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2017 Annual Performance Report

Boyne Bulk

October 2017

Table of Contents

Introduction	3
Financial Summary	4
Water Usage	6
Revenue	7
Routine Expenditure	8
Operations	8
Preventive Maintenance	9
Corrective Maintenance	9
Non-Routine Expenditure	13
R&E – Annuity Funded	14
Corrective Maintenance	14
Other	14
R&E – Non Annuity	14
Annuity Balance	15
Appendix –Total Expenditure by Expense Type	16
Notes	18

Introduction

This annual Performance Report is to provide to SunWater Boyne River customers the routine expenditure (opex) and non-routine expenditure for the financial year 2016-2017. The Performance Plan covers:

- past performance for opex and non-routine expenditure for 2017
- summary of past performance for opex and non-routine expenditure for the Price Path period 2013 – 2017.

This is the final Performance Plan for the period 2013 - 2017 comparing SunWater's costs with the Queensland Competition Authority (QCA) targets set in the 2012 price review. The QCA price path expired 30 June 2017.

The Network Service Plan (NSP) for 2018 was published earlier this year and will form the basis for Performance Reports for 2018 and 2019.

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

Table 1 – Operating Revenue Less Spend

Boyne WS		2013	2014	2015	2016	2017	2013 to 2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000
Revenue	3	1,112	1,797	3,213	180	1,128	7,431
Less - Routine Expenditure	4 & 7	1,107	159	644	551	751	3,211
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	1,938	1,676	3,425	3,712	7,899	18,651
• Non Annuity Funded	5	-	-	3	3	3	9
Surplus (Deficit)		(1,933)	(38)	(859)	(4,086)	(7,525)	(14,441)

Table 1 provides an indication of the annual cash performance of the scheme. Note that the table reports total non-routine spend and does not take into account the renewals annuity. Further information is provided below in each section of this report.

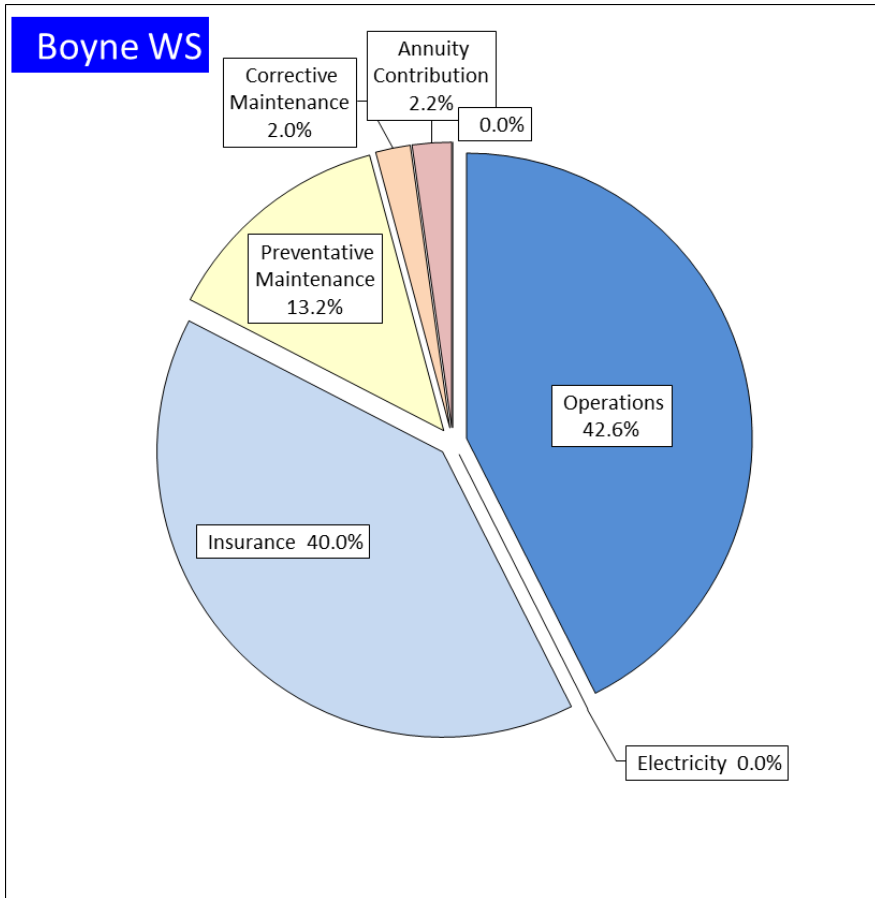


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

Figure 1 shows a high level summary of scheme costs and provides an indication of where revenue from irrigation water charges is applied. The item “Annuity Contribution” refers to the component of irrigation water charges that is applied toward the renewals annuity each year.

