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2017 Annual Performance Report

Bundaberg 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	12
R&E – Annuity Funded	13
Corrective Maintenance	13
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 Bundaberg 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

Bundaberg 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	2,711	2,149	3,546	9,019	2,328	19,753
Less - Routine Expenditure	4 & 7	1,362	1,087	1,229	1,147	1,393	6,219
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	946	4,910	3,118	5,782	1,046	15,803
• Non Annuity Funded	5	-	3	8	11	5	27
Surplus (Deficit)		403	(3,852)	(810)	2,078	(116)	(2,296)

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 smoothing impact of the renewals annuity. Further information is provided below in each section of this report.

In the case of Bundaberg Bulk Water, the major cause of cash deficits is the cost of flood repairs.

Bundaberg WS

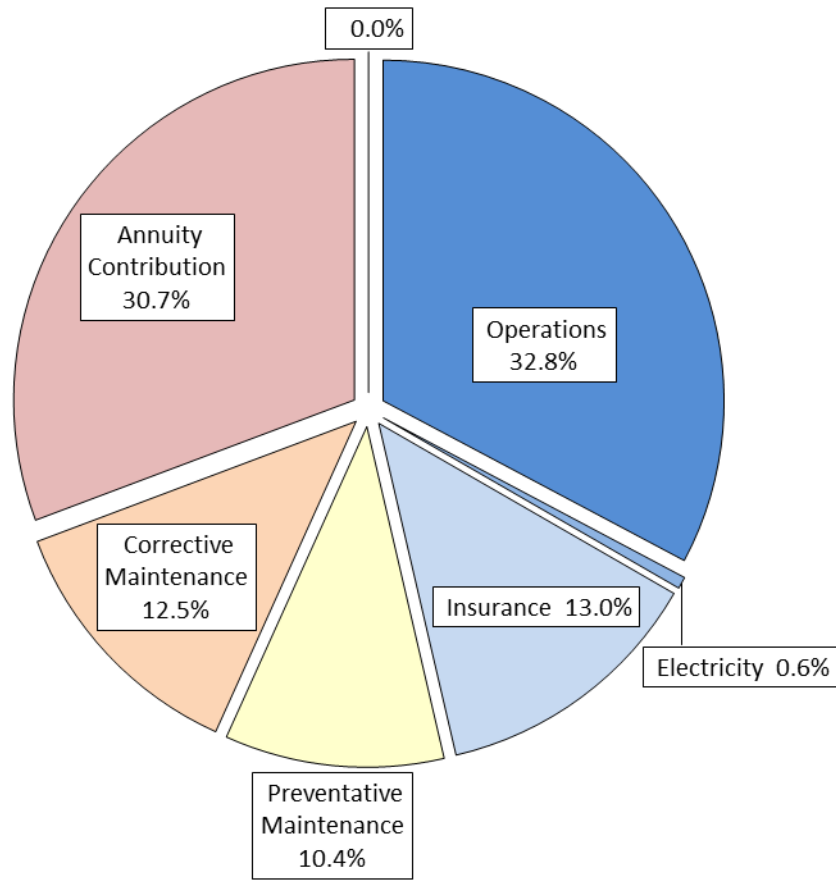


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		386	887	230	196	0
2. Irrigation		199,305	253,314	127	127,801	46
3. Urban		9,571	9,571	100	3,600	15
4. Other		46	46	100	17	37
5. SunWater		171,021	121,058	71	35,081	8
Scheme Total	1,107	380,329	384,876	101	166,695	44

QCA Assumed Total Water Usage 46.7%

* SunWater figures include Burnett Water

Water usage is low, but this figure includes the influence of unallocated Burnett Water.

