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2017 Annual Performance Report

Proserpine Bulk

October 2017

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Introduction

This annual Performance Report is to provide to SunWater Proserpine River 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

Proserpine 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	2,482	2,633	2,922	3,034	3,159	14,231
Less - Routine Expenditure	4 & 7	826	1,077	1,176	938	984	5,001
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	23	84	56	553	261	978
• Non Annuity Funded	5	-	1	-	16	-	17
Surplus (Deficit)		1,633	1,470	1,691	1,527	1,914	8,236

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.

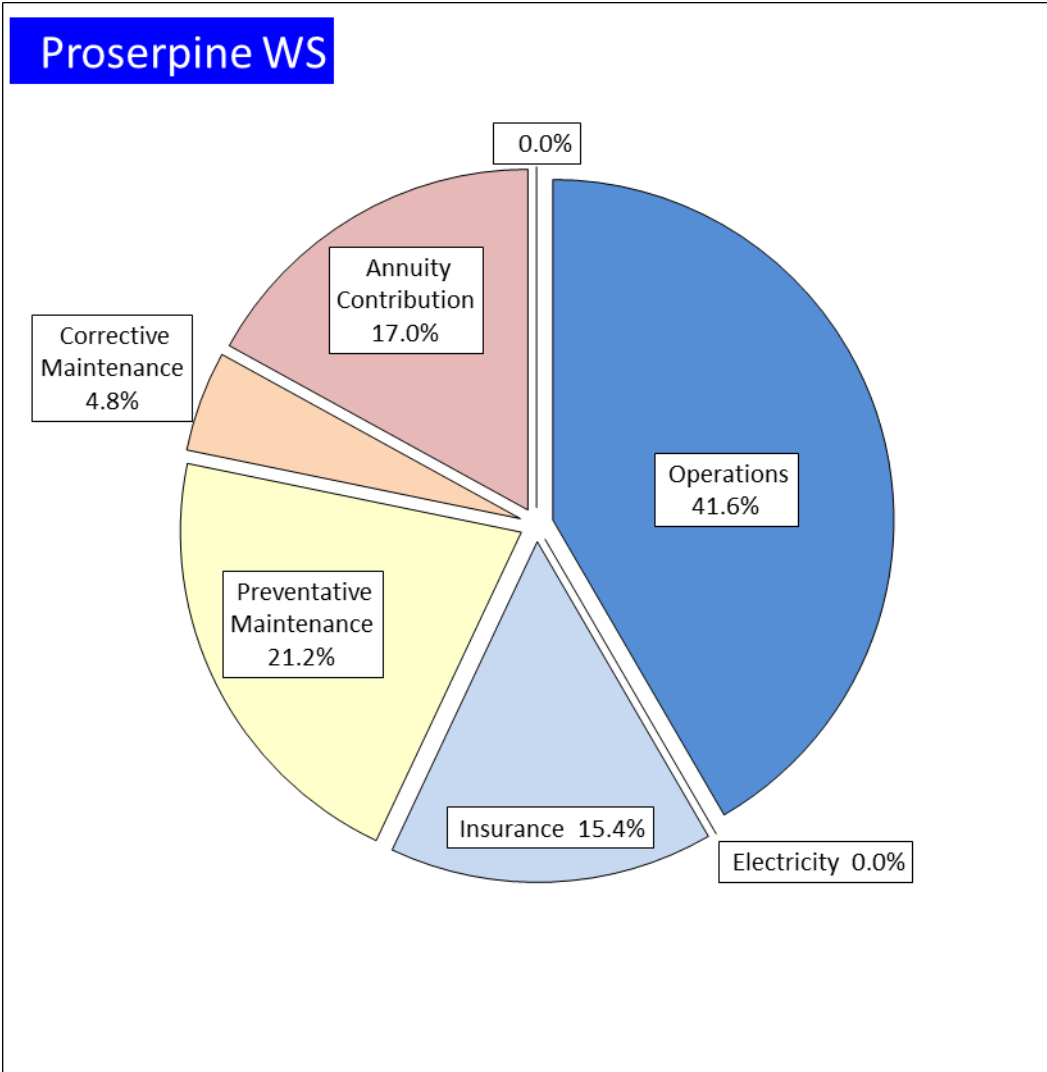


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		550	550	100	317	58
2. Irrigation		40,817	53,705	132	10,078	25
3. Urban		10,992	11,087	101	4,998	45
4. Other		0	0	0	0	0
5. SunWater		10,517	567	5	0	0
Scheme Total	92	62,876	65,908	105	15,393	24

QCA Assumed Water Usage for Total 62.1%

Total water use is lower than the QCA assumed figure.