Water Usage

Table 2 – 2017 Water Usage

Customer Segment	No. of Customers	Water Entitlements (ML)	Available Water (ML)	Available Water (%)	Water Deliveries (ML)	Water Deliveries (%) Against Entitlement
1. Industrial		30,333	30,453	100	25,072	83
2. Irrigation		9,142	9,142	100	5,648	62
3. Urban		1,825	1,825	100	1,372	75
4. Other		480	480	100	121	25
5. SunWater		1,625	1,625	100	1,137	70
Scheme Total	167	43,405	43,525	100	33,350	77

QCA Assumed Water Usage for Total 53.9%

Total water use is above the QCA assumed figure.

Revenue

Table 3 – Revenue

Boyne WS	2013	2014	2015	2016	2017	2013 to 2017
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000
Irrigation	359	374	408	243	253	1,637
Industrial	27	13	15	20	20	94
Urban	52	53	54	-	-	159
Irrigation CSO	-	-	-	-	-	-
Revenue Transfers	661	1,351	2,377	(201)	852	5,040
Drainage	-	-	-	-	-	-
Other	14	7	4	0	3	28
Insurance Proceeds - Flood	-	-	355	118	-	473
Revenue Total	1,112	1,797	3,213	180	1,128	7,431

Revenue Transfers represent the cost of bulk water supplies delivered through the distribution system(s). The revenue accrues to the distribution system before it is transferred to the Bulk Water Supply Scheme as a contribution to the cost of the bulk water service. In this case the revenue transfer is from the Tarong Pipeline. Revenue transfers up to 2015 included anticipated revenue from Stanwell Corp for their contribution towards the Boondooma Dam Spillway Repairs. Post 2015, this accrued revenue was reversed and revenue transfers tabled only include Stanwell Corps contribution towards dam operational expenses.

Routine Expenditure

Table 4 – Routine Operating Expenditure

Boyne WS	2013			2014			2015			2016			2017			2013 to 2017		
	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000
Operations	929	214	(715)	(77)	224	301	454	223	(230)	292	222	(70)	327	225	(102)	1,924	1,108	(816)
Electricity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	136	55	(81)	198	56	(142)	121	57	(64)	128	58	(70)	307	59	(249)	889	284	(605)
Operations Total	1,065	269	(796)	121	280	159	574	280	(294)	419	279	(140)	634	283	(351)	2,813	1,392	(1,421)
Preventative Maintenance	30	94	65	38	98	60	64	99	34	99	98	(2)	102	98	(3)	333	487	154
Corrective Maintenance	12	24	12	-	25	25	5	26	20	33	26	(7)	15	26	11	65	126	61
Routine Total	1,107	388	(719)	159	404	245	644	404	(240)	551	403	(149)	751	407	(344)	3,211	2,006	(1,206)

Operations

Operational 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:

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

¹ Activities listed will not apply to all service contracts.

The operations expenditure was over the QCA target.

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

Preventive maintenance was just above the QCA's target.

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 is maintenance that can be planned and scheduled, and includes:
 - Channels
 - De-silting channels and catch drains;

² Activities listed will not apply to all service contracts.

- Erosion control and repair of rock protection works;
 - Repair fencing;
 - Repair concrete structures; and
 - Repair regulator gates, control valves, etc.
- Drains
 - De-silting drains;
 - Erosion control and repair of rock protection works;
 - Repair fencing; and
 - Repair concrete structures.
- Pipelines
 - Pipe breaks;
 - Repair air valves, scour valves, etc.;
 - Erosion control and repair of rock protection works; and
 - Repair concrete structures.
- Scheme Roads
 - Repair pot holes;
 - Grade roads; and
 - Repair, replace and paint guide posts and signs.
- Pump stations
 - Repair pumps and motors;
 - De-silt intake structures;
 - Repair concrete structure; and
 - Repair control building.
- Storages (balancing storages and reservoirs)
 - Repair control gates and valves;
 - Repair walls, embankments and spillways; and
 - Repair concrete structures.
- Meters
 - Repair bulk water meters; and
 - Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g.

rectify a safety hazard) and includes:

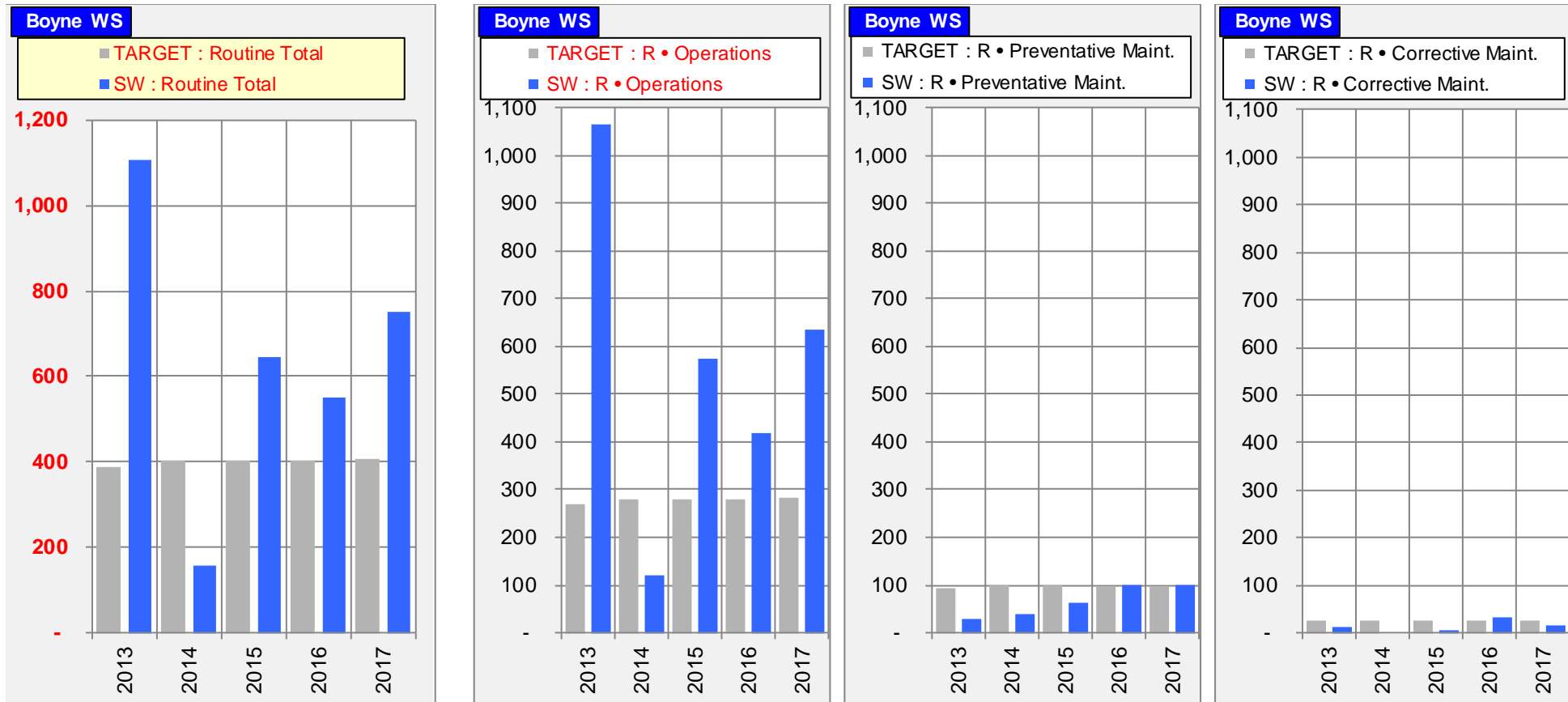
- Repair or correction of pump station faults;
- Repair or correction of channel faults;
- Repair or correction of pipeline faults; and
- Response to theft or vandalism associated with scheme assets.

Corrective maintenance was below the QCA's target.

Routine Cost – Summary and Charts

The information in Table 4 above is re-presented in the charts below to graphically show SunWater’s performance against the QCA targets. In summary the key challenges in managing routine cost lie with reigning in input cost like insurance. Emergency Event Management costs are also an impact on the scheme, but have not been distributed at the scheme level.

Figure 2: Routine Expenditure by Activity compared to QCA Target (\$'000)



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 2015; 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 have been unexpected events, such as floods, that were not allowed for in the QCA's annuity funding allowance.