Revenue

Table 3 – Revenue

Bundaberg WS	2013	2014	2015	2016	2017	2013 to 2017
	Actual	Actual	Actual	Actual	Actual	Actual
	\$000	\$000	\$000	\$000	\$000	\$000
Irrigation	250	431	440	449	470	2,040
Industrial	0	-	-	-	-	0
Urban	722	599	618	626	637	3,202
Irrigation CSO	-	-	-	-	-	-
Revenue Transfers	1,712	1,105	1,101	1,134	1,214	6,264
Drainage	-	-	-	-	-	-
Other	28	15	12	58	7	119
Insurance Proceeds - Flood	-	-	1,376	6,752	-	8,127
Revenue Total	2,711	2,149	3,546	9,019	2,328	19,753

* Following feedback from customers, SunWater has unbundled bulk water charges from distribution system charges. This means that total revenue figures in past performance reports and NSPs will not match those above.

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. The QCA established the transfer cost for irrigation supplies at the cost reflective bulk water tariff.

A small change to 2016 Actual figures in the "Other Revenue". Last year this was reported as \$90K. The \$32K difference is due to the treatment of an item in regards to the gain on sale of an asset. It is a non-cash item and should not have been shown previously in this table.

Routine Expenditure

Table 3 – Routine Operating Expenditure

Bundaberg 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	917	624	(293)	622	649	26	758	652	(106)	592	649	56	659	650	(9)	3,548	3,223	(325)
Electricity	5	9	4	6	10	4	5	11	5	8	11	3	11	12	1	35	54	18
Insurance	186	98	(88)	334	100	(234)	233	101	(131)	203	103	(100)	262	105	(157)	1,218	507	(711)
Operations Total	1,108	731	(377)	963	758	(204)	996	764	(232)	803	763	(40)	933	767	(166)	4,802	3,784	(1,018)
Preventative Maintenance	132	333	201	93	347	254	176	348	172	254	346	92	209	347	137	864	1,720	856
Corrective Maintenance	122	132	9	32	137	105	57	139	82	90	139	49	251	140	(111)	553	687	134
Routine Total	1,362	1,196	(166)	1,087	1,242	155	1,229	1,251	22	1,147	1,248	101	1,393	1,254	(139)	6,219	6,191	(28)

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:

- 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 receiving 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
- Manage public relations associated with the scheme.

¹ Activities listed will not apply to all service contracts.

The operations expenditure was above the QCA target.

- Insurance premium costs remain higher than target. Sunwater has had some success in negotiating improved insurance premiums, however the insurance market continues to price flood risks at higher levels than prevailed when the QCA set prices in 2012;
- Electricity costs are not a major cost within the scheme and remains within 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; and
 - Spraying and other activities to control operational and noxious weeds within channel and drainage reserves.

Preventive maintenance was below 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:
 - Scheme Roads
 - Repair pot holes;
 - Grade roads; and

² Activities listed will not apply to all service contracts.

