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2013 Annual Performance Report

Eton 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 Usage¹

	No. of Customers	Water Entitlements ML	Available Water ML	Available Water %	Water deliveries ML	Water deliveries % of entitlement	Water deliveries % of available
Industrial		100	99	99%	1	1%	1%
Irrigation		51,837	51,750	100%	14,429	28%	28%
Urban		176	174	99%	48	27%	28%
Other		1,061	127	12%	20	2%	16%
SunWater		9,389	9,326	99%	9,037	96%	97%
Total	322	62,563	61,476	98%	23,535	38%	38%
						QCA Assumed Water Usage for Irrigation	41.3%
						QCA Assumed Water Usage for Total	53.5%

¹ This is Financial Year data for 2012/13. The 2013 Annual Report shows Water Year data for Apr 2012 to Mar 2013.

Routine Expenditure

Table 3 – 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.)	778	144%	778	28%	2,798
Preventative	310	71%	310	14%	2,274
Corrective	144	47%	144	9%	1,585
Electricity	261	113%	261	20%	1,332
Total Routine Expenses	1,492	99%	1,492	19%	7,989

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 include²:

- 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 \$237k above the QCA target. The major exceptions and highlights with operation activities for the year included:

- The insurance costs for Eton Bulk of \$198k were approximately \$116k above the QCA estimate.
- Incorrect coding of activities accounted for approximately \$40K of expenditure that should have been charged to the Distribution Service Contract. This error has no impact on customer pricing and will be corrected when SunWater forecasts costs for the next pricing review.

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 includes³:

² Activities listed will not apply to all service contracts.

³ 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 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 \$128k below the QCA's target for 2013. The major exceptions and highlights with preventative maintenance activities for the year included:

- A major dam safety upgrade on Kinchant Dam has reduced the need for some preventive maintenance activities by local staff.
- Preventative maintenance on the pumps at Mirani which is normally done in May/June was not completed until July 2013.
- Slashing of Mirani diversion channel and Kinchant Dam surrounds was undertaken three times during the year at a total cost of \$42k.

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 emergency³:

- 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
 - 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 \$160k below the QCA's target for 2013 due to there being no major breakdowns. The Kinchant Dam safety upgrade also reduced the need for corrective maintenance. The main corrective maintenance activities for the year included:

- The dewatering of Mirani Diversion Channel (\$15k)
- Investigation of faults associated with pump 2 in pump station No3 (\$15k)
- De-silting of Mirani pump station No3 (\$11k).

Electricity

Electricity costs were \$30k above the QCA target in 2013 due mostly to increases in regulated electricity prices being higher than the 12.5% increase allowed by the QCA for 2013 and also due to normal year-to-year variability.

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	161		161		1,187
Corrective	(1)		(1)		0
Other	0		0		10
Non-direct	98		98		641
Annuity Funded Total	259	14%	259	14%	1,838
Non-Annuity Funded					
R&E - Non-Annuity Funded	2,937		2,937		n/a
Non-direct	1,118		1,118		n/a
Total Non-Annuity Funded	4,055		4,055		n/a

R&E – Annuity Funded

At this stage SunWater expects to contain costs over the five years of the regulatory period in line with the QCA target.

- The annuity funded R&E program included refurbishment of submersible Pump 1 and Pump 2 of Mirani Pump Station 1, and Pump 2 and 5 of Mirani Pump Station 3 at total cost of \$146K, including non-directs. There was an additional \$37K over the original estimation to cater for replacement of power cable which was identified only after disassembling the

pumps. All the pumps were installed in 1994 and conditions of the pumps were very poor due to aging. The following defects were observed in the pumps:

- Mirani PSTN 1 – Pump 1 – Presence of moisture in the pump motor
- Mirani PSTN 1 – Pump 2 – Failure of the seal
- Mirani PSTN 3 – Pump 2 – Condition is very poor

Refurbishments of these pumps was essential to meet operational requirements and business needs and to maximise harvesting opportunities hence.

- The Five Yearly Comprehensive Dam Safety Inspection was overspent by \$50K. This was caused mainly by delays due to the construction activities associated with the dam safety upgrade project.
- Due to priority given to the Kinchant Dam embankment filter upgrade, investigations into the Borrow Pit embankment stability have been delayed until 2014.

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

During the year a significant dam safety upgrade commenced at Kinchant Dam. The cost of \$4million in 2013 has been covered by the Queensland Government outside of the annuity funds.

Annuity Balance

The annuity balance for 2013 is shown below.

Table 5 – Annuity Balance

	2013	2014	2015	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(2,207)	(2,071)			
Annuity Income	560	568	573	587	623
Actual Spend	(259)				
Interest	(165)				
Closing Balance	(2,071)				

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	174		174		665
Materials	6		6		57
Contractors	28		28		123
Other	229		229		523
Non-direct	341		341		1,430
Operations Total	778	144%	778	28%	2,798
Preventative					
Labour	79		79		547
Materials	6		6		98
Contractors	64		64		504
Other	6		6		0
Non-direct	154		154		1,125
Preventative Total	310	71%	310	14%	2,274
Corrective					
Labour	33		33		333
Materials	16		16		326
Contractors	18		18		223
Other	12		12		5
Non-direct	65		65		697
Corrective Total	144	47%	144	9%	1,585
Electricity	261	113%	261	20%	1,332
Total Routine Expenses	1,492	99%	1,492	19%	7,989
NON-ROUTINE EXPENSES					
Annuity Funded					
R&E - Annuity Funded	161		161		1,187
Corrective	(1)		(1)		0
Other	0		0		10
Non-direct	98		98		641
Total Annuity Funded Non-Routine	259	14%	259	14%	1,838
TOTAL REGULATED EXPENSES	1,751		1,751		9,827
Non-Annuity Funded					
R&E - Non-Annuity Funded	2,937		2,937		n/a
Non-direct	1,118		1,118		n/a
Total Non-Annuity Funded	4,055		4,055		n/a
TOTAL EXPENSES	5,806		5,806		n/a