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2017 Annual Performance Report

Lower Mary Distribution

October 2017

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Introduction

This annual Performance Report is to provide to SunWater Lower Mary 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

Lower Mary 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	1,215	1,600	1,084	1,172	1,634	6,704
Less - Routine Expenditure	4 & 7	744	1,422	953	986	1,096	5,201
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	191	17	33	115	239	595
• Non Annuity Funded	5	-	7	15	21	-	43
Surplus (Deficit)		280	154	83	50	298	866

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.

Lower Mary IS

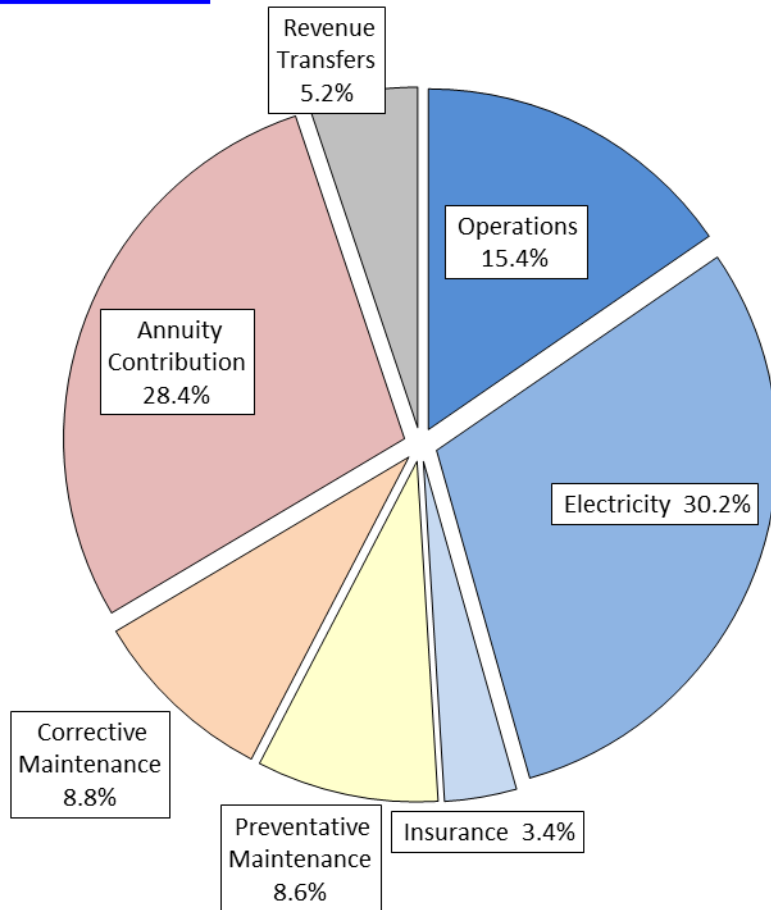


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		20	20	100	1	4
2. Irrigation		9,962	11,272	113	9,665	97
3. Urban		0	0	0	0	0
5. SunWater		10,892	8,892	82	5,323	49
Service Contract Total	82	20,874	20,184	97	14,990	72

QCA Assumed Water Usage for Total 42.6%

Water use was above the QCA target this year.

Revenue

Table 3 – Revenue

Lower Mary IS	2013	2014	2015	2016	2017	2013 to 2017
	Actual	Actual	Actual	Actual	Actual	Actual
	\$000	\$000	\$000	\$000	\$000	\$000
Irrigation	592	917	378	416	971	3,274
Industrial	2	2	2	2	3	12
Urban	-	-	-	-	-	-
Irrigation CSO	753	753	751	749	745	3,751
Revenue Transfers	(135)	(81)	(71)	(73)	(86)	(445)
Drainage	-	-	-	-	-	-
Other	3	7	14	4	-	28
Insurance Proceeds - Flood	-	-	11	74	-	85
Revenue Total	1,215	1,600	1,084	1,172	1,634	6,704

