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2017 Annual Performance Report

Dawson Distribution

October 2017

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Introduction

This annual Performance Report is to provide to SunWater Dawson Valley Distribution 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 IS		2013	2014	2015	2016	2017	2013 to 2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000
Revenue	3	1,124	1,501	1,839	1,648	1,636	7,748
Less - Routine Expenditure	4 & 7	962	1,349	1,237	1,193	1,212	5,952
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	379	67	215	185	275	1,122
• Non Annuity Funded	5	-	-	-	-	-	-
Surplus (Deficit)		(217)	85	388	269	150	674

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.

Dawson IS

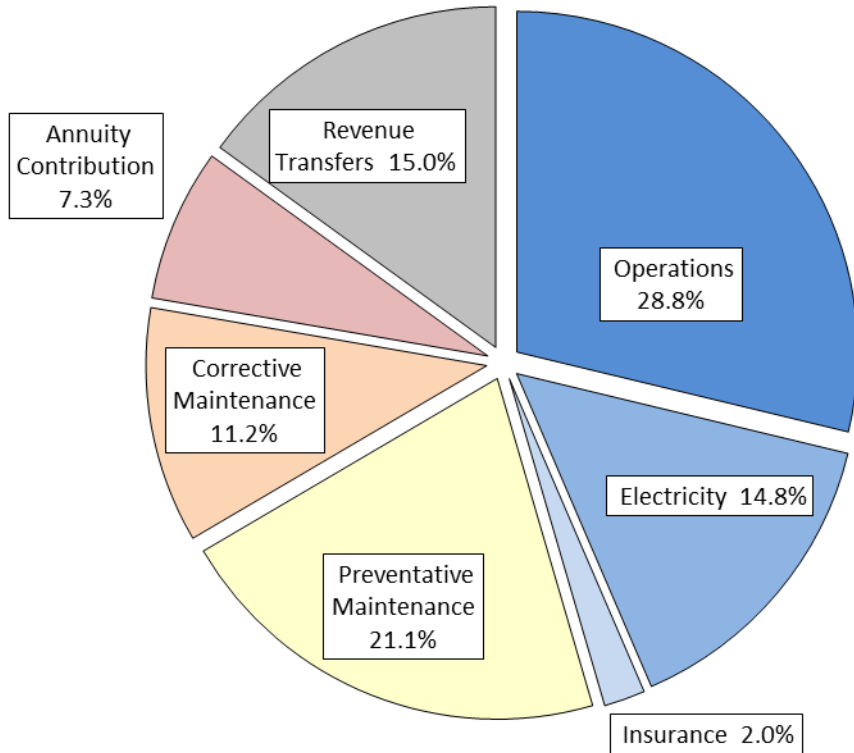


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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. The item “Revenue Transfers” refers to the contribution towards the cost of the bulk water scheme.

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		0	7	0	7	0
2. Irrigation		15,850	17,987	113	13,067	82
3. Urban		2	2	100	0	7
5. SunWater		4,005	4,005	100	2,719	68
Service Contract Total	46	19,857	22,001	111	15,793	80

QCA Assumed Total Water Usage 73.5%

Total Water use is above QCA estimate.

Revenue

Table 3 – Revenue

Dawson IS	2013	2014	2015	2016	2017	2013 to 2017
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000
Irrigation	874	1,228	1,215	1,396	1,442	6,154
Industrial	-	-	0	0	0	1
Urban	0	0	1	1	1	4
Irrigation CSO	462	447	425	401	376	2,111
Revenue Transfers	(259)	(220)	(216)	(222)	(234)	(1,151)
Drainage	44	46	47	49	51	238
Other	2	-	0	-	-	2
Insurance Proceeds - Flood	-	-	366	23	-	389
Revenue Total	1,124	1,501	1,839	1,648	1,636	7,748

* 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.

Routine Expenditure

Table 4 – Routine Operating Expenditure

Dawson IS	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	321	530	208	583	548	(35)	588	557	(31)	467	558	92	448	552	104	2,408	2,745	337
Electricity	125	157	31	190	168	(23)	164	179	15	206	194	(12)	230	207	(23)	915	904	(11)
Insurance	34	23	(11)	46	23	(22)	36	24	(12)	33	24	(8)	30	25	(6)	179	119	(60)
Operations Total	480	709	229	819	739	(80)	788	760	(28)	705	776	71	709	784	75	3,502	3,768	267
Preventative Maintenance	404	387	(17)	404	398	(6)	320	408	88	329	412	83	328	410	82	1,785	2,015	229
Corrective Maintenance	77	204	127	126	210	85	129	215	87	159	217	58	174	216	41	665	1,063	398
Routine Total	962	1,300	339	1,349	1,347	(2)	1,237	1,383	147	1,193	1,405	212	1,212	1,410	198	5,952	6,846	894

