

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

Eton Bulk

October 2017

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Introduction

This annual Performance Report is to provide to SunWater Eton 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

Eton 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	1,496	18,096	3,263	1,416	1,861	26,132
Less - Routine Expenditure	4 & 7	1,492	1,632	1,395	1,891	1,161	7,571
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	259	58	81	373	1,182	1,953
• Non Annuity Funded	5	4,055	9,606	2,023	-	(6)	15,679
Surplus (Deficit)		(4,310)	6,799	(235)	(848)	(476)	929

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.

Eton WS

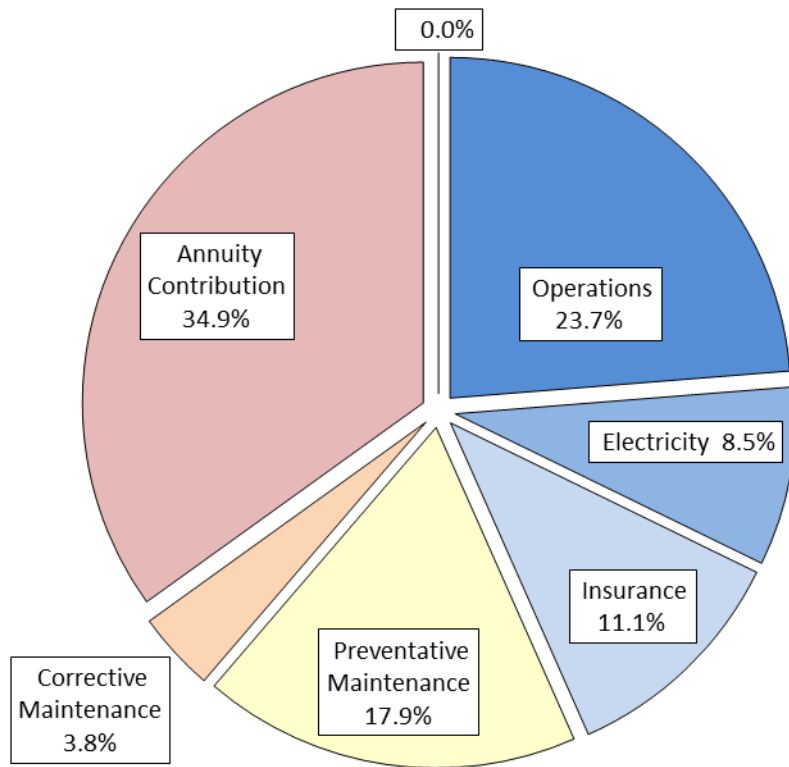


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		100	100	100	0	0
2. Irrigation		52,817	52,349	61	13,020	10
3. Urban		176	186	100	40	0
4. Other		81	81	100	7	
5. SunWater		9,389	9,389	100	4,476	20
Scheme Total	330	62,563	62,105	99	17,543	28

QCA Assumed Total Water Usage 53.5%

Note: Risk allocations have been included in the above table.
Water usage is below the QCA's estimate.

Revenue

Table 3 – Revenue

Eton WS	2013	2014	2015	2016	2017	2013 to
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000	2017 Actual \$000
Irrigation	7	29	(390)	(158)	391	(121)
Industrial	-	2	1	1	-	3
Urban	41	2	0	0	0	44
Irrigation CSO	-	-	-	-	-	-
Revenue Transfers	1,404	1,194	1,510	1,535	1,469	7,112
Drainage	-	-	-	-	-	-
Other	44	16,869	2,108	38	-	19,059
Insurance Proceeds - Flood	-	-	35	-	-	35
Revenue Total	1,496	18,096	3,263	1,416	1,861	26,132

* 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.

* The Other Revenue for 2014 includes the \$16.85m grant from the Government for Kinchant Dam spillway upgrade.

