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2017 Annual Performance Report

Lower Mary Bulk

October 2017

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Introduction

This annual Performance Report is to provide to SunWater Lower Mary 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

Lower Mary 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	185	360	357	358	463	1,723
Less - Routine Expenditure	4 & 7	209	112	91	135	94	641
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	38	23	135	116	218	531
• Non Annuity Funded	5	-	5	9	4	1	19
Surplus (Deficit)		(61)	219	122	103	149	531

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.

Lower Mary WS

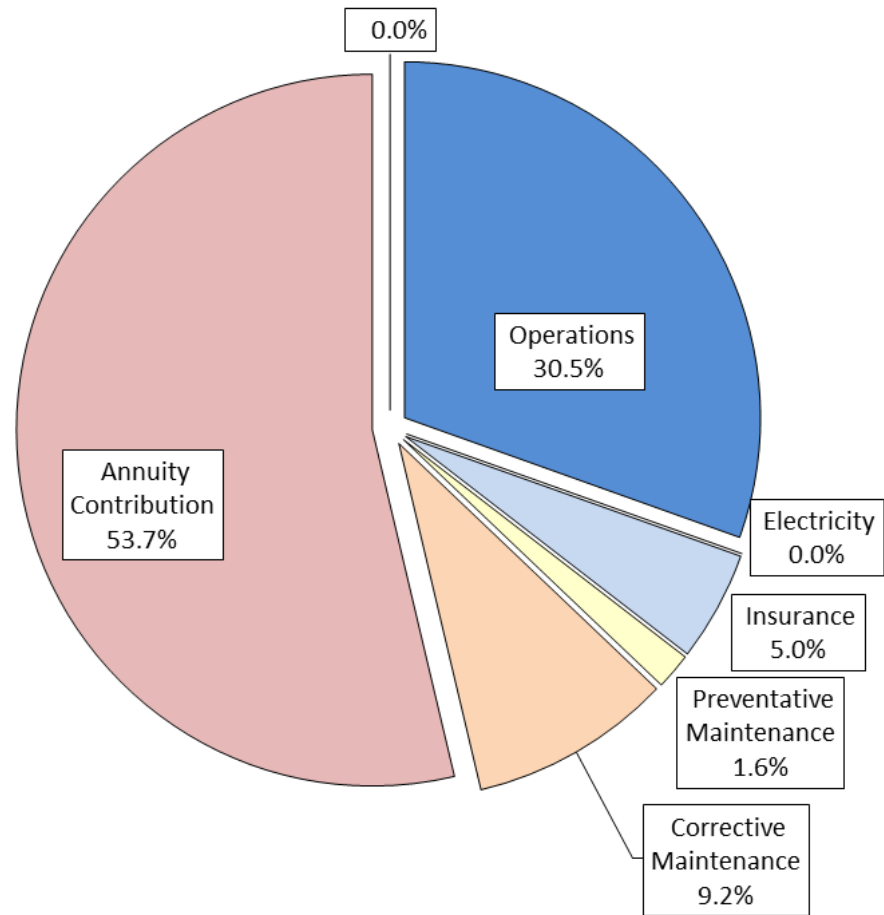


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		70	70	100	1	0
2. Irrigation		19,327	21,141	109	14,822	55
3. Urban		120	120	100	71	59
4. Other		0	0	0	0	0
5. SunWater		10,892	8,892	82	5,323	0
Scheme Total	166	30,409	30,223	99	20,217	66

QCA Assumed Total Water Usage 33.0%

Total use was above the QCA assumed usage.

Revenue

Table 3 – Revenue

Lower Mary WS	2013	2014	2015	2016	2017	2013 to 2017
	Actual	Actual	Actual	Actual	Actual	Actual
	\$000	\$000	\$000	\$000	\$000	\$000
Irrigation	127	144	176	188	236	871
Industrial	5	6	6	6	6	30
Urban	(115)	111	85	86	135	302
Irrigation CSO	29	14	-	-	-	43
Revenue Transfers	135	81	71	73	86	445
Drainage	-	-	-	-	-	-
Other	4	5	10	4	-	24
Insurance Proceeds - Flood	-	-	8	-	-	8
Revenue Total	185	360	357	358	463	1,723

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

Lower Mary 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	126	192	67	76	201	124	64	201	136	113	198	85	62	198	137	441	991	549
Electricity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	71	9	(61)	27	10	(18)	18	10	(8)	17	10	(7)	10	10	(0)	143	49	(94)
Operations Total	197	202	5	104	210	107	82	210	128	129	208	79	72	209	137	584	1,039	455
Preventative Maintenance	8	73	66	5	77	72	6	77	71	5	76	70	3	76	72	26	378	351
Corrective Maintenance	4	12	8	4	13	9	3	13	10	1	13	12	19	13	(5)	31	65	34
Routine Total	209	288	79	112	300	187	91	300	209	135	297	161	94	298	204	641	1,482	840

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 below the QCA target.