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:

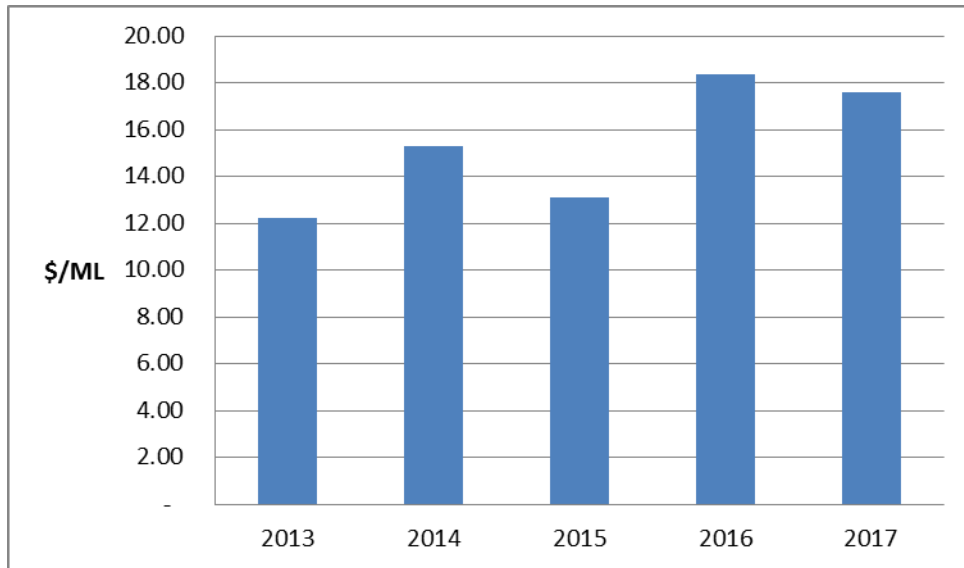
- Scheduling and delivering water, including processing water orders, releasing water, operating pump stations, regulation and monitoring of channel flows and monitoring of customer deliveries;
- Emergency responses for channel overflows and other emergency events;
- Meter reading;
- Administration of 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 were above the QCA target.

The chart below tracks pumping cost per ML delivered across the price path based on actual data. The chart reflects the escalation of electricity prices, tariff changes and variation in volumes lifted by high cost and low cost pump stations.



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, drains and levee banks;

- Copper Sulphate treatment; and
- Spraying and other activities to control operational and noxious weeds within channel, drains and levee banks.

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:
 - 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

² Activities listed will not apply to all service contracts.