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

Eton 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	579	462	(117)	501	481	(20)	579	485	(94)	519	482	(37)	423	483	60	2,601	2,394	(208)
Electricity	261	231	(30)	417	247	(170)	307	264	(43)	723	285	(438)	152	305	154	1,860	1,332	(527)
Insurance	198	78	(120)	307	79	(228)	172	81	(91)	156	82	(74)	199	84	(115)	1,031	404	(627)
Operations Total	1,038	771	(267)	1,225	808	(418)	1,058	829	(228)	1,398	849	(548)	774	872	99	5,492	4,130	(1,362)
Preventative Maintenance	310	438	128	310	456	146	253	459	206	353	459	105	320	463	143	1,545	2,274	729
Corrective Maintenance	144	304	160	98	317	219	84	320	235	140	321	181	67	324	256	533	1,585	1,052
Routine Total	1,492	1,513	21	1,632	1,580	(52)	1,395	1,608	213	1,891	1,629	(262)	1,161	1,659	498	7,571	7,989	418

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 below the QCA target albeit with much less volume used than in previous year.

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 is 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

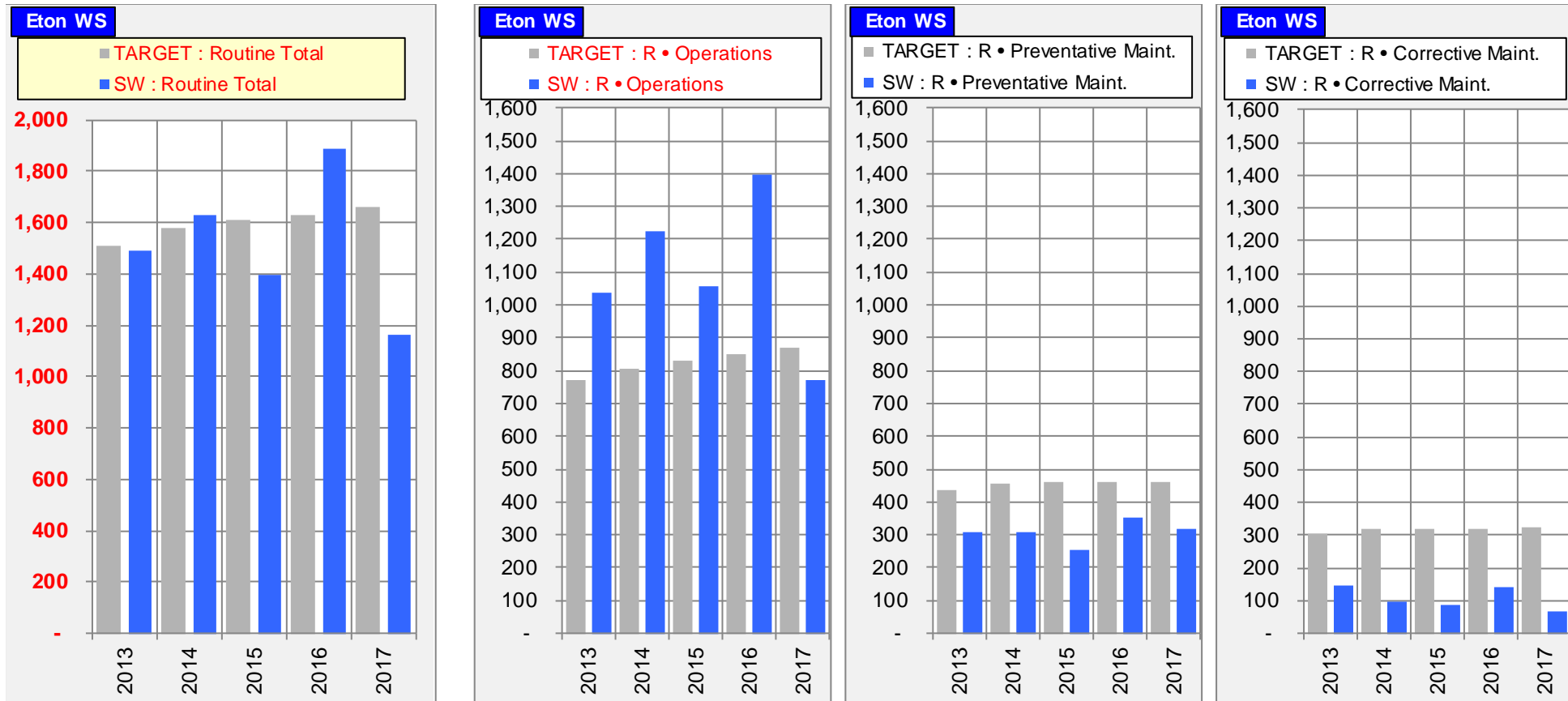
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair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

