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2013 Annual Performance Report

Emerald Distribution

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		0	0		0		
Irrigation		83,123	88,018	106%	69,578	84%	79%
Urban		77	77	100%	0	0%	0%
Other		0	0		0		
SunWater		29,330	29,330	100%	14,737	50%	50%
Total	133	112,530	117,425	104%	84,315	75%	72%

QCA Assumed Water Usage for Irrigation 71.7%

QCA Assumed Water Usage for Total 74.9%

Revenue

Revenue has been included in the Distribution Performance Reports to assist the LMA process.

Table 3 – Revenue

	2013 SunWater Actual \$'000
Irrigation Revenue*	2,704
Drainage Diversion Charges	50
Irrigation CSO	233
Industrial and Urban*	0
Drainage Services	346
Other Revenue	33
Total Revenue	3,366

* Bulk water charges have not been unbundled
i.e. a portion of this revenue is attributable to
the Bulk service contract.

Routine Expenditure

Table 4 – 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.)	832	95%	832	18%	4,541
Preventative	764	125%	764	24%	3,209
Corrective	181	63%	181	12%	1,497
Electricity	36	57%	36	6%	585
Total Routine Expenses	1,814	99%	1,814	18%	9,832

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:

- Schedule and deliver water including processing water orders, releasing water, operating pump stations, regulation and monitoring of channel flows and monitoring of customer deliveries;
- Emergency response for channel overflows and other emergency events;
- Meter Reading;
- Administration of water accounts, billing and receipting payments;
- Customer management including enquiries and 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 channel infrastructure and unauthorised access and trespass; and
- Manage public relations associated with the scheme.

The operations expenditure in 2013 was \$44k below the QCA target. The major exceptions and highlights with operation activities for the year included:

- The insurance costs for the service contract of \$150k were \$40k above the QCA estimates.

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 (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

¹ Activities listed will not apply to all service contracts.

- Weed control: which includes the following activities:
 - Slashing channels and drains
 - Acrolein treatment of channels
 - Spraying and other activities to control operational and noxious weeds within channel and drainage reserves.

Preventive maintenance of \$764k was \$153k above the QCA's target. The major exception was a greater amount of weed control than originally estimated, with a variance of around \$120k in non-labour costs alone:

- Treatment of aquatic weeds in both the Selma and Weemah channel systems at a total cost of approximately \$250k for the year. The Acrolein injections in the Selma section were undertaken almost monthly between July '12 and March '13 with a total of 15 containers being used at a total cost of \$90k. Injections in the Weemah section continued for the same period with 12 containers used at a total cost of \$72k.
- Approximately \$179k was also spent on mechanical weed control within the scheme. Four slashings of channels and drains were undertaken within the Selma and Weemah sections at a cost of contractors of \$99k and \$40k respectively.
- Chemical weed control in the channels and drains of the scheme cost approximately \$133k.
- Preventative maintenance activities associated with the Total Channel Control system totalled \$17k for the year.

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 (maintenance that can be planned and scheduled)
 - Channels
 - De-silting of channels and catch drains
 - Erosion control and repair of rock protection works
 - Repair of fencing
 - Repair of concrete structures
 - Repair regulator gates and control valves etc.
 - Drains
 - De-silting of drains
 - Erosion control and repair of rock protection works
 - Repair of fencing
 - Repair of concrete structures
 - Pipelines
 - Repair of air valves, scour valves etc.
 - Erosion control and repair of rock protection works
 - Repair of concrete structures
 - Scheme Roads
 - Repair of pot holes
 - Grade roads
 - Repair, replace and paint guide posts and signs
 - Pump stations
 - Repair pumps and motors

² Activities listed will not apply to all service contracts.

- De-silt intake structures
 - Repair concrete structure
 - Repair control building
- Storages (balancing storages and reservoirs)
 - Repair of control gates and valves
 - Repair walls, embankments and spillways
 - Repair of concrete structures
- Meters
 - Repair bulk water meters
 - Repair customer meters
- Emergency maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet a regulatory obligation (e.g. rectify a safety hazard). Emergency maintenance includes:
 - Repair or correction of pump station faults
 - Repair or correction of channel faults
 - Repair or correction of pipeline faults
 - Response to theft or vandalism associated with scheme assets

Corrective maintenance expenditure of \$181k was \$105k below the QCA's target for 2013. This reduction in expenditure on corrective activities can be attributed to reduced failures. This was due in part to the fact that Selma pump station was not used in 2013. The main corrective maintenance activities for the year included:

- Burning of Selma drains for \$36k.
- De-silting drains in the Selma and Weemah sections \$20k.
- Corrective maintenance on the TCC network on the Selma section of \$40k.