- Insurance costs met the target;
- Operational costs are lower than 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.

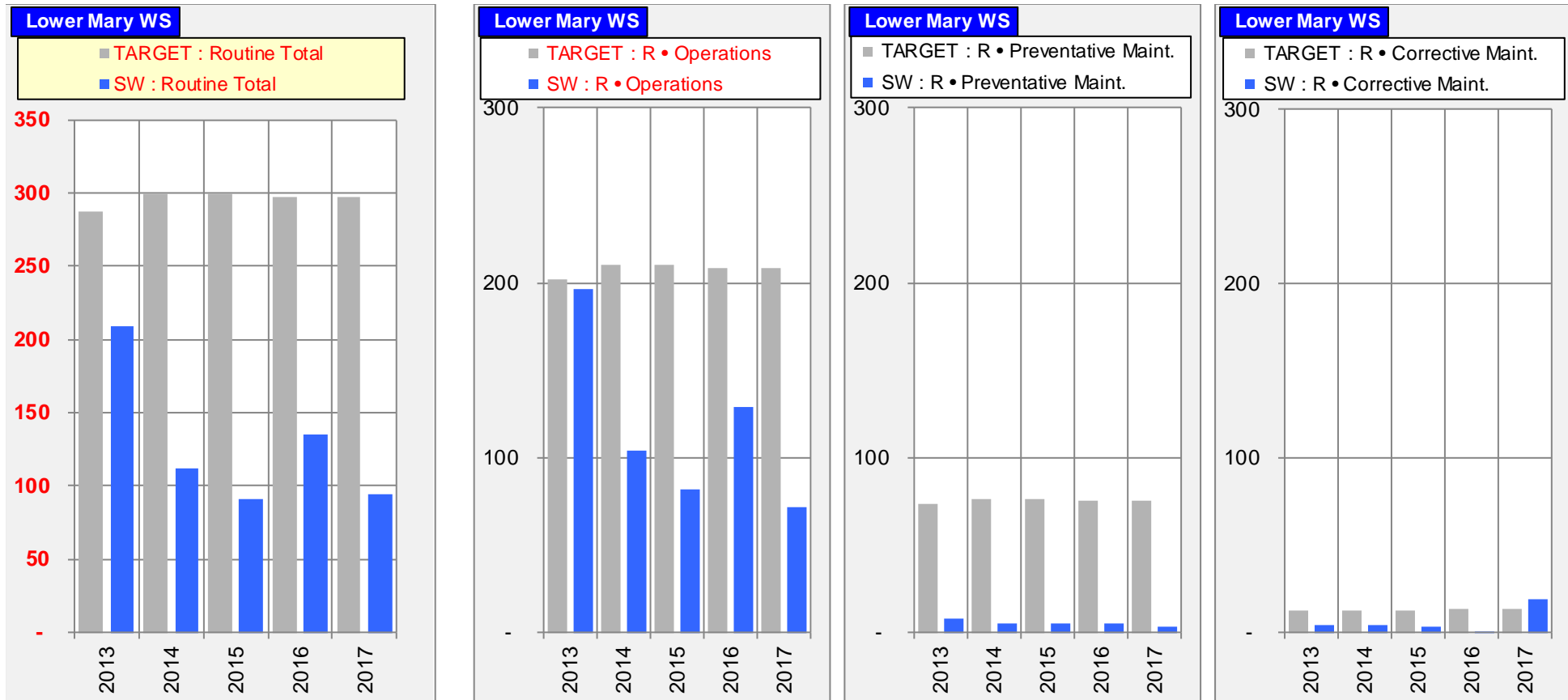
- Scheme Roads
 - Repair pot holes;
 - Grade roads; and
 - Repair, replace and paint guide posts and signs.
- Storages (balancing storages and reservoirs)
 - Repair control gates and valves;
 - Repair walls, embankments and spillways; and
 - Repair concrete structures.
- Meters
 - Repair bulk water meters; 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:
 - Response to theft or vandalism associated with scheme assets.

Corrective maintenance was 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 5 – Non-Routine Expenditure

Lower Mary 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	-	-	-	-	-	-	-	-	-	0	-	(0)	3	-	(3)	3	-	(3)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	28	-	(28)	13	-	(13)	13	-	(13)	68	-	(68)	-	-	-	123	-	(123)
R&E	9	11	2	10	12	2	122	23	(100)	48	-	(48)	216	2	(214)	405	48	(358)
Non-routine Total	38	11	(27)	23	12	(11)	135	23	(112)	116	-	(116)	218	2	(217)	531	48	(483)
Non Annuity Funded	-			5			9			4			1			19		

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

☐ R&E Annuity Funded	16MVA01 Reinstate Down Stream Rock Protection - Mary River Barrage (Options/Design 2016)	191,740
	ADSCOPE-BBL Asset Delivery Scoping - Lower Mary Supply	10,164
	15MVA01 Inspection (5 Yearly) Comprehensive - Mary Barrage	7,002
	15MVA03 Inspection (5 Yearly) Comprehensive - Tinana Barrage	6,936
	15MVA04 Reinstate downstream rock protection at Mary Barrage	0
R&E Annuity Funded Total		215,842

Corrective Maintenance

There were no annuity funded corrective maintenance projects undertaken.

