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2013 Annual Performance Report

Mareeba 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		1,147	1,171	102%	1,174	102%	100%
Irrigation		144,747	144,983	100%	109,424	76%	75%
Urban		863	874	101%	469	54%	54%
Other		2	10	500%	3	172%	34%
SunWater		45,000	45,035	100%	34,150	76%	76%
Total	957	191,759	192,073	100%	145,220	76%	76%
						QCA Assumed Water Usage for Irrigation	60.6%
						QCA Assumed Water Usage for Total	67.1%

Revenue

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

Table 3 – Revenue

	2013 SunWater Actual \$'000
Irrigation Revenue*	6,314
Drainage Diversion Charges	0
Irrigation CSO	495
Industrial and Urban*	381
Drainage Services	0
Other Revenue	16
Total Revenue	7,208

* 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.)	2,236	120%	2,236	23%	9,638
Preventative	489	98%	489	19%	2,597
Corrective	1,136	83%	1,136	15%	7,453
Electricity	424	126%	424	22%	1,945
Total Routine Expenses	4,286	105%	4,286	20%	21,633

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;
- Customer liaison
- 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 \$378k above the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance costs higher than budget by \$103k.
- Increased Scheme, Asset & Property Management investigation/queries and customer relations.
- Schedule/delivery costs are higher than the target as a result of an extended period of peak demand during a dry year.

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

¹ Activities listed will not apply to all service contracts.

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, pumps and associated equipment; and
- Weed control: which includes the following activities:
 - Slashing channels and drains
 - Copper sulphate treatment of channels
 - Spraying and other activities to control operational and noxious weeds within channel and drainage reserves.

Preventive maintenance was \$9k below the QCA's target. The major exceptions and highlights with preventive maintenance activities for the year included:

- Slightly reduced slashing contractor as this was a dry year for grass growth.

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
 - Pipe leak repairs
 - 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 and erosion
 - Grade roads
 - Repair, replace and paint guide posts and signs
 - Pump stations
 - Repair pumps and motors
 - De-silt intake structures

² Activities listed will not apply to all service contracts.

- 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 \$237k below the QCA's target for 2013. The major exceptions and highlights with corrective maintenance activities for the year included:

- The lower than average corrective maintenance costs is a result of no unusual events occurring during the year (low emergency maintenance).
- Some labour was diverted to Operations to meet increased activity in this area.

Electricity

Electricity costs were \$87k above the QCA target in 2013 due to increases in regulated electricity prices being higher than the 12.5% increase allowed by the QCA for 2013 and higher than target water deliveries in the re-lift area.

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	366		366		5,395
Corrective	0		0		0
Other	0		0		92
Non-direct	105		105		1,920
Annuity Funded Total	471	6%	471	6%	7,408
Non-Annuity Funded					
R&E - Non-Annuity Funded	2		2		n/a
Non-direct	1		1		n/a
Total Non-Annuity Funded	4		4		n/a

R&E – Annuity Funded

Major non-routine projects were as follows:

- An options analysis for the replacement of two pump units at Price Ck pump station A has been completed and a contract for the final design and installation let. The pumps require replacement due to their old age. The Price Creek project will be continuing into 2014 with installation expected in Q1. Expenditure in 2013 towards this project (inclusive of non-direct costs) totalled \$277k.

- As part of a wider SunWater initiative the radios, PLCs and RTUs at Mareeba are being upgraded as the current equipment is obsolete and difficult to obtain replacement parts for. This project is currently in the process of installing the updated equipment. Expenditure in 2013 towards this project (inclusive of non-direct costs) totalled \$22k.
- Replace safety screens WBMC Rocky CK Siphon - Service Delivery Group Mareeba advised that some of the fingers in the lower sections of safety screens fitted to the inlet of Rocky Creek Siphon along West Barron Main Channel had failed. Irrigation & Drainage group reviewed the condition and risk of the asset and recommended replacement. Total expenditure for this project (inclusive of non-direct costs) was \$33k.

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 maintenance expenditure in 2013.

Other

There was no other Annuity-funded expenditure in 2013.

R&E – Non Annuity

There was \$4k of Non-annuity funded expenditure in 2013.

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	(587)	660			
Annuity Income	1,761	1,889	1,905	1,940	2,171
Actual Spend	(471)				
Interest	(44)				
Closing Balance	660				

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	666		666		2,972
Materials	5		5		64
Contractors	1		1		30
Other	455		455		1,840
Non-direct	1,110		1,110		4,732
Operations Total	2,236	120%	2,236	23%	9,638
Preventative					
Labour	204		204		792
Materials	19		19		519
Contractors	110		110		82
Other	47		47		0
Non-direct	110		110		1,203
Preventative Total	489	98%	489	19%	2,597
Corrective					
Labour	266		266		1,998
Materials	286		286		2,179
Contractors	58		58		163
Other	66		66		36
Non-direct	459		459		3,075
Corrective Total	1,136	83%	1,136	15%	7,453
Electricity	424	126%	424	22%	1,945
Total Routine Expenses	4,286	105%	4,286	20%	21,633
NON-ROUTINE EXPENSES					
Annuity Funded					
R&E - Annuity Funded	366		366		5,395
Corrective	0		0		0
Other	0		0		92
Non-direct	105		105		1,920
Total Annuity Funded Non-Routine	471	6%	471	6%	7,408
TOTAL REGULATED EXPENSES	4,757		4,757		29,041
Non-Annuity Funded					
R&E - Non-Annuity Funded	2		2		n/a
Non-direct	1		1		n/a
Total Non-Annuity Funded	4		4		n/a
TOTAL EXPENSES	4,760		4,760		n/a