

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

Nogoa Bulk

October 2017

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Introduction

This annual Performance Report is to provide to SunWater Nogo Mackenzie 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

Nogoa 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	4,427	4,711	5,672	5,325	7,643	27,779
Less - Routine Expenditure	4 & 7	2,222	2,058	1,966	2,004	2,099	10,349
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	559	459	1,383	523	1,325	4,249
• Non Annuity Funded	5	100	-	1	7,864	23,485	31,449
Surplus (Deficit)		1,546	2,194	2,322	(5,065)	(19,266)	(18,269)

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.

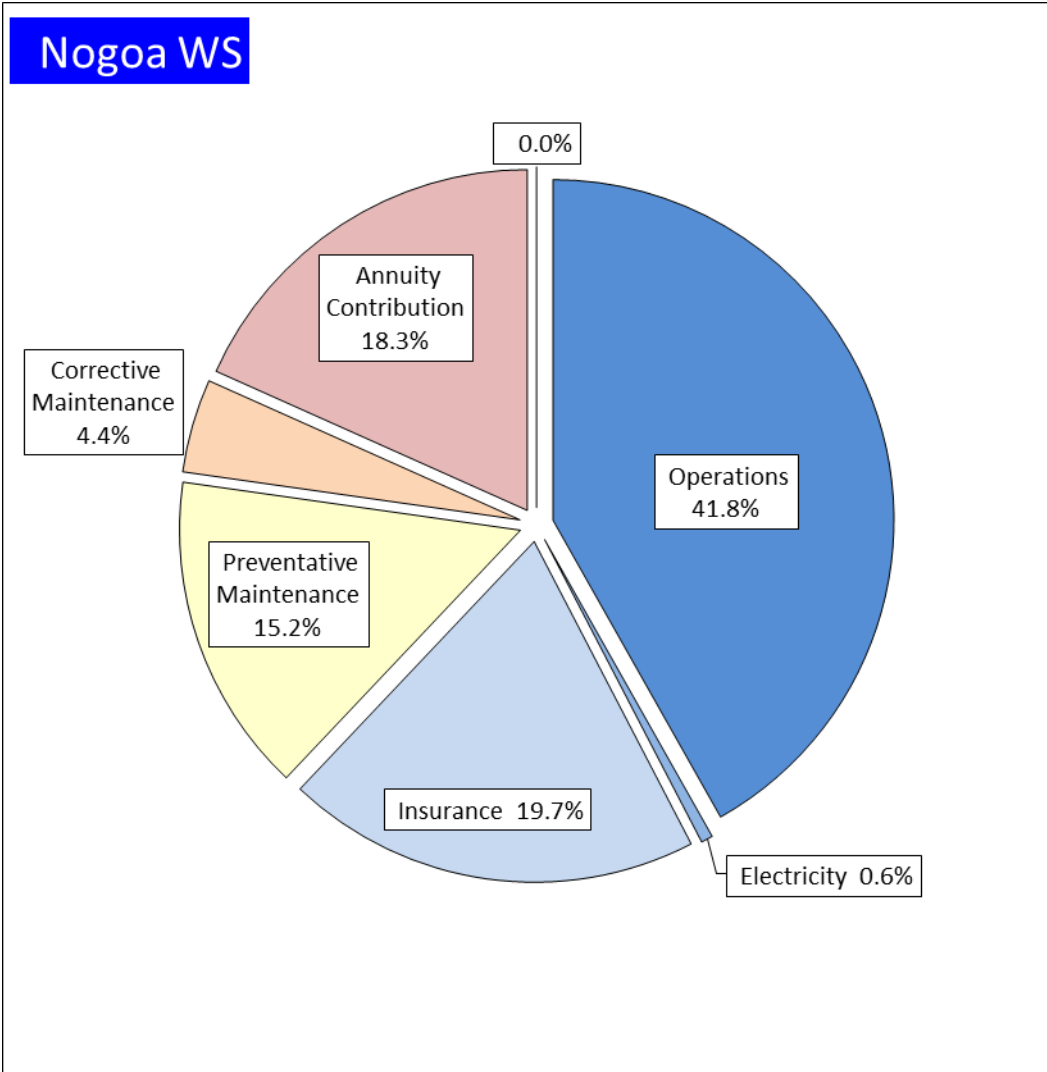


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		27,807	27,895	100	11,864	43
2. Irrigation		163,083	199,440	122	138,267	85
3. Urban		8,548	8,258	97	5,754	67
4. Other		339	383	113	215	63
5. SunWater		32,081	30,867	96	12,807	40
Scheme Total	387	231,858	266,843	115	168,907	73