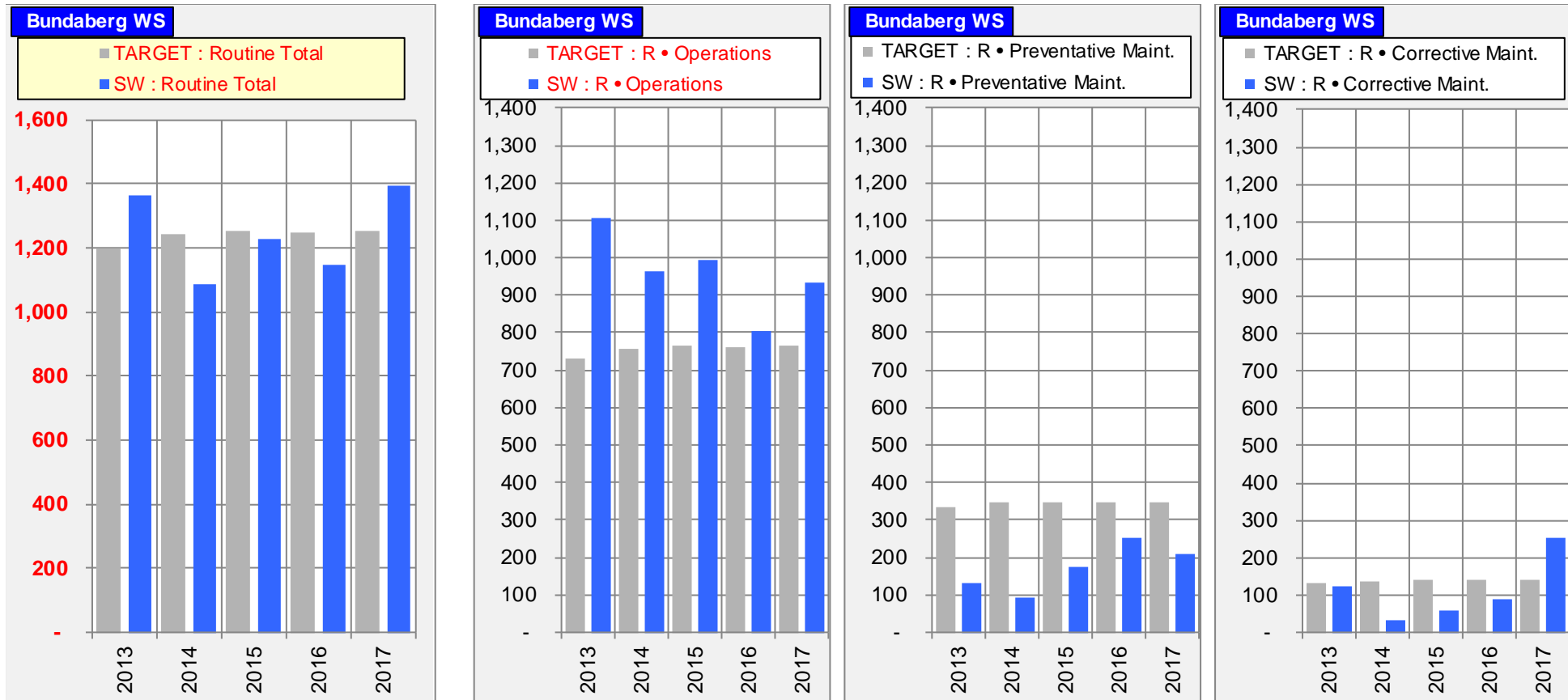
- Repair, replace and paint guide posts and signs.
- Meters
- Repair bulk water meters; and
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify 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 well above 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 4 – Non-Routine Expenditure

Bundaberg 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	-	-	-	-	-	-	-	-	-	4	-	(4)	41	-	(41)	44	-	(44)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	728	-	(728)	4,621	-	(4,621)	2,647	-	(2,647)	5,348	-	(5,348)	330	-	(330)	13,674	-	(13,674)
R&E	217	364	147	289	198	(91)	472	252	(219)	431	541	111	676	359	(316)	2,085	1,716	(369)
Non-routine Total	946	364	(581)	4,910	198	(4,712)	3,118	252	(2,866)	5,782	541	(5,241)	1,046	359	(687)	15,803	1,716	(14,088)
Non Annuity Funded	-			3			8			11			5			27		