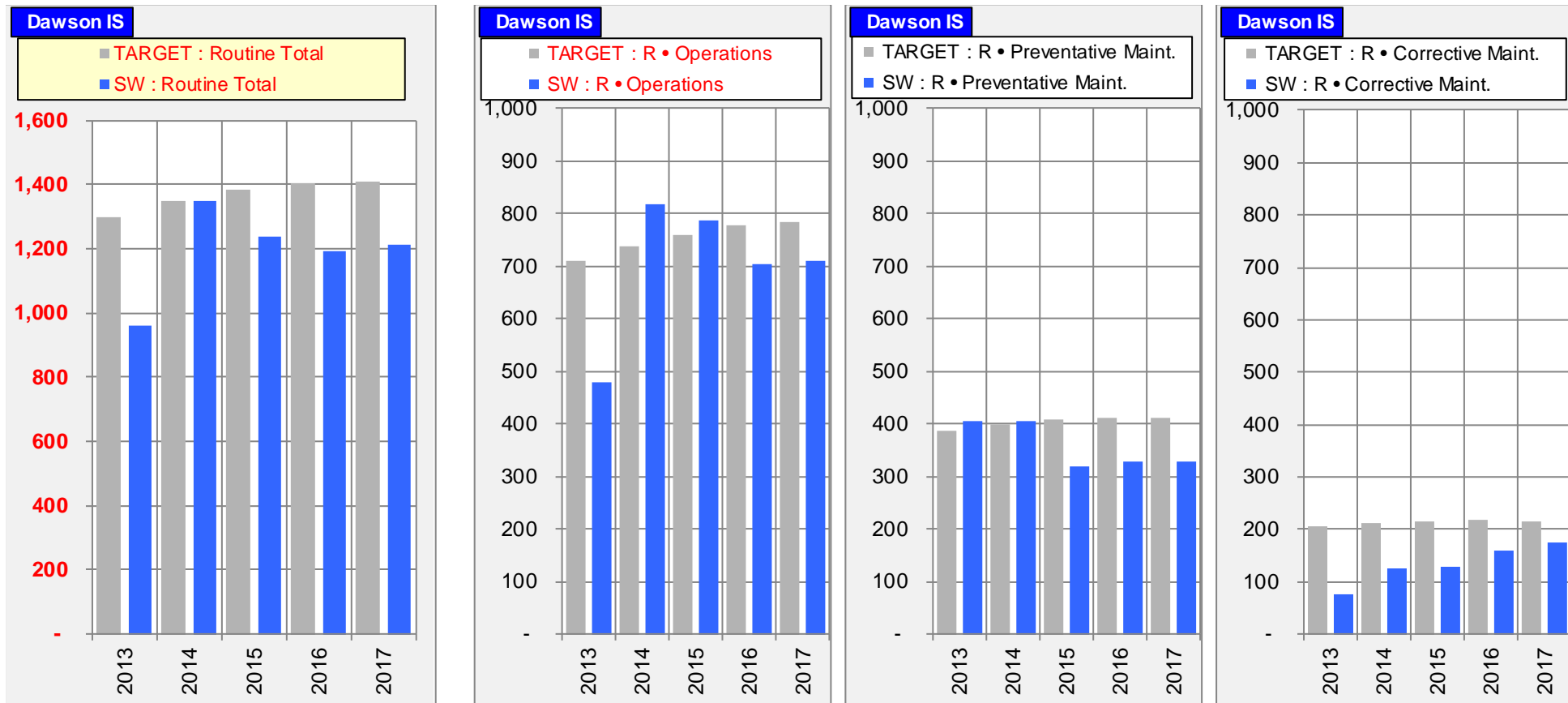
- Repair concrete structures.
- Scheme Roads
 - Repair pot holes;
 - Repair, replace and paint guide posts and signs.
- Pump stations
 - Repair concrete structure; and
 - Repairs to internal walkways and metal covers
- Meters
 - Repair customer meters.
- Emergency corrective maintenance is maintenance 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 failures;
 - Repair or correction of pipeline failures; 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 electricity, Acrolein and 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.

SunWater is focusing effort on reviewing renewals profiles so that assets are maintained to the required standard with the minimum spend. This review extends to considering the key asset replacement assumptions so that the profile better reflects likely spend each year and moves away from assuming assets are replaced at end of standard life, based on their replacement costs. This is expected to reduce the renewals profile going forward and will be discussed in more detail with customers prior to the 2017 financial year.

Table 5 – Non-Routine Expenditure

Dawson IS	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	43	-	(43)	0	-	(0)	-	-	-	-	-	-	-	-	-	43	-	(43)
R&E	336	65	(271)	67	374	307	215	215	(0)	185	106	(79)	275	120	(155)	1,079	880	(199)
Non-routine Total	379	65	(314)	67	374	307	215	215	(0)	185	106	(79)	275	120	(155)	1,122	880	(242)
Non Annuity Funded	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

R&E Annuity Funded	11DVA11 Refurbish Pump and Motor - PUN3 - Theodore Pump Station	88,892
	16DVA01 Design & Replace Siphon Support Structure - Theodore Channel D SI01	86,518
	17DVA09 Replacement of Gibber Gonyah and Theodore Pump Station Flowmeters (Options Analysis 2017)	24,725
	17DVA03 Replace Reg. Gate Control Equipment - Theodore Channel A (1405m) & Channel B (663m)	24,243
	17DVA06 17DVA06 Replace Gate Control Equipment	16,607
	17DVA07 17DVA07 Fabricate/Install Safety Screen - Siphon SI01 & SI02	9,993
	17DVA05 Replace Fixed Angle Weed Screens # Gibber Gonyah Main Channel (Ch 1 Offtake) & Access Crossing 370-372m on Channel 1/5	9,993
	17DVA04 17DVA04 Replace Safety Screens - Access Crossing Ch 967.7m	8,545
	17DVA08 Replace Vacuum Pump at No 1 Theodore Pump Station	5,449
R&E Annuity Funded Total	274,965	

Corrective Maintenance

There was no expenditure categorised as “Corrective Maintenance”.

Other

There was no expenditure categorised as “Annuity-funded Other”.

R&E – Non Annuity

There was no expenditure categorised as “Non Annuity”.