QCA Assumed Total Water Usage 83.2%

Revenue

Table 3 – Revenue

Nogoa WS	2013	2014	2015	2016	2017	2013 to
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000	2017 Actual \$000
Irrigation	987	911	923	960	3,603	7,384
Industrial	1,784	2,386	2,666	2,878	2,527	12,241
Urban	432	435	428	424	444	2,163
Irrigation CSO	6	2	-	-	-	8
Revenue Transfers	1,170	958	921	955	1,010	5,014
Drainage	-	-	-	-	-	-
Other	49	19	441	108	60	677
Insurance Proceeds - Flood	-	-	292	-	-	292
Revenue Total	4,427	4,711	5,672	5,325	7,643	27,779

* 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. Also included in the revenue transfer totals are revenue transfers from SunWater's pipelines sourcing water from the Nogoa River WSS.

Routine Expenditure

Table 4 – Routine Operating Expenditure

Nogoa 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	1,388	1,686	297	1,065	1,762	697	1,135	1,763	628	1,084	1,745	660	1,075	1,759	685	5,747	8,714	2,967
Electricity	12	13	1	16	14	(2)	15	15	1	12	16	5	14	18	3	68	76	8
Insurance	374	198	(176)	681	201	(480)	439	205	(234)	399	208	(190)	505	212	(294)	2,399	1,024	(1,374)
Operations Total	1,774	1,897	122	1,762	1,977	216	1,589	1,983	394	1,495	1,969	475	1,594	1,989	394	8,214	9,815	1,601
Preventative Maintenance	244	264	20	184	276	92	195	275	81	360	273	(88)	390	275	(116)	1,373	1,362	(11)
Corrective Maintenance	204	197	(7)	113	205	92	183	206	23	149	206	57	114	208	94	762	1,021	259
Routine Total	2,222	2,357	135	2,058	2,458	400	1,966	2,464	498	2,004	2,448	444	2,099	2,471	372	10,349	12,198	1,849

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 cost were higher than target;
- Electricity costs were below 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 above 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

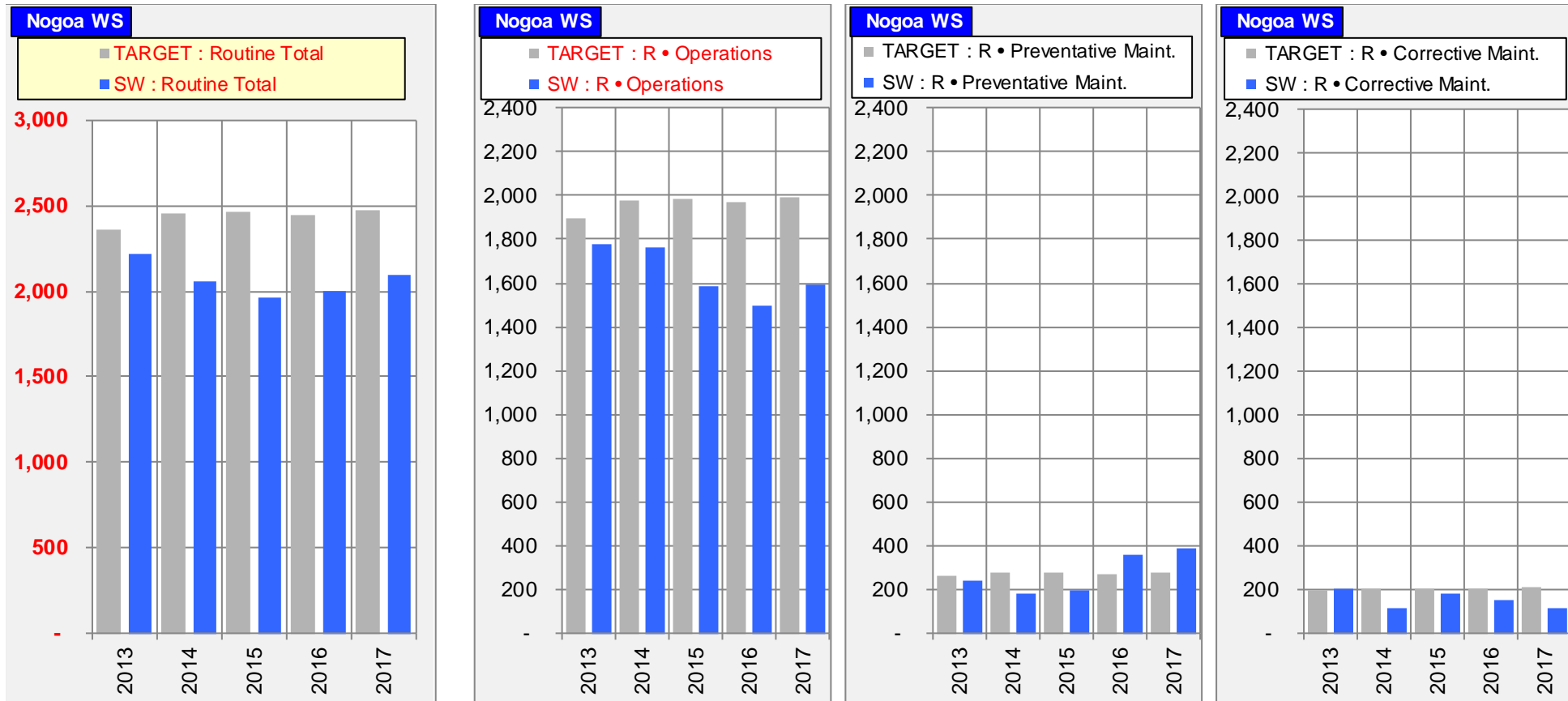
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair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

