

SunWater Limited
Level 10, 179 Turbot Street
PO Box 15536 City East
Brisbane Queensland 4002
www.sunwater.com.au
ACN 131 034 985



2017 Annual Performance Report

Dawson Bulk

October 2017

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Introduction

This annual Performance Report is to provide to SunWater Dawson Valley 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

Dawson 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	2,124	3,003	3,298	3,471	3,648	15,545
Less - Routine Expenditure	4 & 7	858	814	590	767	743	3,772
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	49	311	298	440	468	1,567
• Non Annuity Funded	5	-	4	3	-	-	7
Surplus (Deficit)		1,217	1,874	2,407	2,264	2,437	10,199

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.

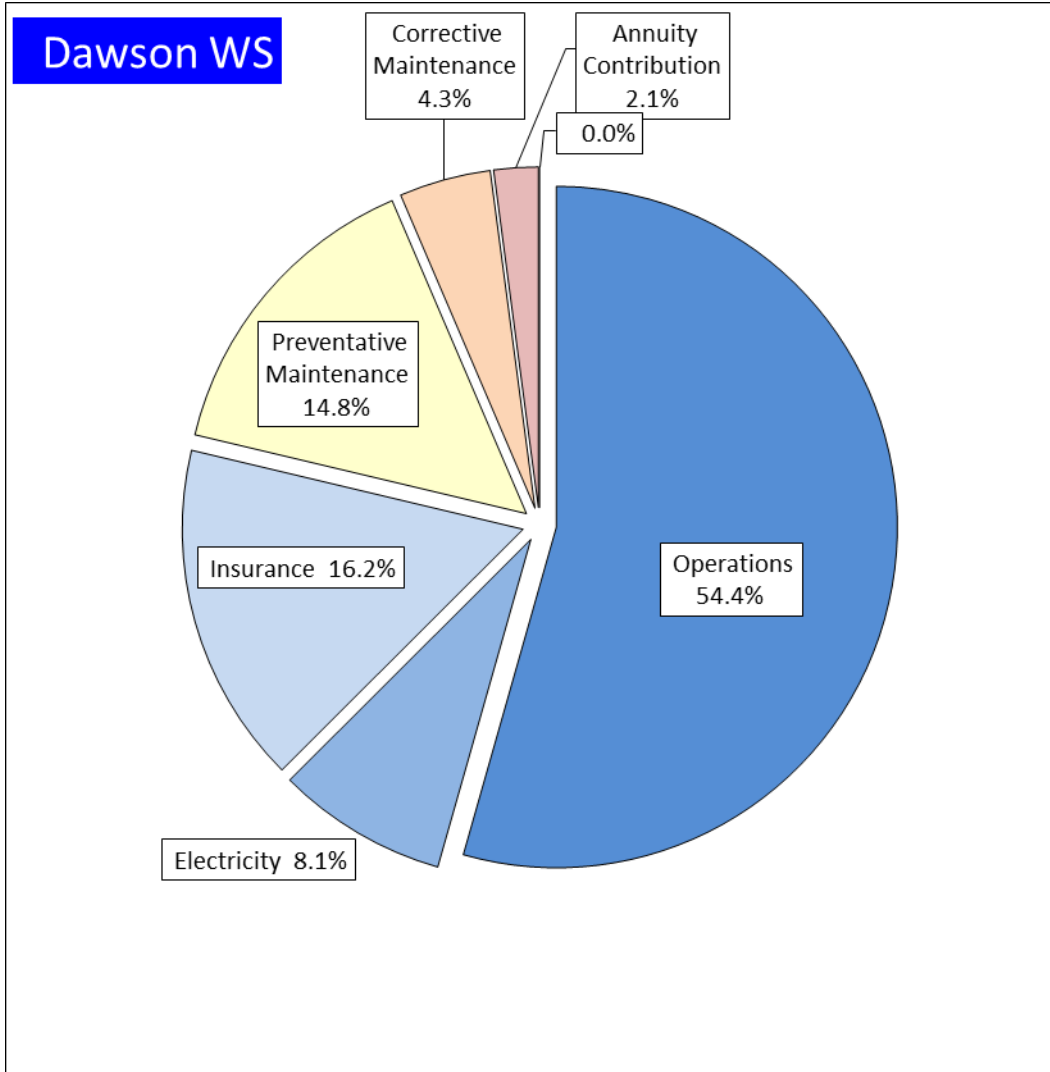


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		3,918	3,774	96	1,902	49
2. Irrigation		51,394	54,738	107	33,527	65
3. Urban		2,283	2,061	90	1,036	45
4. Other		0	0	0	0	0
5. SunWater		4,142	4,342	105	2,720	66
Scheme Total	177	61,737	64,915	105	39,185	63

QCA Assumed Total Water Usage 70.7%

Total usage was below the QCA assumed total usage.