Revenue

Table 3 – Revenue

Proserpine WS	2013	2014	2015	2016	2017	2013 to 2017
	Actual	Actual	Actual	Actual	Actual	Actual
	\$000	\$000	\$000	\$000	\$000	\$000
Irrigation	422	481	524	534	484	2,445
Industrial	176	224	275	280	285	1,240
Urban	1,705	1,730	1,906	2,000	2,180	9,520
Irrigation CSO	-	-	-	-	-	-
Revenue Transfers	-	-	-	-	-	-
Drainage	-	-	-	-	-	-
Other	180	199	204	220	210	1,012
Insurance Proceeds - Flood	-	-	14	-	-	14
Revenue Total	2,482	2,633	2,922	3,034	3,159	14,231

Routine Expenditure

Table 4 – Routine Operating Expenditure

Proserpine 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	525	564	39	641	588	(53)	555	589	34	507	587	80	493	595	101	2,722	2,922	200
Electricity	7	5	(2)	7	5	(1)	-	6	6	-	6	6	-	7	7	13	29	16
Insurance	164	88	(76)	296	89	(207)	194	91	(104)	176	92	(84)	182	94	(88)	1,013	454	(558)
Operations Total	695	656	(39)	944	682	(261)	750	686	(64)	683	686	2	675	695	20	3,748	3,406	(342)
Preventative Maintenance	48	142	95	91	148	57	232	150	(82)	233	150	(83)	252	152	(100)	855	742	(113)
Corrective Maintenance	83	52	(31)	42	53	11	194	55	(140)	22	56	34	57	56	(0)	398	271	(126)
Routine Total	826	850	24	1,077	884	(193)	1,176	890	(286)	938	892	(47)	984	903	(80)	5,001	4,419	(582)

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 were higher than target;
- There were no electricity costs associated with this service contract.
- Labour redirected from Operations to Preventative Maintenance.

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:

² Activities listed will not apply to all service contracts.

- 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
 - 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

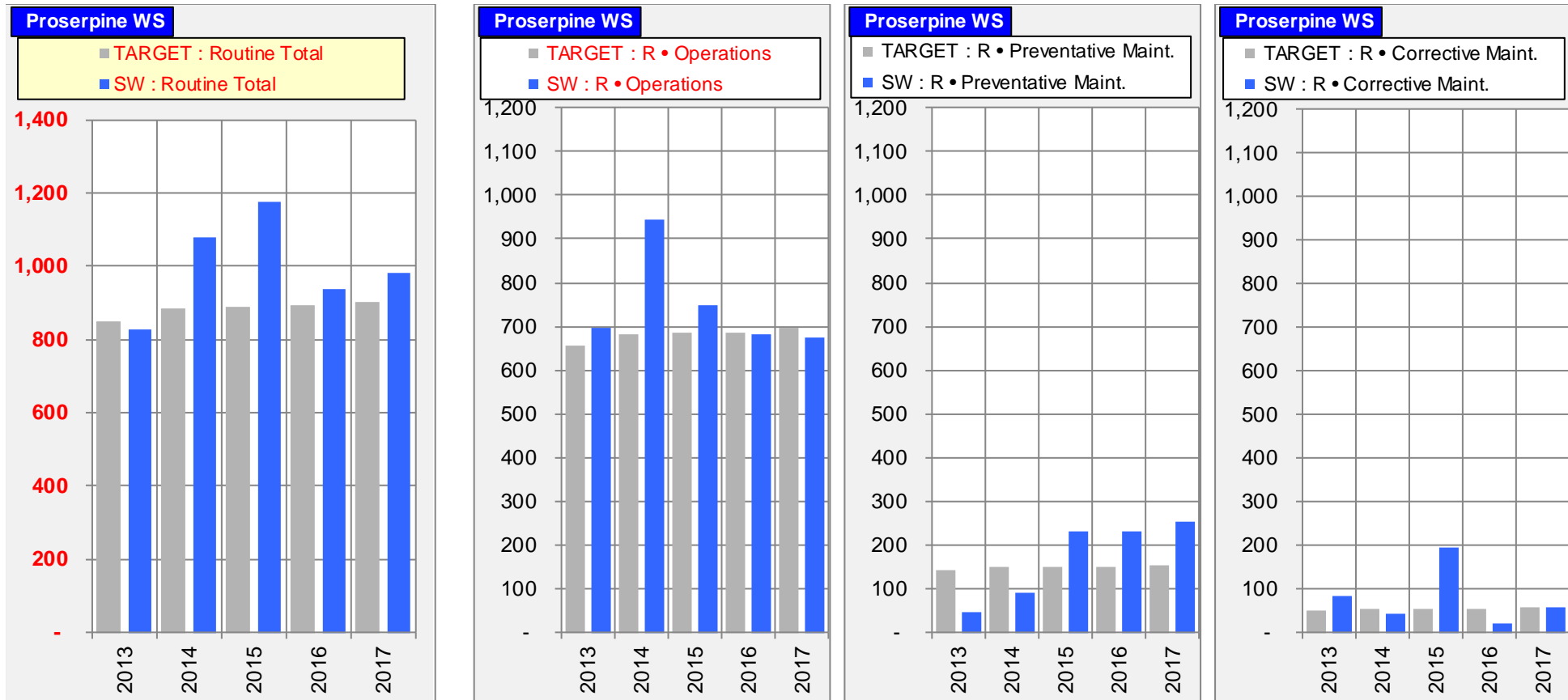
- Repair bulk water meters; and
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction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