* 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

Lower Mary 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	221	208	(13)	441	215	(226)	316	218	(98)	212	218	6	254	216	(38)	1,444	1,075	(369)
Electricity	200	147	(53)	504	157	(347)	204	168	(36)	313	182	(131)	498	195	(303)	1,720	850	(870)
Insurance	0	43	43	88	44	(44)	67	45	(22)	60	46	(15)	56	46	(10)	272	224	(48)
Operations Total	421	398	(23)	1,034	417	(617)	587	431	(156)	585	446	(140)	808	457	(351)	3,436	2,149	(1,287)
Preventative Maintenance	176	240	65	159	248	88	242	253	11	241	255	14	142	252	110	960	1,248	288
Corrective Maintenance	146	149	3	229	153	(76)	124	157	33	160	159	(1)	145	159	13	805	777	(28)
Routine Total	744	788	44	1,422	818	(604)	953	841	(113)	986	859	(127)	1,096	868	(228)	5,201	4,173	(1,027)

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:

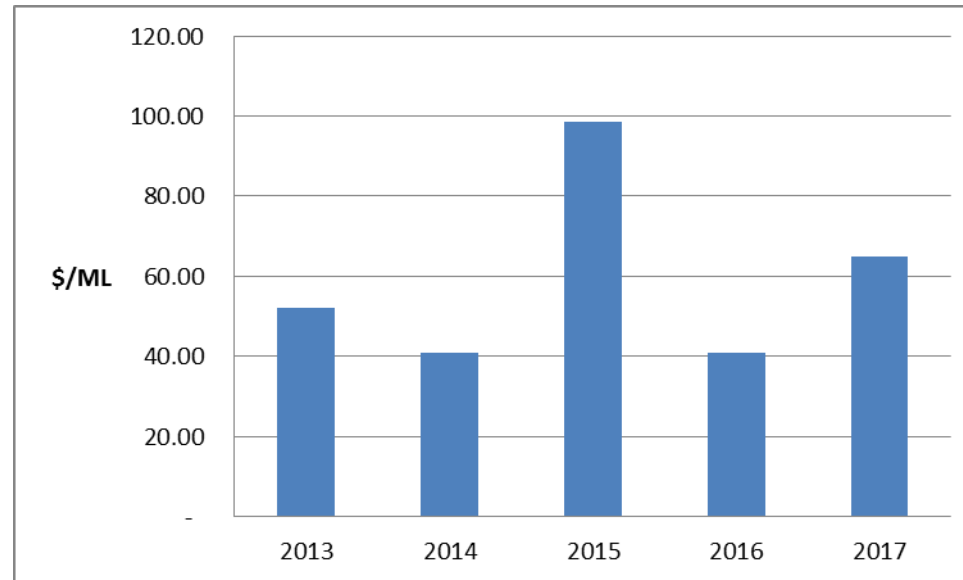
- Scheduling and delivering water including processing water orders, releasing water, operating pump stations, regulation and monitoring of channel flows and monitoring of customer deliveries;
- Emergency responses for channel overflows and other emergency events;
- Meter reading;
- Administration of 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 above 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 and forecast 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 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:
 - Channels
 - De-silting channels and catch drains;
 - Erosion control and repair of rock protection works;
 - Repair fencing;
 - Repair regulator gates, control valves, etc.
 - 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;
 - Repair, replace and paint guide posts and signs.

² Activities listed will not apply to all service contracts.