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

Dawson IS		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	1,337	1,108	1,206	1,787	1,868	1,337
Net Spend		(379)	(67)	384	(163)	(275)	(501)
Annuity Contribution		51	82	107	110	113	463
Interest		100	83	90	134	140	547
SunWater - Closing Balance		1,108	1,206	1,787	1,868	1,846	1,846
QCA - Closing Balance		2,437	2,327	2,394	2,578	2,764	2,764
Difference		(1,329)	(1,121)	(607)	(709)	(917)	(917)
Net Spend Analysis							
Spend	5 & 7	(379)	(67)	(215)	(185)	(275)	(1,122)
Insurance Proceeds Receipts							
• Prior Year		-	-	233	-	-	233
• Current Year		-	-	366	23	-	389
Net Spend		(379)	(67)	384	(163)	(275)	(501)

Appendix – Total Expenditure by Expense Type

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

Dawson IS	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	1,124			1,501			1,839			1,648			1,636			7,748		
Routine Spend																		
Operations																		
Labour	115	191	76	213	197	(16)	213	204	(9)	169	210	42	161	217	55	872	1,019	147
Contractors	1	-	(1)	1	-	(1)	2	-	(2)	-	-	-	5	-	(5)	9	-	(9)
Materials	4	0	(3)	6	0	(5)	3	1	(3)	1	1	(0)	8	1	(7)	21	3	(19)
Electricity	125	157	31	190	168	(23)	164	179	15	206	194	(12)	230	207	(23)	915	904	(11)
Insurance	34	23	(11)	46	23	(22)	36	24	(12)	33	24	(8)	30	25	(6)	179	119	(60)
Other	6	5	(1)	13	5	(7)	9	6	(3)	12	6	(7)	13	6	(8)	53	28	(25)
Non-directs	195	333	138	350	344	(6)	361	348	(14)	285	342	57	261	329	68	1,453	1,696	243
	480	709	229	819	739	(80)	788	760	(28)	705	776	71	709	784	75	3,502	3,768	267
Preventative Maintenance																		
Labour	122	109	(13)	106	113	6	102	116	15	104	120	16	108	124	16	542	581	40
Contractors	50	54	4	81	55	(26)	14	57	43	15	59	44	15	60	44	177	285	108
Materials	31	25	(6)	35	25	(9)	14	26	12	9	27	18	12	27	16	101	131	30
Other	0	13	13	4	13	9	16	14	(3)	24	14	(10)	18	15	(3)	63	69	6
Non-directs	201	186	(15)	177	191	14	173	194	21	176	192	15	175	185	10	903	949	45
	404	387	(17)	404	398	(6)	320	408	88	329	412	83	328	410	82	1,785	2,015	229
Corrective Maintenance																		
Labour	21	64	43	31	66	35	39	68	29	42	70	28	54	73	19	187	342	155
Contractors	3	3	(0)	16	3	(13)	2	3	1	3	3	(0)	2	3	1	27	15	(12)
Materials	18	15	(3)	21	15	(6)	8	16	7	27	16	(11)	27	17	(10)	101	79	(22)
Other	-	14	14	4	15	11	12	15	3	13	16	2	10	16	6	39	76	37
Non-directs	36	108	73	53	111	59	67	113	46	73	111	39	83	107	25	311	551	240
	77	204	127	126	210	85	129	215	87	159	217	58	174	216	41	665	1,063	398
Routine - total	962	1,300	339	1,349	1,347	(2)	1,237	1,383	147	1,193	1,405	212	1,212	1,410	198	5,952	6,846	894
Non-Routine Spend																		
Labour	50	11	(39)	8	60	51	8	38	29	16	19	3	14	22	8	97	150	53
Contractors	195	12	(183)	42	65	23	143	41	(102)	129	21	(109)	222	24	(199)	731	163	(568)
Materials	-	12	12	0	65	65	32	41	9	1	21	19	4	24	19	38	163	125
Other	36	7	(29)	1	36	35	9	22	13	4	11	7	1	13	12	50	89	39
Non-directs	98	23	(76)	16	148	132	23	73	50	35	35	0	34	38	4	206	316	110
Non-Routine - Total	379	65	(314)	67	374	307	215	215	(0)	185	106	(79)	275	120	(155)	1,122	880	(242)
Total Regulated Spend	1,341	1,366	25	1,416	1,721	305	1,452	1,598	146	1,378	1,511	132	1,486	1,530	44	7,074	7,726	652
Non Annuity Funded Spend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus (Deficit)	(217)			85			388			269			150			674		

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 below 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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