Table 5 – Non-Routine Expenditure

Boyne WS	2013			2014			2015			2016			2017			2013 to 2017		
	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Forecast \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000
Annuity Funded																		
Operations	20	-	(20)	-	-	-	-	-	-	588	-	(588)	15	-	(15)	623	-	(623)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	1,888	-	(1,888)	1,506	-	(1,506)	3,395	-	(3,395)	2,952	-	(2,952)	7,796	-	(7,796)	17,535	-	(17,535)
R&E	30	28	(3)	171	185	14	31	112	81	172	9	(164)	88	225	137	492	558	66
Non-routine Total	1,938	28	(1,910)	1,676	185	(1,492)	3,425	112	(3,313)	3,712	9	(3,703)	7,899	225	(7,675)	18,651	558	(18,093)
Non Annuity Funded	-	-	-	-	-	-	3	-	-	3	-	-	3	-	-	9	-	-

R&E – Annuity Funded

The annuity funded R&E Projects undertaken this year included:

R&E Annuity Funded	16BYR03 Repair Pitting on Dissipater Walls - Boondooma Dam (2014 DS Rec 6.1a)	1,477
	16BYR05 Review of Comprehensive Risk Assessment - Boondooma Dam	65,524
	17BYR01 Replace Cone Valve Indicators - Boondooma Dam	4,649
	17BYR02 Develop Strategy for BW Cranes - Boyne Supply	2,871
	17BYR04 Meter Replacement - Davies	2,637
	ADSCOPE-BBY Asset Delivery Scoping - Boyne Supply	11,080
R&E Annuity Funded Total		88,238

Corrective Maintenance

The annuity funded corrective maintenance projects which were not budgeted for included:

Corrective Maintenance	12BYR17 FD01 (2011) - Spillway Repairs - Boondooma Dam	7,796,894
Corrective Maintenance Total		7,796,894

Other

Other Annuity-funded projects this year included:

Other	16BYR07 Boondooma Dam Spillway Repairs Project Insurance Claim	4,774
	16BYR08 Create Material & Asset Hierarchy Standard & Task Lists - BBY	10,285
Other Total		15,059

R&E – Non Annuity

The Non-Annuity funded R&E projects this year included:

Customer Funded	17BYR03 Boyne River - Install new customer meter Lot 1 RP 8647 30	2,969
Customer Funded Total		2,969

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

Boyne WS		2013	2014	2015	2016	2017	2013 to 2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000
Annuity							
Opening Balance	See below	(170)	(2,108)	(3,929)	(6,924)	(11,019)	(170)
Net Spend		(1,938)	(1,676)	(2,717)	(3,594)	(7,899)	(17,825)
Annuity Contribution		13	13	17	17	17	77
Interest		(13)	(158)	(294)	(519)	(825)	(1,809)
SunWater - Closing Balance		(2,108)	(3,929)	(6,924)	(11,019)	(19,727)	(19,727)
QCA - Closing Balance	1,140	1,053	1,037	1,123	999	999	
Difference		(3,248)	(4,983)	(7,961)	(12,142)	(20,726)	(20,726)
Net Spend Analysis							
Spend	5 & 7	(1,938)	(1,676)	(3,425)	(3,712)	(7,899)	(18,651)
Insurance Proceeds Receipts							
• Prior Year		-	-	353	-	-	353
• Current Year		-	-	355	118	-	473
Net Spend		(1,938)	(1,676)	(2,717)	(3,594)	(7,899)	(17,825)

Insurance claims on repairs to scheme infrastructure as a result of floods are still pending.

Appendix – Total Expenditure by Expense Type

Table 7 – Detailed Financial Summary
(Including Expenditure for Activity by Type)