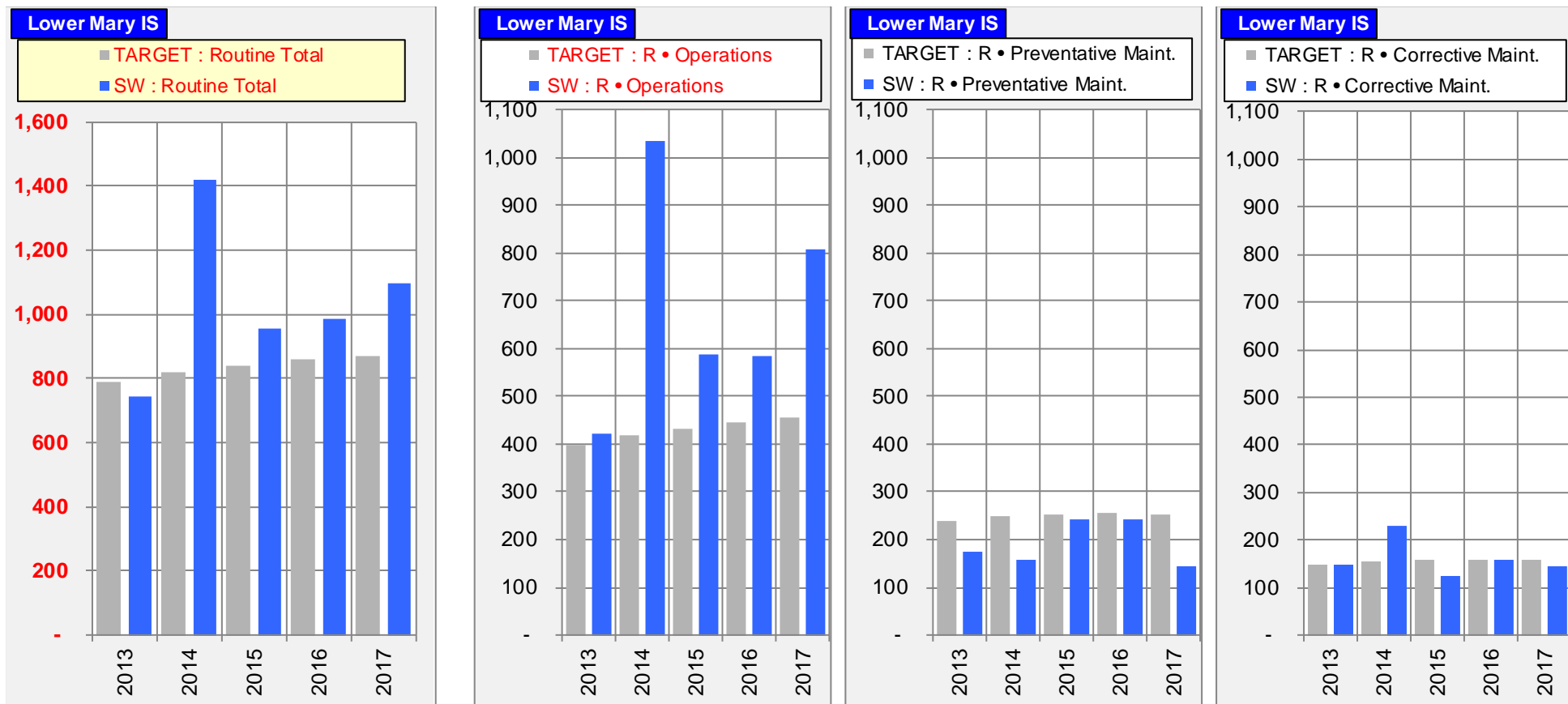
- Pump stations
 - Repair concrete structure; and
 - Repair control building.
- Storages (balancing storages and reservoirs)
 - Repair control gates and valves;
 - Repair walls, embankments and spillways; and
 - Repair concrete structures.
- Meters
 - Repair bulk water meters; and
 - Repair customer 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 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

Lower Mary 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)	90	-	(90)	(1)	-	1	-	-	-	-	-	-	-	-	-	89	-	(89)
R&E	101	0	(101)	18	65	48	33	90	57	115	28	(87)	239	50	(189)	506	233	(273)
Non-routine Total	191	0	(191)	17	65	49	33	90	57	115	28	(87)	239	50	(189)	595	233	(362)
Non Annuity Funded	-			7			15			21			-			43		

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

R&E Annuity Funded	16LOW05 Replace Pump No. 1 - Walker Point Pump Station	153,926
	15LOW03 Options Study: Walker Point Balancing Storage Refurbishment	66,266
	17LOW01 17LOW01 HV Inspect/Test Owanyilla PSTN	15,893
	16LOW06 Inspect Crane (8T Bridge Crane) 2 Year - Owanyilla Pump Station	3,163
R&E Annuity Funded Total		239,248

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 funded R&E Projects”.