Other

There was some minor expenditure categorised as “Annuity-funded Other”:

☐ Other	16MVA07 Create Material & Asset Hierarchy Standard & Task Lists - BBL	2,572
Other Total		2,572

R&E – Non Annuity

The Non-annuity funded R&E Projects included:

☐ Customer Funded	16MVA06 Install New Customer Meter Offtake - Lot1 RP839253 - Tinana Creek	1,072
Customer Funded Total		1,072

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

Lower Mary 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	(1,210)	(1,228)	(1,233)	(1,342)	(1,449)	(1,210)
Net Spend		(38)	(23)	(127)	(116)	(218)	(522)
Annuity Contribution		110	110	110	110	109	549
Interest		(91)	(92)	(92)	(101)	(109)	(484)
SunWater - Closing Balance		(1,228)	(1,233)	(1,342)	(1,449)	(1,667)	(1,667)
QCA - Closing Balance		(1,240)	(1,235)	(1,240)	(1,224)	(1,208)	(1,208)
Difference		12	2	(102)	(226)	(459)	(459)
Net Spend Analysis							
Spend	5 & 7	(38)	(23)	(135)	(116)	(218)	(531)
Insurance Proceeds Receipts							
• Prior Year		-	-	-	-	-	-
• Current Year		-	-	8	-	-	8
Net Spend		(38)	(23)	(127)	(116)	(218)	(522)

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)**

Lower Mary 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	185			360			357			358			463			1,723		
Routine Spend																		
Operations																		
Labour	41	56	16	25	58	33	15	60	45	34	62	28	19	64	44	134	300	166
Contractors	0	0	(0)	3	0	(2)	15	0	(14)	1	1	(0)	1	1	(0)	19	2	(17)
Materials	0	1	1	0	1	1	0	1	1	0	2	1	0	2	1	1	7	6
Electricity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	71	9	(61)	27	10	(18)	18	10	(8)	17	10	(7)	10	10	(0)	143	49	(94)
Other	5	5	1	4	5	1	6	5	(1)	7	6	(1)	7	6	(1)	28	27	(1)
Non-directs	80	129	49	44	135	91	29	133	105	71	129	58	35	127	92	259	653	395
	197	202	5	104	210	107	82	210	128	129	208	79	72	209	137	584	1,039	455
Preventative Maintenance																		
Labour	2	22	20	2	23	21	1	24	23	2	25	23	1	25	24	8	119	111
Contractors	-	1	1	-	1	1	-	1	1	0	1	1	-	1	1	0	5	4
Materials	1	-	(1)	-	-	-	-	-	-	-	-	-	-	-	-	1	-	(1)
Other	0	0	0	-	0	0	3	0	(2)	0	1	0	0	1	1	3	2	(1)
Non-directs	4	50	45	3	52	49	2	51	49	3	50	47	2	49	47	14	251	237
	8	73	66	5	77	72	6	77	71	5	76	70	3	76	72	26	378	351
Corrective Maintenance																		
Labour	1	2	0	1	2	1	1	2	1	0	2	2	6	2	(4)	10	10	0
Contractors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Materials	0	5	5	1	5	4	1	5	4	0	5	5	1	5	4	3	25	22
Other	-	1	1	1	1	1	0	1	1	-	2	2	0	2	1	1	7	6
Non-directs	3	4	2	2	5	3	1	5	3	0	4	4	11	4	(7)	17	23	5
	4	12	8	4	13	9	3	13	10	1	13	12	19	13	(5)	31	65	34
Routine - total	209	288	79	112	300	187	91	300	209	135	297	161	94	298	204	641	1,482	840
Non-Routine Spend																		
Labour	7	2	(5)	5	0	(5)	20	6	(14)	32	-	(32)	59	0	(58)	122	9	(113)
Contractors	0	2	2	8	0	(8)	25	1	(24)	23	-	(23)	52	0	(51)	108	3	(105)
Materials	19	2	(17)	1	0	(1)	46	1	(45)	0	-	(0)	0	0	0	66	3	(62)
Other	1	1	0	0	0	(0)	3	1	(2)	0	-	(0)	4	0	(4)	8	2	(6)
Non-directs	11	4	(6)	9	12	2	41	13	(28)	61	-	(61)	104	1	(104)	227	30	(196)
Non-Routine - Total	38	11	(27)	23	12	(11)	135	23	(112)	116	-	(116)	218	2	(217)	531	48	(483)
Total Regulated Spend	246	299	52	135	312	176	226	323	96	252	297	45	312	299	(13)	1,172	1,529	357
Non Annuity Funded Spend	-			5			9			4			1			19		
Surplus (Deficit)	(61)			219			122			103			149			531		

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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