Boyne WS	2013			2014			2015			2016			2017			2013 to 2017		
	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000
Revenue	1,112			1,797			3,213			180			1,128			7,431		
Routine Spend																		
Operations																		
Labour	118	62	(56)	77	64	(13)	82	66	(16)	70	68	(2)	79	70	(8)	425	330	(95)
Contractors	3	3	(0)	211	3	(208)	(83)	3	87	(131)	3	134	3	3	0	4	16	13
Materials	3	2	(1)	3	2	(1)	2	2	1	1	2	1	1	2	2	9	11	2
Electricity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	136	55	(81)	198	56	(142)	121	57	(64)	128	58	(70)	307	59	(249)	889	284	(605)
Other	557	11	(546)	(504)	11	515	286	11	(274)	182	12	(170)	51	12	(39)	571	57	(514)
Non-directs	249	136	(112)	135	144	8	168	141	(27)	170	136	(34)	194	137	(57)	915	694	(222)
	1,065	269	(796)	121	280	159	574	280	(294)	419	279	(140)	634	283	(351)	2,813	1,392	(1,421)
Preventative Maintenance																		
Labour	10	29	18	13	29	16	22	30	9	27	31	4	34	32	(1)	106	152	46
Contractors	-	1	1	-	1	1	2	1	(1)	10	1	(9)	4	1	(3)	16	5	(11)
Materials	1	3	2	0	3	3	0	3	3	1	3	3	1	3	2	4	16	12
Other	0	2	2	1	2	1	0	2	2	6	3	(3)	3	3	(1)	11	12	1
Non-directs	18	60	42	23	62	40	40	62	21	55	59	4	59	59	(0)	195	302	107
	30	94	65	38	98	60	64	99	34	99	98	(2)	102	98	(3)	333	487	154
Corrective Maintenance																		
Labour	3	5	2	-	6	6	1	6	5	3	6	3	4	6	2	11	29	18
Contractors	2	1	(1)	-	1	1	1	1	0	11	1	(10)	1	1	0	15	6	(9)
Materials	1	5	4	-	5	5	-	5	5	5	5	1	3	6	3	9	26	17
Other	-	1	1	-	1	1	2	1	(1)	6	1	(5)	0	1	1	8	5	(3)
Non-directs	6	12	5	-	12	12	2	12	11	8	12	4	7	12	5	22	59	37
	12	24	12	-	25	25	5	26	20	33	26	(7)	15	26	11	65	126	61
Routine - total	1,107	388	(719)	159	404	245	644	404	(240)	551	403	(149)	751	407	(344)	3,211	2,006	(1,206)
Non-Routine Spend																		
Labour	466	5	(461)	328	27	(301)	704	3	(701)	751	1	(750)	832	23	(810)	3,082	59	(3,023)
Contractors	315	-	(315)	437	34	(403)	952	-	(952)	956	2	(954)	5,315	20	(5,295)	7,976	56	(7,919)
Materials	30	9	(21)	104	28	(76)	12	94	82	12	2	(10)	4	20	16	161	152	(10)
Other	161	1	(160)	192	26	(166)	386	2	(385)	466	1	(465)	247	11	(236)	1,453	41	(1,412)
Non-directs	966	13	(953)	616	70	(546)	1,370	13	(1,356)	1,526	3	(1,523)	1,501	151	(1,350)	5,979	250	(5,729)
Non-Routine - Total	1,938	28	(1,910)	1,676	185	(1,492)	3,425	112	(3,313)	3,712	9	(3,703)	7,899	225	(7,675)	18,651	558	(18,093)
Total Regulated Spend	3,045	416	(2,629)	1,835	588	(1,247)	4,069	516	(3,553)	4,263	411	(3,851)	8,650	632	(8,018)	21,862	2,564	(19,298)
Non Annuity Funded Spend	-	-	-	-	-	-	3	-	-	3	-	-	3	-	-	9	-	-
Surplus (Deficit)	(1,933)	-	-	(38)	-	-	(859)	-	-	(4,086)	-	-	(7,525)	-	-	(14,441)	-	-

Non-Direct Costs Explained

Non-direct costs reflect SunWater's methodology for distributing indirect costs, local overheads and corporate overheads to each service contract. Wherever practicable labour and other costs are booked direct to service contracts, however, where this is not possible the costs accumulate in either indirect or overhead accounting cost pools and are then distributed to service contracts.

Indirect cost pools capture costs such as billing and customer support, irrigation pricing regulation, asset management (including dam safety, asset systems, channels and drainage) that have not been directly charged. They also include flood room operations including the IGEM emergency management program, water planning, hydrographic services, environmental support costs and GM Operations. These indirect costs are shared between SunWater's lines of business ie Bulk Water, Irrigation Distribution Systems, Industrial Pipeline and Facilities Management where appropriate. For example service contracts without a dam are not apportioned dam safety costs.

Local overheads are spread across service contracts managed in each locality. They include regional accommodation costs, vehicle costs, local admin support and other local labour not directly booked to activities within service contracts.

Corporate overhead costs are more generic than indirect cost and local overheads and are spread across all service contracts based on direct labour. They include the cost of HR and payroll, ICT, communications, legal and property, finance, internal audit, plus the costs of the CEO, GM Corporate and the SunWater Board of Directors, where these costs are not directly charged to activities within service contracts.

SunWater's methodology was reviewed and accepted by the QCA during the 2012 pricing review.

Notes

All financial figures in this report are presented in nominal dollars.

Although the QCA set cost targets based on assumed inflation of 2.5%, 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 reported 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. For comparison, the QCA conversion factors based on assumed inflation of 2.5% are compared with conversion factors based on actual inflation as measured by the Brisbane All Groups Consumer Price Index taken in March each year.

Table 8 – Conversion Factors for real \$2011 to Nominal Dollars

	2013	2014	2015	2016	2017
QCA Conversion Factor	1.051	1.077	1.104	1.131	1.16
Accumulative March Quarter CPI	1.0494	1.0714	1.105	1.1208	1.1397

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