Nogoa 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	(445)	-	445	41	15	(26)	31	-	(31)	(122)	-	122	27	-	(27)	(467)	15	483
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	91	-	(91)	239	-	(239)	22	-	(22)	-	-	-	-	-	-	352	-	(352)
R&E	913	108	(804)	179	288	109	1,330	482	(848)	645	258	(387)	1,299	887	(412)	4,364	2,023	(2,342)
Non-routine Total	559	108	(451)	459	303	(156)	1,383	482	(901)	523	258	(265)	1,325	887	(438)	4,249	2,038	(2,211)
Non Annuity Funded	100			-			1			7,864			23,485			31,449		

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

☐ R&E Annuity Funded	11NMA08 Fairbairn Dam WTP Tank and Pipe Replacement	356,222
	17NMA01 Study 20 Year Dam Safety Review - Fairbairn Dam	322,427
	17NMA07 Investigate and repair leak at Fairbairn	177,072
	13NMA02 Rectify Rock Face Stability - Fairbairn Dam Outlet Works 2 Bridge adjacent to Weemah Inlet Tower (Investigate 2013)	133,686
	17NMA02 Refurbish channel Release Gates 5,6 & 7 - Fairbairn Dam	44,372
	17NMA06 Study: Foundation pressure investigation and rectification at Fairbairn Dam	41,349
	15NMA16 Replace Spare Pump - Raw Water Town Water Supply - Fairbairn Dam	40,905
	17NMA10 Fairbairn Dam - Remove gravel from the right bank outlet tunnel	39,276
	17NMA05 Replace Meter Program (2 per year) - Mackenzie River	32,378
	10EIA01 Bedford Weir - Decommission Fabridam (2015) Replace Fabridam (Scope / Design 2010-2013) (Construct 2014)	27,379
	15NMA14 Review of Environmental Authority, Work Instructions and Training - Fairbairn Sewage	20,143
	16NMA03 Fairbairn Dam - Improve Access to Deformation Settlement Points	16,579
	16NMA05 Replace PC and Conversion of SCADA - Bingegang Weir	16,326
	17NMA04 Develop Crane Strategy - Nogoia Supply	15,531
	ADSCOPE-LBN Asset Delivery Scoping - Nogoia Supply	9,195
	15NMA06 Service Piezometers that have not provided data since December 2010 - Fairbairn Dam	4,862
	14NMA07 Refurbish Gate - Seals, Wheels etc - Fairbairn Dam	651
	15NMA23 Design & Construct Seepage Measuring Weir FD	222
	16NMA14 Replace Meter Program (2 per year) - FD	14
R&E Annuity Funded Total		1,298,589

Corrective Maintenance

There was expenditure categorised as “Annuity Funded Corrective Maintenance”.

Other

The 'Annuity Funded Other' Projects included:

<input type="checkbox"/> Other	16NMA19 Create Material & Asset Hierarchy Standard & Task Lists - LBN	25,712
	16NMA17 PIPA Claims and Coronial Inquest - Bedford Weir	923
Other Total		26,635

R&E – Non Annuity

The "Non Annuity" Projects included:

<input type="checkbox"/> R&E - Non Annuity	16NMA16 DSIP Dam Improvement Program Stage 1 - Fairbairn Dam	23,474,185
R&E - Non Annuity Total		23,474,185