Electricity

Electricity costs were \$27k below the QCA target in 2013, which is explained by normal annual variability in expected electricity costs when Fairbairn Dam is full.

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 5 – 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	633		633		1,264
Corrective	0		0		0
Other	0		0		5
Non-direct	138		138		472
Annuity Funded Total	771	44%	771	44%	1,741
Non-Annuity Funded					
R&E - Non-Annuity Funded	23		23		n/a
Non-direct	1		1		n/a
Total Non-Annuity Funded	25		25		n/a

R&E – Annuity Funded

Annuity funded R&E projects during the year included:

- Drain LN1 Rehabilitation 4438m to 9717m - In February 2012, SunWater investigated concerns over siltation levels in Drain LN1 between Tyson Road and the Gregory Highway. This concern was raised primarily by the Central Highlands Regional Council and local residents following a major flood event of the Nogoia River which had inundated large sections of the adjacent Emerald Township. The investigation consisted of quantifying silt depths and quantities by

survey and a cost estimate prepared to bring the profile back to design levels. An earthworks model was also prepared and showed some 54,000 cubic metres of material had to be removed from the bed and inner banks of Drain LN1 between Tyson Road and the Gregory Highway to reinstate the design profile. Site works were largely completed by December 2012. Expenditure in 2013 towards this project (inclusive of non-direct costs) totalled \$568k.

- An audit undertaken by a third party consultant highlighted that the switchboards at Selma pump station were at risk of not meeting current Australian Standards and safety requirements. To address these risks the switchboards were replaced. Expenditure in 2013 towards this project (inclusive of non-direct costs) totalled \$160k.
- Refurbish Weemah Drains – Winton Creek and the lower reaches of the formed Weemah Drains had become heavily built up with Hymenachne causing water-logging and blockage of natural drainage flows. During high flow events, this was leading to flooding of sections of adjacent farmland. Aerial spraying, followed up with a controlled burn of the affected area was conducted to restore flows and function of the drainage network. Expenditure on this project (inclusive of non-direct costs) totalled \$46k.

A number of other R&E projects were carried out based on asset condition. SunWater will monitor spending over the five years of the regulatory period and expects to remain in line with the QCA target.

Corrective Maintenance

There was no “Annuity-funded Corrective” spend in 2013.

Other

There was no other Annuity-funded expenditure in 2013.

R&E – Non Annuity

There was \$25k of Non-annuity funded works during the year associated with a customer funded project to extend the delivery line and install a new meter on Weemah Main Channel.

Annuity Balance

The 2013 annuity balance is shown below.

Table 6 – 2013 Annuity Balance

	2013	2014	2015	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(14)	(177)			
Annuity Income	610	647	708	734	762
Actual Spend	(771)				
Interest	(1)				
Closing Balance	(177)				

Appendix – Total Expenditure by Expense Type

Table 7 – 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	253		253		1,500
Materials	0		0		85
Contractors	0		0		0
Other	158		158		564
Non-direct	421		421		2,392
Operations Total	832	95%	832	18%	4,541
Preventative					
Labour	129		129		594
Materials	178		178		711
Contractors	220		220		908
Other	6		6		10
Non-direct	232		232		986
Preventative Total	764	125%	764	24%	3,209
Corrective					
Labour	52		52		353
Materials	12		12		232
Contractors	7		7		347
Other	19		19		0
Non-direct	91		91		565
Corrective Total	181	63%	181	12%	1,497
Electricity	36	57%	36	6%	585
Total Routine Expenses	1,814	99%	1,814	18%	9,832
NON-ROUTINE EXPENSES					
Annuity Funded					
R&E - Annuity Funded	633		633		1,264
Corrective	0		0		0
Other	0		0		5
Non-direct	138		138		472
Total Annuity Funded Non-Routine	771	44%	771	44%	1,741
TOTAL REGULATED EXPENSES	2,586		2,586		11,573
Non-Annuity Funded					
R&E - Non-Annuity Funded	23		23		n/a
Non-direct	1		1		n/a
Total Non-Annuity Funded	25		25		n/a
TOTAL EXPENSES	2,611		2,611		n/a