Revenue

Table 3 – Revenue

Dawson WS	2013	2014	2015	2016	2017	2013 to 2017
	Actual	Actual	Actual	Actual	Actual	Actual
	\$000	\$000	\$000	\$000	\$000	\$000
Irrigation	214	760	528	868	878	3,249
Industrial	1,203	1,497	1,663	1,694	1,913	7,970
Urban	441	485	561	581	623	2,691
Irrigation CSO	1	-	-	-	-	1
Revenue Transfers	259	220	216	222	234	1,151
Drainage	-	-	-	-	-	-
Other	7	41	7	16	-	71
Insurance Proceeds - Flood	-	-	323	89	-	412
Revenue Total	2,124	3,003	3,298	3,471	3,648	15,545

* Following feedback from customers, SunWater has unbundled bulk water charges from distribution system charges. This means that 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.

Routine Expenditure

Table 4 – Routine Operating Expenditure

Dawson 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	556	601	46	461	626	166	307	627	320	491	621	130	413	626	213	2,228	3,102	874
Electricity	15	34	19	25	36	11	48	39	(10)	22	42	20	62	45	(17)	172	195	23
Insurance	91	48	(43)	164	49	(115)	111	50	(61)	102	51	(51)	123	52	(71)	592	251	(341)
Operations Total	662	683	21	650	712	62	467	716	249	615	714	99	598	723	125	2,991	3,547	556
Preventative Maintenance	135	198	63	95	206	111	109	206	97	118	205	87	113	206	93	569	1,021	451
Corrective Maintenance	60	91	30	70	94	24	14	95	81	34	94	60	33	95	62	211	468	257
Routine Total	858	972	114	814	1,012	198	590	1,017	427	767	1,013	246	743	1,023	280	3,772	5,036	1,264

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 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 below the QCA target.

- Insurance costs were higher than target;
- Electricity costs was above 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 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:

² Activities listed will not apply to all service contracts.

- Channels
 - De-silting channels and catch drains;
 - 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

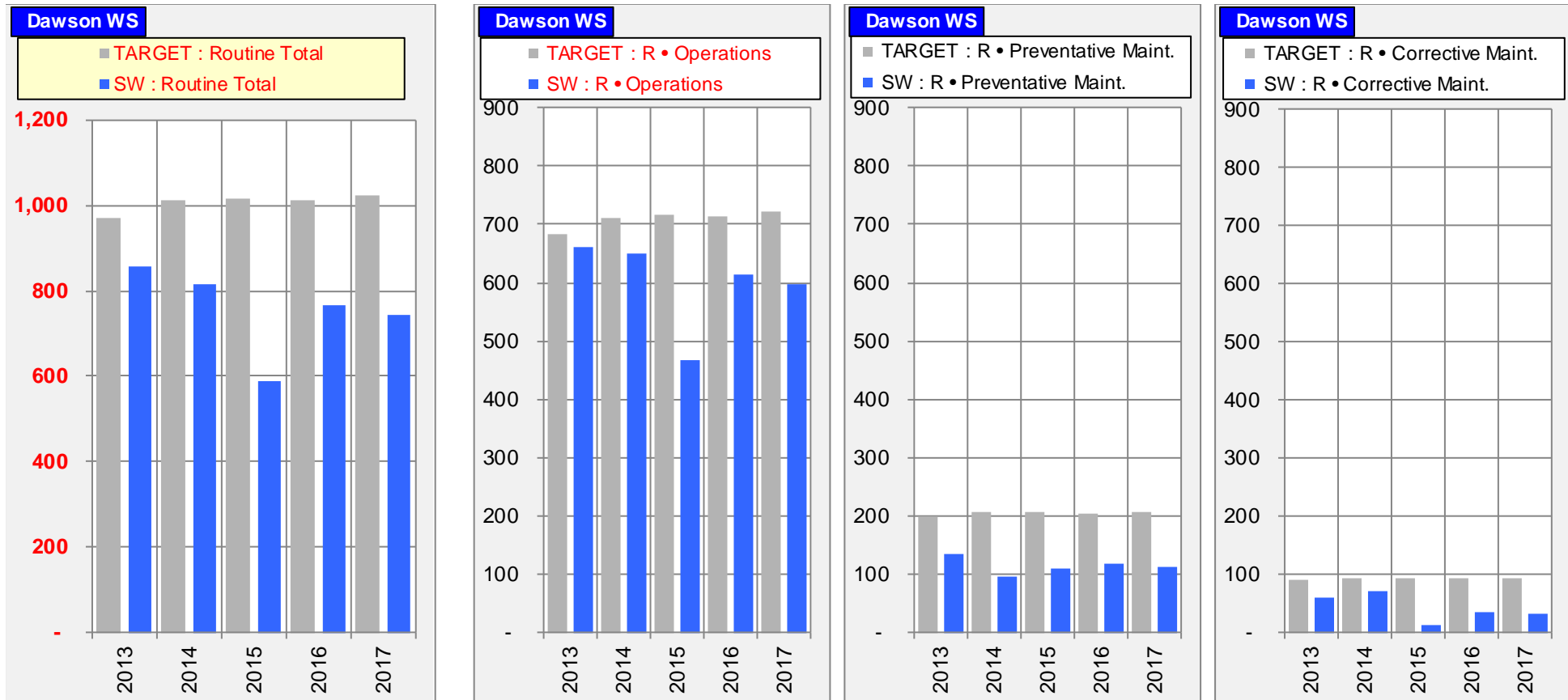
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair 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

