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2013 Annual Performance Report

Eton Distribution

November 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	0%	1	1%	0%
Irrigation		52,770	51,782	98%	14,429	27%	28%
Urban		175	192	110%	48	27%	25%
Other		128	131	102%	20	16%	15%
SunWater		9,384	9,321	99%	9,033	96%	97%
Total	315	62,557	61,525	98%	23,531	38%	38%

QCA Assumed Water Usage for Irrigation 41.3%

QCA Assumed Water Usage for Total 55.1%

¹ October 2013 version of this report had minor errors in the water entitlement numbers which have been corrected in this version of the report.

Revenue

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

Table 3 – Revenue

	2013 SunWater Actual \$'000
Irrigation Revenue*	2,802
Drainage Diversion Charges	0
Irrigation CSO	1,497
Industrial and Urban*	0
Drainage Services	0
Other Revenue	29
Total Revenue	4,327

* 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.)	675	91%	675	18%	3,843
Preventative	443	70%	443	13%	3,300
Corrective	510	115%	510	22%	2,326
Electricity	255	55%	255	9%	2,695
Total Routine Expenses	1,883	82%	1,883	15%	12,164

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 of²:

- 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 \$67k below the QCA target. The major exceptions and highlights with operation activities for the year included:

- 2013 being a wetter than normal year water deliveries were reduced contributing somewhat to lower cost of operations.
- Insurance costs for the year were approximately \$48k in excess of the QCA estimate.
- Incorrect coding of activities accounted for approximately \$40K of distribution expenditure being incorrectly charged to the Bulk 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 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 includes²:

- 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,

² Activities listed will not apply to all service contracts.

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
- 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 was \$188k below the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Three Acrolein applications in Oct '12, Dec '12 and Feb '13 for a total cost of \$192k. This is below the yearly average of five Acrolein injections due to low irrigation demand and inclement weather.
- Oakenden Main Channel was slashed three times during the year (Oct '12, Jan '13 and Apr '13) for a cost of approximately \$39k.
- Approximately \$27k was spent on chemical weed control activities on Oakenden Main Channel.

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 emergency³:

- 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.
 - Pipelines
 - Repair of air valves, scour valves etc.
 - Erosion control and repair of rock protection works
 - Repair of concrete structures
 - Pipe leak repairs.
 - Scheme Roads
 - Repair of pot holes
 - Grade roads
 - Repair, replace and paint guide posts and signs
 - Pump stations
 - Repair pumps and motors

³ 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 was \$67k above the QCA's target for 2013. The major exceptions and highlights with corrective maintenance activities for the year included:

- SunWater had pump failures at Brightley pump station 1, Victoria Plains and Mt Alice (\$133k). These failures and the need to change bearings, mechanical seals and other parts added higher costs to the corrective expenditure than anticipated.
- Seventeen pipe leaks were also addressed during the year at a total cost of \$91k.
- Repairs to several bank slumps along Oakenden Main channel also cost \$43k.
- Repairs to the access crossings of creeks along Oakenden Main channel cost \$29k for the year.

Electricity

Electricity costs were \$212k below the QCA target in 2013 primarily due to reduced water deliveries which also means reduced revenue from the variable tariff to cover these costs. However, the higher than allowed increases in electricity prices still meant that the Part B revenue did not fully cover the cost of electricity.

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	528		528		1,724
Corrective	0		0		0
Other	0		0		0
Non-direct	49		49		802
Annuity Funded Total	577	23%	577	23%	2,527
Non-Annuity Funded					
R&E - Non-Annuity Funded	16		16		n/a
Non-direct	10		10		n/a
Total Non-Annuity Funded	26		26		n/a

R&E – Annuity Funded

The main annuity funded R&E project was the replacement of the Switchboards and control equipment at the Brightley pump station. This project was an essential upgrade to ensure that the switchboards at Brightley Pump Stations 1 and 2 comply with current Australia Standards and to capture improvements in the control system by replacing the superseded relay control with PLC and SCADA systems. This work will enhance operator safety and improve SunWater's ability to monitor the Pump Stations

remotely to ensure service standards are met. Specification, purchase and build of switchboards were done in 2011 – 2012 at a cost of \$454k. Installation and commissioning occurred in 2013 at a cost of \$514k for the financial year.

The annuity funded R&E program also included the refurbishment of pump unit 1 at the Abington pump station at a cost of \$22k. The pump unit has been in service for 27 years and was last refurbished in 2005. The refurbishment has returned to pump to a satisfactory condition.

A further significant project was the replacement of the non return valve on pump unit 3 at the Brightley 1 pump station. Condition assessments had revealed that the valve had effectively failed and was at the end of its serviceable life. The valve was approximately 33 years old, was badly corroded and failed to seal. The 2013 costs for this project totalled \$16k.

A number of other R&E projects were carried out based on asset condition. At this stage SunWater expects to contain costs over the five years of the regulatory period 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

The \$26k of non-annuity R&E was related to a customer-funded meter outlet installation.

Annuity Balance

The 2013 annuity balance is shown below.

Table 6 – Annuity Balance

	2013	2014	2015	2016	2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	(223)	(300)			
Annuity Income	517	539	585	596	618
Actual Spend	(577)				
Interest	(17)				
Closing Balance	(300)				

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	173		173		1,193
Materials	3		3		16
Contractors	1		1		20
Other	203		203		708
Non-direct	295		295		1,906
Operations Total	675	91%	675	18%	3,843
Preventative					
Labour	103		103		814
Materials	87		87		699
Contractors	67		67		518
Other	2		2		0
Non-direct	184		184		1,269
Preventative Total	443	70%	443	13%	3,300
Corrective					
Labour	108		108		492
Materials	87		87		545
Contractors	68		68		490
Other	60		60		15
Non-direct	187		187		783
Corrective Total	510	115%	510	22%	2,326
Electricity	255	55%	255	9%	2,695
Total Routine Expenses	1,883	82%	1,883	15%	12,164
NON-ROUTINE EXPENSES					
Annuity Funded					
R&E - Annuity Funded	528		528		1,724
Corrective	0		0		0
Other	0		0		0
Non-direct	49		49		802
Total Annuity Funded Non-Routine	577	23%	577	23%	2,527
TOTAL REGULATED EXPENSES	2,460		2,460		14,690
Non-Annuity Funded					
R&E - Non-Annuity Funded	16		16		n/a
Non-direct	10		10		n/a
Total Non-Annuity Funded	26		26		n/a
TOTAL EXPENSES	2,486		2,486		n/a