Eton 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	-	-	-	-	-	-	16	17	1	10	7	(3)	45	-	(45)	72	24	(48)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	(1)	-	1	6	-	(6)	-	-	-	-	-	-	46	-	(46)	52	-	(52)
R&E	259	201	(58)	52	75	23	65	394	329	363	577	214	1,090	568	(522)	1,829	1,814	(15)
Non-routine Total	259	201	(58)	58	75	16	81	411	330	373	584	211	1,182	568	(614)	1,953	1,838	(115)
Non Annuity Funded	4,055			9,606			2,023			-			(6)			15,679		

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

R&E Annuity Funded	17KIN08 Refurbish: Pumps - Mirani Weir	585,624
	12ETO01 Replace Switchboard - Mirani Pstn 1 (2012 Scope) (2013 Design & Tender) (Options Analysis 2015) (Tender & Replace 2016/17)	274,633
	16KIN12 Replace Switchboard, PLC, SCADA and Common Control and Upgrade SCADA (Options 2016, Design & Tender 2017, Replace 2018) - Mirani Pump Station 3	82,302
	16KIN13 Mirani PSTN3 - Refurbish transformer 2 and fill both transformers 1 & 2 with FR3 plant based oil	54,783
	17KIN01 Study 20 Year Dam Safety Review - Kinchant Dam	46,729
	17KIN04 Update O&M Manuals & SOPs & Databooks - Kinchant Dam	24,990
	ADSCOPE-KBE Asset Delivery Scoping - Eton Supply	11,518
	17KIN02 Relocate Cores from Old Shed to a Safe Location (New Shed) - Kinchant Dam	6,458
	17KIN03 Crane Strategy Development - Eton Supply	2,922
	17KIN09 Kinchant Dam - Sewerage System - Prepare EMP and Decommissioning	2,297
	16KIN15 Refurbish Mirani PSTN1 Control Building - Mirani	-944
	15KIN02 Relocate Gauging Station from Intake Tower to Improve Accessibility - Kinchant Dam HW Gauging Station	-1,336
	R&E Annuity Funded Total	1,089,976

Corrective Maintenance

The Corrective Maintenance Projects undertaken were:

Corrective Maintenance	17KIN13 FD01 (2017) Flood Damage Repairs post TC Debbie - Kinchant Dam Recreational Facilities	20,217
	17KIN11 FD01 (2017) Flood Damage Dam Safety Inspection post TC Debbie - Kinchant Dam	16,219
	17KIN12 FD01 (2017) Flood Damage Repairs post TC Debbie - Kinchant Dam	7,088
	17KIN10 FD01 (2017) Flood Damage Inspection post TC Debbie - Eton Water Supply	2,769
Corrective Maintenance Total	46,293	

Other

The "Annuity-funded Other" projects included.

Other	16KIN17 Create Material & Asset Hierarchy Standard & Task Lists - KBE	29,139
	15KIN06 Investigate salt scalds d/s Kinchant Dam	16,351
Other Total	45,490	

R&E – Non Annuity

The "Non-annuity funded R&E".

R&E - Non Annuity	10ETO43 Dam Safety Upgrade - Kinchant Dam Embankment (Invest works & Prelim Core Invest 2010)(2013 & 2014 Site works)	-5,533
R&E - Non Annuity Total	-5,533	

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

Eton 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	(2,207)	(2,071)	(1,717)	(1,296)	(1,179)	(2,207)
Net Spend		(259)	(58)	(24)	(373)	(1,182)	(1,895)
Annuity Contribution		560	568	573	587	623	2,910
Interest		(165)	(155)	(129)	(97)	(88)	(634)
SunWater - Closing Balance		(2,071)	(1,717)	(1,296)	(1,179)	(1,826)	(1,826)
QCA - Closing Balance	(1,582)	(1,207)	(1,135)	(1,218)	(1,253)	(1,253)	
Difference		(489)	(509)	(160)	39	(573)	(573)
Net Spend Analysis							
Spend	5 & 7	(259)	(58)	(81)	(373)	(1,182)	(1,953)
Insurance Proceeds Receipts							
• Prior Year		-	-	22	-	-	22
• Current Year		-	-	35	-	-	35
Net Spend		(259)	(58)	(24)	(373)	(1,182)	(1,895)