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

Lower Mary 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	(462)	(241)	177	638	1,111	(462)
Net Spend		(191)	(17)	(10)	(40)	(239)	(498)
Annuity Contribution		447	452	458	466	468	2,291
Interest		(35)	(18)	13	48	83	92
SunWater - Closing Balance		(241)	177	638	1,111	1,423	1,423
QCA - Closing Balance	(185)	188	570	1,051	1,547	1,547	
Difference	(56)	(11)	68	60	(124)	(124)	
Net Spend Analysis							
Spend	5 & 7	(191)	(17)	(33)	(115)	(239)	(595)
Insurance Proceeds Receipts							
• Prior Year		-	-	12	-	-	12
• Current Year		-	-	11	74	-	85
Net Spend		(191)	(17)	(10)	(40)	(239)	(498)

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 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	1,215			1,600			1,084			1,172			1,634			6,704		
Routine Spend																		
Operations																		
Labour	78	73	(5)	154	75	(79)	109	77	(31)	80	80	0	77	83	5	497	388	(110)
Contractors	-	-	-	0	-	(0)	0	-	(0)	2	-	(2)	12	-	(12)	14	-	(14)
Materials	2	0	(2)	19	1	(18)	0	1	0	1	1	(1)	0	1	0	23	3	(21)
Electricity	200	147	(53)	504	157	(347)	204	168	(36)	313	182	(131)	498	195	(303)	1,720	850	(870)
Insurance	0	43	43	88	44	(44)	67	45	(22)	60	46	(15)	56	46	(10)	272	224	(48)
Other	13	7	(6)	14	7	(7)	19	7	(11)	20	7	(13)	36	8	(28)	101	37	(64)
Non-directs	128	127	(1)	254	133	(122)	188	132	(55)	109	130	21	129	125	(4)	808	648	(160)
	421	398	(23)	1,034	417	(617)	587	431	(156)	585	446	(140)	808	457	(351)	3,436	2,149	(1,287)
Preventative Maintenance																		
Labour	57	78	21	52	80	28	76	83	7	76	85	10	44	88	44	305	414	110
Contractors	15	7	(8)	10	7	(3)	14	7	(7)	18	8	(10)	19	8	(11)	76	37	(39)
Materials	14	13	(1)	10	14	4	7	14	7	6	15	9	3	15	12	40	71	31
Other	-	6	6	3	6	4	19	6	(13)	12	7	(5)	4	7	2	38	32	(6)
Non-directs	90	137	47	85	140	55	126	142	17	130	140	11	72	135	63	502	694	193
	176	240	65	159	248	88	242	253	11	241	255	14	142	252	110	960	1,248	288
Corrective Maintenance																		
Labour	46	41	(5)	64	42	(22)	34	43	9	49	45	(4)	37	46	9	230	217	(13)
Contractors	1	7	6	9	8	(1)	6	8	2	5	8	3	6	8	2	27	39	13
Materials	23	17	(6)	47	17	(30)	19	18	(1)	14	18	5	14	18	5	117	88	(29)
Other	0	17	17	2	17	15	7	18	11	9	19	9	27	19	(8)	44	90	45
Non-directs	76	67	(9)	107	69	(38)	59	70	11	84	69	(14)	61	67	6	387	343	(44)
	146	149	3	229	153	(76)	124	157	33	160	159	(1)	145	159	13	805	777	(28)
Routine - total	744	788	44	1,422	818	(604)	953	841	(113)	986	859	(127)	1,096	868	(228)	5,201	4,173	(1,027)
Non-Routine Spend																		
Labour	32	-	(32)	-	-	-	6	16	10	10	5	(5)	21	9	(12)	69	30	(39)
Contractors	85	-	(85)	9	-	(9)	9	17	9	36	5	(30)	72	10	(62)	210	32	(178)
Materials	6	-	(6)	7	-	(7)	8	17	10	49	5	(44)	56	10	(46)	125	32	(93)
Other	13	-	(13)	(1)	-	1	-	9	9	0	3	3	47	5	(42)	60	18	(42)
Non-directs	56	0	(56)	1	65	65	11	31	20	21	9	(12)	43	16	(27)	131	121	(10)
Non-Routine - Total	191	0	(191)	17	65	49	33	90	57	115	28	(87)	239	50	(189)	595	233	(362)
Total Regulated Spend	935	788	(147)	1,438	883	(555)	987	931	(55)	1,101	887	(214)	1,335	918	(417)	5,796	4,406	(1,390)
Non Annuity Funded Spend	-	-	-	7	-	-	15	-	-	21	-	-	-	-	-	43	-	-
Surplus (Deficit)	280	-	-	154	-	-	83	-	-	50	-	-	298	-	-	866	-	-

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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