity Funded Total	605	23%	605	23%	2,587
Non-Annuity Funded					
R&E - Non-Annuity Funded	237		237		n/a
Non-direct	287		287		n/a
Total Non-Annuity Funded	525		525		n/a

R&E – Annuity Funded

The annuity funded R&E spend was \$410k.

The major R&E annuity funded projects were:

- Investigation, design and upgrade of the Clare Weir fish way, and
- Five Yearly Dam Safety Inspection – Burdekin Falls Dam

The Clare Weir fish way was commissioned in 2005 and since then incurred \$300k in maintenance with numerous mechanical and electrical problems including jamming of gates, failure of hydraulic cylinders, corrosion and poor performance of hydraulic system pumps. Burdekin Resource Operations Plan (ROP) has imposed conditions on Clare Weir Fishway and it was required to upgrade the fish way due to compliance implications. The QCA report states that fish ladders are required to meet SunWater's ROP obligations, and as such, the costs should be met by customers. The procurement was through a sole source tender because the tenderer had carried out significant work on and around the weir previously and was familiar with the layout and requirements. The tender evaluation noted that the contractor had the proven capability of undertaking the work, experienced nominated personnel, quality equipment and no record of any time loss injuries. The expenditure incurred in FY2013 was \$480k while the approved budget was \$483k.

Another major project was five yearly dam safety inspection of Burdekin Falls Dam which was required to comply with the dam safety condition schedule. The expenditure incurred in FY2013 was \$37k, which was the same as the approved budget. The inspection was carried out by employing SunWater staff to maximise the use of internal resources and minimise overall cost.

Overall, it is expected that the 2013-17 budget can be controlled to meet the five-year QCA target with the application of Reliability Centred Maintenance (RCM) approach and risk based prioritisation.

Corrective Maintenance

There was no expenditure categorised as "Annuity-funded Corrective" in 2013.

Other

There was \$10k "Annuity-funded Other" direct spend in 2013 was related to:

- Environmental, Legal and Procurement costs for a one-off burn at Healeys Lagoon

R&E – Non-Annuity

The major Non-annuity funded project was the Spillway Upgrade of Burdekin Falls Dam initiated in accordance with SunWater's dam safety upgrade program. The investigations for the project commenced in 2009 and were discontinued in 2010. SunWater recommenced design works on the project in July 2011. The catalyst for the undertaking of the Project is that the Bureau of Meteorology had undertaken a review of rainfall data over the past 100 years. New rainfall projections from the study show a much larger extreme rainfall event may be possible than was previously believed. This has prompted the proposed safety upgrade for Burdekin Falls Dam (BFD). The estimated cost of the project was \$5.11M (ex GST) and cost incurred in FY2013 was \$525k. While tender evaluation was underway, the Dam Safety Regulator changed the Acceptable Flood Capacity guidelines making Tranche 3 projects such as the BFD not as critical. The Board was also concerned about funding this project without government funding. Consequently this project has been deferred indefinitely.

Annuity Balance

The 2013 annuity balance is shown below.

Table 5 – 2013 Annuity Balance

	2013	2014	2015	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	4,805	5,108			
Annuity Income	548	558	567	592	596
Actual Spend	(605)				
Interest	360				
Closing Balance	5,108				

Appendix – Total Expenditure by Expense Type

Table 6 – Expenditure for Activity by Type

	2013 SunWater Actual \$'000	% of 2013 Target %	2013-17 to date Actual \$'000	% of 2013-17 Target %	2013-17 QCA Target \$'000
ROUTINE EXPENSES					
Operations					
Labour	435		435		3,623
Materials	11		11		251
Contractors	12		12		93
Other	687		687		1,814
Non-direct	891		891		7,530
Operations Total	2,035	79%	2,035	15%	13,310
Preventative					
Labour	45		45		525
Materials	18		18		72
Contractors	49		49		181
Other	39		39		5
Non-direct	91		91		1,063
Preventative Total	242	68%	242	13%	1,847
Corrective					
Labour	65		65		271
Materials	49		49		272
Contractors	77		77		56
Other	13		13		0
Non-direct	134		134		559
Corrective Total	338	152%	338	29%	1,158
Electricity	89	93%	89	16%	552
Total Routine Expenses	2,705	83%	2,705	16%	16,867
NON-ROUTINE EXPENSES					
Annuity Funded					
R&E - Annuity Funded	410		410		1,566
Corrective	0		0		0
Other	10		10		9
Non-direct	185		185		1,012
Total Annuity Funded Non-Routine	605	23%	605	23%	2,587
TOTAL REGULATED EXPENSES	3,310		3,310		19,454
Non-Annuity Funded					
R&E - Non-Annuity Funded	237		237		n/a
Non-direct	287		287		n/a
Total Non-Annuity Funded	525		525		n/a
TOTAL EXPENSES	3,834		3,834		n/a