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

R&E Annuity Funded	14BIA26 Install Load Limiting Device on Hoist - Ben Anderson Barrage	-3,034
	15BUN03 Provide EAP Accommodation - Fred Haigh Dam	174,772
	16BUN04 Refurbish 10 Shutters at Ben Anderson Barrage	-2,147
	16BUN07 Desktop Review: Spillway Passive Anchors - Fred Haigh Dam	1,414
	16BUN12 Study Extreme Hazard Mapping for EAP and Community Engagement - Fred Haigh	-2,209
	16BUN17 Replace Customer Meter # 32318 - Burnett River	0
	16BUN18 Replace Customer Meter #36625A - Kolan River	0
	16BUN19 Inspection (5 Yearly) Comprehension - Fred Haigh Dam	69,180
	17BUN02 Replace Cables in Main Wall, Outlet Works & Inlet Tower - Fred Haigh Dam (Options - 2017, Design & Procure - 2019, Install & Commission - 2020)	0
	17BUN03 Develop Crane Strategy - Bundaberg Supply	10,694
	17BUN04 Study: Dam Safety Hydrology and Dam Break Review - Fred Haigh Dam	73,500
	17BUN06 Inspection (5 Yearly) Comprehensive - Kolan Barrage	2,305
	17BUN07 Refurbish End Sill Concrete - Ned Churchward Weir	11,336
	17BUN08 Refurbish 10 Shutters - Ben Anderson Barrage	133,591
	17BUN09 Replace L/H Trashracks (8 Off) - Ned Churchward Weir	14,023
	17BUN10 Options Study - Separate Electrical Distribution & TW Gauging Equipment from Pumpstation - Fred Haigh Dam	10,120
	17BUN12 Replace Customer Meter #35535 - Burnett (Warranty claim - installation & project costs only)	1,491
	17BUN13 Replace Piezo Gauge Board and Valves - Fred Haigh Dam	55,602
	17BUN14 Investigate Seepage Path - Ben Anderson Barrage	90,533
	17BUN15 17BUN15 Replace failed meters Burnett River 71882, 41602W, 5022 and 30240	11,001
17BUN16 17BUN16 Replace failed meters Kolan River 30479, and 30478	4,577	
ADSCOPE-BBB Asset Delivery Scoping - Bundaberg Supply	19,028	
R&E Annuity Funded Total	675,777	

Corrective Maintenance

The annuity funded corrective maintenance Projects undertaken included:

Corrective Maintenance	13BIA47 FD01 (2013) Flood Damage Repairs at Ben Anderson Barrage	190,060
	15BUN11 FD01 (2013) - Fred Haigh Dam; Flood Damage repairs to D/S Channel	0
	17BUN11 FD01 (2013) Fred Haigh Dam - Spillway Discharge Channel Flood Repairs	139,627
Corrective Maintenance Total	329,687	

Other

Other annuity funded projects included.

Other	16BUN16 Create Material & Asset Hierarchy Standard & Task Lists - BBB Bundaberg Supply	29,126
	17BUN19 FD01 (2017) Flood Operations during TC Debbie - Fred Haigh Dam	11,837
Other Total		40,963

R&E – Non Annuity

The Non-annuity funded Projects are projects where customers have funded the project. For 2016 they included:

Customer Funded	17BUN17 17BUN17 Install new metered offtake 30242	4,511
Customer Funded Total		4,511

Annuity Balance

The 2017 annuity balance is shown below.

Table 5 – Annuity Balance

Bundaberg 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	(2,771)	(3,363)	(7,952)	(9,368)	(8,501)	(2,771)
Net Spend		(946)	(4,910)	(1,406)	969	(1,046)	(7,339)
Annuity Contribution		561	574	585	599	618	2,937
Interest		(208)	(252)	(596)	(702)	(637)	(2,393)
SunWater - Closing Balance		(3,363)	(7,952)	(9,368)	(8,501)	(9,566)	(9,566)
QCA - Closing Balance		(1,764)	(1,521)	(1,302)	(1,342)	(1,183)	(1,183)
Difference		(1,599)	(6,431)	(8,066)	(7,159)	(8,383)	(8,383)
Net Spend Analysis							
Spend	5 & 7	(946)	(4,910)	(3,118)	(5,782)	(1,046)	(15,803)
Insurance Proceeds Receipts							
• Prior Year		-	-	337	-	-	337
• Current Year		-	-	1,376	6,752	-	8,127
Net Spend		(946)	(4,910)	(1,406)	969	(1,046)	(7,339)