Appendix – Total Expenditure by Expense Type

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

Eton 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	1,496			18,096			3,263			1,416			1,861			26,132		
Routine Spend																		
Operations																		
Labour	174	125	(49)	148	129	(20)	134	133	(2)	122	137	15	87	141	55	665	665	(1)
Contractors	28	23	(5)	28	24	(4)	95	25	(71)	69	25	(44)	94	26	(69)	315	123	(192)
Materials	6	6	(1)	8	6	(2)	7	6	(1)	2	6	4	2	6	4	24	30	6
Electricity	261	231	(30)	417	247	(170)	307	264	(43)	723	285	(438)	152	305	154	1,860	1,332	(527)
Insurance	198	78	(120)	307	79	(228)	172	81	(91)	156	82	(74)	199	84	(115)	1,031	404	(627)
Other	30	28	(2)	37	29	(8)	76	29	(47)	40	30	(10)	34	30	(3)	217	146	(71)
Non-directs	341	281	(60)	281	294	13	266	292	26	286	284	(2)	207	280	73	1,380	1,430	51
	1,038	771	(267)	1,225	808	(418)	1,058	829	(228)	1,398	849	(548)	774	872	99	5,492	4,130	(1,362)
Preventative Maintenance																		
Labour	79	103	23	69	106	37	55	109	54	76	113	37	74	116	42	354	547	192
Contractors	64	95	30	87	98	11	86	101	15	104	104	0	100	106	6	441	504	63
Materials	10	8	(2)	22	8	(14)	2	9	7	3	9	6	6	9	3	43	44	0
Other	2	10	8	1	11	10	3	11	8	6	11	5	5	11	7	17	54	37
Non-directs	154	222	67	130	233	103	107	229	122	164	221	58	135	220	85	690	1,125	436
	310	438	128	310	456	146	253	459	206	353	459	105	320	463	143	1,545	2,274	729
Corrective Maintenance																		
Labour	33	63	29	21	65	44	5	67	61	17	69	52	6	71	65	82	333	251
Contractors	18	42	24	18	43	25	65	45	(20)	80	46	(34)	44	47	3	224	223	(1)
Materials	26	25	(1)	18	26	8	0	27	26	0	27	27	2	28	26	47	133	86
Other	2	37	35	1	39	38	1	40	39	2	41	39	1	42	40	7	199	191
Non-directs	65	137	72	40	144	104	13	142	129	41	137	96	13	136	123	173	697	523
	144	304	160	98	317	219	84	320	235	140	321	181	67	324	256	533	1,585	1,052
Routine - total	1,492	1,513	21	1,632	1,580	(52)	1,395	1,608	213	1,891	1,629	(262)	1,161	1,659	498	7,571	7,989	418
Non-Routine Spend																		
Labour	42	33	(9)	18	6	(12)	23	68	45	66	93	27	161	66	(95)	310	266	(44)
Contractors	109	37	(72)	5	28	24	11	68	57	170	108	(62)	679	54	(625)	973	295	(678)
Materials	4	37	33	0	7	7	3	67	64	2	102	100	1	262	262	9	475	466
Other	6	20	14	3	16	13	1	37	36	2	61	59	29	26	(3)	42	160	118
Non-directs	98	74	(24)	32	17	(15)	43	170	127	134	220	87	311	159	(152)	619	641	22
Non-Routine - Total	259	201	(58)	58	75	16	81	411	330	373	584	211	1,182	568	(614)	1,953	1,838	(115)
Total Regulated Spend	1,751	1,714	(37)	1,691	1,655	(36)	1,476	2,019	543	2,264	2,213	(51)	2,343	2,227	(116)	9,524	9,827	303
Non Annuity Funded Spend	4,055			9,606			2,023			-			(6)			15,679		
Surplus (Deficit)	(4,310)			6,799			(235)			(848)			(476)			929		

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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