Dawson 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	-	-	-	-	-	-	-	15	15	4	-	(4)	29	-	(29)	33	15	(18)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	81	-	(81)	130	-	(130)	-	-	-	-	-	-	13	-	(13)	223	-	(223)
R&E	(31)	144	175	181	190	8	298	130	(168)	437	82	(355)	426	623	197	1,311	1,168	(144)
Non-routine Total	49	144	94	311	190	(122)	298	144	(154)	440	82	(359)	468	623	155	1,567	1,182	(385)
Non Annuity Funded	-	-	-	4	-	-	3	-	-	-	-	-	-	-	-	7	-	-

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

<input type="checkbox"/> R&E Annuity Funded	15DAW01 Upgrade PLC and SCADA System - MOSS Pump Station (Drawings/Spec/Cost Estimate 2015, Supply/Install/Commission 2016)	130,836
	16DAW01 Design and Manufacture Bulkhead Gates, Refurbish the Regulating Gates 1 & 2 - Theodore Weir	69,107
	17DAW07 Study: Dam Safety Hydrology and Dam Break Review - MOSS	62,276
	17DAW04 Replace 600 Dia B/Fly Control Valves 1 & 2 - Moura Offstream Storage	52,862
	15DAW02 Inspection (5 Yearly) Comprehensive - Neville Hewitt Weir	44,392
	15DAW06 Options Analysis Study to Reinstate Weir to Operational Condition - Orange Creek Weir (SunWater response to Customer Request)	20,369
	ADSCOPE-LBD Asset Delivery Scoping - Dawson Supply	13,300
	17DAW05 Develop Crane Strategy - Dawson Supply	6,936
	16DAW06 Inspect 5 Year Comprehensive Inspection - Moura Off Stream Storage	6,495
	17DAW03 2 Yearly Condition Assessment Electrical - Nev Hewitt Weir	4,564
	17DAW01 2 Yearly Condition Assessment Electrical - Moura Weir	4,535
	17DAW02 2 Yearly Condition Assessment Electrical - Gyranda Weir	4,275
	14DVA08 Neville Hewitt - Upgrade Computer for SCADA Network	3,716
	17DAW08 Desilt inlet chase to fishway and rectify the slide doors issue to make the fishlock in operational condition	2,313
R&E Annuity Funded Total		425,976

Corrective Maintenance

The “Annuity-funded Corrective Maintenance” project was:

<input type="checkbox"/> Corrective Maintenance	17DAW09 FD01 (2017) Flood Damage Inspection post TC Debbie - Dawson River	12,744
Corrective Maintenance Total		12,744

Other

The “Annuity-funded Other” Projects undertaken:

<input type="checkbox"/> Other	16DAW07 Create Material & Asset Hierarchy Standard & Task Lists - LBD	29,139
Other Total		29,139

R&E – Non Annuity

There was no expenditure categorised as “Non-annuity funded R&E”.