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)**

Bundaberg 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	2,711			2,149			3,546			9,019			2,328			19,753		
Routine Spend																		
Operations																		
Labour	272	167	(106)	156	172	16	229	178	(51)	157	183	26	179	189	10	993	889	(104)
Contractors	29	29	0	9	30	21	54	31	(23)	10	32	21	12	32	20	114	154	40
Materials	6	12	6	3	13	10	2	13	11	8	13	5	3	14	11	21	64	43
Electricity	5	9	4	6	10	4	5	11	5	8	11	3	11	12	1	35	54	18
Insurance	186	98	(88)	334	100	(234)	233	101	(131)	203	103	(100)	262	105	(157)	1,218	507	(711)
Other	56	54	(2)	141	55	(86)	127	56	(72)	81	57	(25)	100	58	(43)	506	278	(227)
Non-directs	554	362	(192)	313	379	66	346	375	29	335	363	28	365	357	(8)	1,914	1,837	(77)
	1,108	731	(377)	963	758	(204)	996	764	(232)	803	763	(40)	933	767	(166)	4,802	3,784	(1,018)
Preventative Maintenance																		
Labour	37	98	60	33	101	68	59	104	45	74	107	33	66	111	45	269	520	250
Contractors	13	5	(8)	5	5	(0)	3	5	3	19	6	(14)	19	6	(14)	59	27	(32)
Materials	7	28	21	4	29	25	4	30	26	6	30	25	5	31	26	25	147	122
Other	1	4	3	2	4	2	4	4	(0)	4	4	(0)	3	4	0	14	19	5
Non-directs	74	199	125	49	209	160	107	205	99	151	199	48	116	196	80	497	1,008	511
	132	333	201	93	347	254	176	348	172	254	346	92	209	347	137	864	1,720	856
Corrective Maintenance																		
Labour	31	27	(4)	10	27	17	12	28	16	21	29	9	65	30	(34)	139	142	3
Contractors	4	15	11	0	16	15	14	16	2	9	17	8	44	17	(27)	71	81	9
Materials	16	25	8	4	25	21	7	26	19	12	27	15	26	27	2	65	131	65
Other	0	9	9	0	9	9	0	10	9	4	10	6	5	10	6	9	48	40
Non-directs	70	56	(14)	17	59	42	24	58	35	44	56	12	113	56	(57)	269	285	17
	122	132	9	32	137	105	57	139	82	90	139	49	251	140	(111)	553	687	134
Routine - total	1,362	1,196	(166)	1,087	1,242	155	1,229	1,251	22	1,147	1,248	101	1,393	1,254	(139)	6,219	6,191	(28)
Non-Routine Spend																		
Labour	155	66	(89)	319	1	(318)	389	9	(380)	352	104	(249)	158	69	(89)	1,374	249	(1,125)
Contractors	406	49	(357)	3,620	0	(3,620)	1,837	5	(1,833)	4,389	79	(4,310)	527	53	(474)	10,779	186	(10,593)
Materials	53	61	8	70	0	(70)	4	5	1	27	94	67	18	60	42	173	220	48
Other	44	31	(13)	124	1	(123)	75	3	(72)	73	52	(20)	29	31	2	344	117	(227)
Non-directs	287	157	(130)	776	196	(580)	814	231	(583)	942	213	(729)	314	146	(167)	3,133	943	(2,190)
Non-Routine - Total	946	364	(581)	4,910	198	(4,712)	3,118	252	(2,866)	5,782	541	(5,241)	1,046	359	(687)	15,803	1,716	(14,088)
Total Regulated Spend	2,308	1,560	(747)	5,997	1,440	(4,557)	4,348	1,503	(2,844)	6,930	1,789	(5,140)	2,440	1,613	(826)	22,022	7,907	(14,116)
Non Annuity Funded Spend	-			3			8			11			5			27		
Surplus (Deficit)	403			(3,852)			(810)			2,078			(116)			(2,296)		

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

Disclaimer

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