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

Nogoa 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	(853)	(1,033)	(1,115)	(1,781)	(1,969)	(853)
Net Spend		(559)	(459)	(1,037)	(523)	(1,325)	(3,903)
Annuity Contribution		443	454	455	468	470	2,291
Interest		(64)	(77)	(84)	(133)	(147)	(506)
SunWater - Closing Balance		(1,033)	(1,115)	(1,781)	(1,969)	(2,971)	(2,971)
QCA - Closing Balance		(1,193)	(1,131)	(1,242)	(1,125)	(1,626)	(1,626)
Difference		159	16	(538)	(844)	(1,345)	(1,345)
Net Spend Analysis							
Spend	5 & 7	(559)	(459)	(1,383)	(523)	(1,325)	(4,249)
Insurance Proceeds Receipts							
• Prior Year		-	-	54	-	-	54
• Current Year		-	-	292	-	-	292
Net Spend		(559)	(459)	(1,037)	(523)	(1,325)	(3,903)

Appendix – Total Expenditure by Expense Type

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

Nogoa 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	4,427			4,711			5,672			5,325			7,643			27,779		
Routine Spend																		
Operations																		
Labour	350	485	135	279	500	221	257	516	259	251	533	281	252	550	298	1,389	2,584	1,195
Contractors	176	67	(110)	93	69	(24)	220	71	(149)	125	73	(52)	158	75	(84)	772	354	(418)
Materials	64	27	(37)	21	28	7	30	29	(1)	11	30	19	15	30	15	142	144	3
Electricity	12	13	1	16	14	(2)	15	15	1	12	16	5	14	18	3	68	76	8
Insurance	374	198	(176)	681	201	(480)	439	205	(234)	399	208	(190)	505	212	(294)	2,399	1,024	(1,374)
Other	66	47	(19)	112	48	(65)	99	49	(51)	112	50	(62)	130	51	(79)	519	243	(276)
Non-directs	733	1,060	328	560	1,117	557	528	1,098	569	585	1,059	474	519	1,054	535	2,925	5,388	2,463
	1,774	1,897	122	1,762	1,977	216	1,589	1,983	394	1,495	1,969	475	1,594	1,989	394	8,214	9,815	1,601
Preventative Maintenance																		
Labour	75	78	2	63	80	17	61	83	22	105	86	(19)	124	88	(35)	429	415	(13)
Contractors	20	7	(14)	6	7	0	9	7	(2)	21	7	(13)	38	7	(30)	94	35	(59)
Materials	2	7	5	1	7	6	0	8	7	11	8	(3)	3	8	5	19	38	19
Other	3	7	4	2	7	6	11	7	(4)	9	7	(2)	8	8	(1)	33	37	3
Non-directs	143	165	22	111	174	62	113	170	57	214	164	(50)	217	163	(54)	799	837	38
	244	264	20	184	276	92	195	275	81	360	273	(88)	390	275	(116)	1,373	1,362	(11)
Corrective Maintenance																		
Labour	50	45	(5)	22	47	25	35	48	13	24	50	26	12	52	39	143	242	99
Contractors	28	23	(5)	25	24	(1)	54	25	(30)	51	25	(26)	65	26	(39)	222	123	(100)
Materials	20	20	0	23	21	(3)	12	21	10	0	22	22	6	22	17	61	106	45
Other	6	10	4	1	10	9	14	10	(3)	25	11	(14)	6	11	4	51	51	(0)
Non-directs	100	98	(2)	42	104	61	68	102	33	49	98	49	25	98	72	285	499	214
	204	197	(7)	113	205	92	183	206	23	149	206	57	114	208	94	762	1,021	259
Routine - total	2,222	2,357	135	2,058	2,458	400	1,966	2,464	498	2,004	2,448	444	2,099	2,471	372	10,349	12,198	1,849
Non-Routine Spend																		
Labour	204	18	(186)	81	46	(35)	283	73	(211)	122	45	(78)	176	148	(29)	868	329	(538)
Contractors	165	20	(145)	93	61	(32)	517	89	(428)	222	44	(178)	786	155	(631)	1,784	369	(1,415)
Materials	150	20	(130)	69	47	(22)	5	78	73	42	44	2	10	155	145	277	345	68
Other	(368)	11	379	67	24	(43)	72	43	(29)	(105)	30	134	17	89	73	(317)	196	513
Non-directs	407	39	(368)	148	125	(24)	506	200	(306)	241	95	(146)	336	340	4	1,638	799	(839)
Non-Routine - Total	559	108	(451)	459	303	(156)	1,383	482	(901)	523	258	(265)	1,325	887	(438)	4,249	2,038	(2,211)
Total Regulated Spend	2,781	2,465	(316)	2,517	2,761	244	3,350	2,946	(404)	2,526	2,706	179	3,424	3,358	(66)	14,598	14,236	(362)
Non Annuity Funded Spend	100			-			1			7,864			23,485			31,449		
Surplus (Deficit)	1,546			2,194			2,322			(5,065)			(19,266)			(18,269)		

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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