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2013 Annual Performance Report

Mareeba 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		8,038	5,287	66%	5,008	62%	95%
Irrigation		151,298	151,262	100%	112,265	74%	74%
Urban		81	11	14%	392	485%	3568%
Other		0	12		0		0%
SunWater		45,007	47,852	106%	34,150	76%	71%
Total	1,133	204,424	204,424	100%	151,815	74%	74%

QCA Assumed Water Usage for Irrigation 60.4%

QCA Assumed Water Usage for Total 69.4%

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.)	785	100%	785	19%	4,038
Preventative	136	70%	136	14%	1,008
Corrective	16	64%	16	12%	125
Electricity	2	33%	2	6%	33
Total Routine Expenses	939	93%	939	18%	5,204

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 and storage.

The operations expenditure in 2013 was in line with the QCA target. The major exceptions and highlights with operation activities for the year included:

- Insurance was \$92k higher than budget.
- This increase was offset by lower labour costs.

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:

¹ Activities listed will not apply to all service contracts.

² 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 \$59k below the QCA's target for 2013. The major exceptions and highlights with preventative maintenance activities for the year included:

- Deferring some inspections until 5 year comprehensive inspection in August 2013.

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
 - 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 \$9k below the QCA's target for 2013. The major exceptions and highlights with corrective maintenance activities for the year included:

- No significant failures requiring repairs, so the corrective maintenance spend was less than forecast.

Electricity

Electricity costs were \$4k 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 was due in part due to dam crest public access lighting being removed and also due to the cone valve being removed for refurbishment for nine months during the year. There is also expected 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	214		214		270
Corrective	0		0		0
Other	0		0		2
Non-direct	36		36		162
Annuity Funded Total	250	58%	250	58%	434
Non-Annuity Funded					
R&E - Non-Annuity Funded	(2)		(2)		n/a
Non-direct	0		0		n/a
Total Non-Annuity Funded	(1)		(1)		n/a

R&E – Annuity Funded

The main expenditure was allocated to project 11MDA15 Refurbish Cone Valve – Tinaroo Falls Dam.

The condition of the cone vane was initially investigated and it was recommended for replacement. Further options analysis was undertaken by SunWater Engineers and it was decided that the cone valve could be refurbished. Once the work was handed over to a project Manager the budget was subsequently increased due to logistics and costs to remove the valve. As part of the

modernisation of the valve it was determined to also include the installation of hydraulic actuation (approx. 30% of the project cost).

The annuity funded non-routine expenditure is forecast to be over the five year QCA targets however each project is justified based on the condition and risk attached to the asset.

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 no other Non-annuity funded expenditure in 2013.

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	1,007	940			
Annuity Income	108	108	116	117	120
Actual Spend	(250)				
Interest	75				
Closing Balance	940				

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	143		143		1,002
Materials	7		7		20
Contractors	7		7		83
Other	318		318		829
Non-direct	310		310		2,104
Operations Total	785	100%	785	19%	4,038
Preventative					
Labour	38		38		322
Materials	1		1		33
Contractors	1		1		5
Other	24		24		0
Non-direct	72		72		647
Preventative Total	136	70%	136	14%	1,008
Corrective					
Labour	3		3		33
Materials	2		2		20
Contractors	2		2		5
Other	2		2		0
Non-direct	7		7		67
Corrective Total	16	64%	16	12%	125
Electricity	2	33%	2	6%	33
Total Routine Expenses	939	93%	939	18%	5,204
NON-ROUTINE EXPENSES					
Annuity Funded					
R&E - Annuity Funded	214		214		270
Corrective	0		0		0
Other	0		0		2
Non-direct	36		36		162
Total Annuity Funded Non-Routine	250	58%	250	58%	434
TOTAL REGULATED EXPENSES	1,189		1,189		5,639
Non-Annuity Funded					
R&E - Non-Annuity Funded	(2)		(2)		n/a
Non-direct	0		0		n/a
Total Non-Annuity Funded	(1)		(1)		n/a
TOTAL EXPENSES	1,187		1,187		n/a