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

Dawson 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	1,875	1,919	1,706	2,024	1,817	1,875
Net Spend		(49)	(311)	210	(351)	(468)	(970)
Annuity Contribution		(47)	(45)	(20)	(7)	16	(103)
Interest		140	144	128	152	136	700
SunWater - Closing Balance		1,919	1,706	2,024	1,817	1,501	1,501
QCA - Closing Balance		2,885	2,867	2,917	3,047	2,668	2,668
Difference		(966)	(1,161)	(894)	(1,230)	(1,167)	(1,167)
Net Spend Analysis							
Spend	5 & 7	(49)	(311)	(298)	(440)	(468)	(1,567)
Insurance Proceeds Receipts							
• Prior Year		-	-	185	-	-	185
• Current Year		-	-	323	89	-	412
Net Spend		(49)	(311)	210	(351)	(468)	(970)

Appendix – Total Expenditure by Expense Type

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

Dawson 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	2,124			3,003			3,298			3,471			3,648			15,545		
Routine Spend																		
Operations																		
Labour	178	184	6	152	190	38	97	196	99	150	203	53	122	209	88	698	983	284
Contractors	6	5	(0)	5	5	(0)	30	6	(24)	8	6	(2)	8	6	(2)	57	28	(29)
Materials	1	2	0	2	2	(0)	0	2	2	1	2	1	1	2	1	5	9	4
Electricity	15	34	19	25	36	11	48	39	(10)	22	42	20	62	45	(17)	172	195	23
Insurance	91	48	(43)	164	49	(115)	111	50	(61)	102	51	(51)	123	52	(71)	592	251	(341)
Other	20	25	5	23	26	3	20	26	6	24	27	2	26	27	1	113	131	17
Non-directs	350	385	35	278	403	125	160	397	238	309	384	75	257	382	125	1,354	1,952	598
	662	683	21	650	712	62	467	716	249	615	714	99	598	723	125	2,991	3,547	556
Preventative Maintenance																		
Labour	45	59	14	31	61	30	35	63	29	35	65	30	29	67	38	175	317	142
Contractors	3	4	1	-	4	4	3	4	1	0	4	4	15	4	(10)	20	20	(0)
Materials	4	6	2	3	6	3	1	6	5	1	6	6	0	7	6	9	31	22
Other	(1)	8	9	3	8	5	7	9	2	8	9	1	15	9	(6)	33	43	11
Non-directs	84	120	36	57	126	69	64	124	60	74	120	46	53	118	66	332	609	277
	135	198	63	95	206	111	109	206	97	118	205	87	113	206	93	569	1,021	451
Corrective Maintenance																		
Labour	15	26	11	16	27	11	3	28	25	7	29	21	8	30	22	49	139	90
Contractors	5	2	(4)	15	2	(14)	-	2	2	5	2	(3)	7	2	(6)	33	8	(25)
Materials	8	8	0	8	8	0	6	9	3	5	9	4	3	9	6	31	44	13
Other	0	2	1	1	2	1	0	2	2	1	2	0	0	2	2	2	8	6
Non-directs	32	53	22	30	56	25	5	55	50	16	53	37	15	52	38	97	269	172
	60	91	30	70	94	24	14	95	81	34	94	60	33	95	62	211	468	257
Routine - total	858	972	114	814	1,012	198	590	1,017	427	767	1,013	246	743	1,023	280	3,772	5,036	1,264
Non-Routine Spend																		
Labour	57	19	(38)	46	30	(16)	46	23	(23)	89	10	(79)	59	110	51	298	192	(105)
Contractors	5	48	43	131	33	(98)	115	29	(87)	158	27	(131)	249	109	(140)	658	246	(413)
Materials	(112)	17	129	31	33	2	13	24	11	12	17	5	19	109	90	(37)	200	237
Other	5	9	4	10	18	8	32	13	(19)	(1)	4	5	24	59	36	69	104	35
Non-directs	94	50	(44)	93	74	(19)	92	56	(36)	183	24	(159)	117	235	118	579	440	(139)
Non-Routine - Total	49	144	94	311	190	(122)	298	144	(154)	440	82	(359)	468	623	155	1,567	1,182	(385)
Total Regulated Spend	907	1,115	208	1,126	1,201	76	888	1,161	273	1,207	1,094	(113)	1,211	1,645	434	5,339	6,218	879
Non Annuity Funded Spend	-			4			3			-			-			7		
Surplus (Deficit)	1,217			1,874			2,407			2,264			2,437			10,199		

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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