Proserpine 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	-	-	-	-	-	-	-	-	-	1	-	(1)	13	-	(13)	14	-	(14)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	-	-	-	-	-	-	-	-	-	-	-	-	144	-	(144)	144	-	(144)
R&E	23	37	13	84	188	104	56	42	(13)	552	42	(510)	104	444	340	819	752	(66)
Non-routine Total	23	37	13	84	188	104	56	42	(13)	553	42	(511)	261	444	183	978	752	(225)
Non Annuity Funded	-	-	-	1	-	-	-	-	-	16	-	-	-	-	-	17	-	-

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

R&E Annuity Funded	17PRO01 Repair the Pitting Corrosion in Upstream Steel Pipe Section of Both Conduits - Peter Faust Dam (2013 DS Rec. 8.1.1a, 8.1.2)	64,415
	17PRO04 Update O&M Manual & SOPs - Peter Faust Dam	33,441
	17PRO05 Install Water Tanks and Fittings for SunWater Homes and Office - Peter Faust Dam	11,900
	13PRO02 Replace SCADA and PLC - Kelsey Creek Pline - Peter Faust Dam Offtake - (2013 Scope) (2014 Supply & Install)	5,333
	ADSCOPE-ABP Asset Delivery Scoping - Proserpine Supply	4,430
	17PRO02 Inspect Gallery & Spillway Flip for Potential Undermining using ROV - Peter Faust Dam (2015 DS Rec 2.12.8)	3,959
	17PRO03 Develop Crane Strategy - Prosperine Supply	2,569
	16PRO03 Clean & Repair Spillway Chute Floor - Peter Faust Dam	-22,460
R&E Annuity Funded Total		103,587

Corrective Maintenance

The Corrective Maintenance Projects undertaken:

Corrective Maintenance	17PRO06 FD01 (2017) Flood Damage Repair post TC Debbie - Peter Faust Dam	141,349
	17PRO07 FD01 (2017) Flood Damage Inspection post TC Debbie - Peter Faust Dam	3,063
Corrective Maintenance Total		144,412

Other

There was one project categorised as “Annuity-funded Other”.

Other	16PRO07 Create Material & Asset Hierarchy Standard & Task Lists - ABP	12,857
Other Total		12,857

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

Proserpine 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	(360)	(212)	(112)	48	(301)	(360)
Net Spend		(23)	(84)	(33)	(553)	(261)	(955)
Annuity Contribution		198	200	202	201	201	1,002
Interest		(27)	(16)	(8)	4	(23)	(70)
SunWater - Closing Balance		(212)	(112)	48	(301)	(383)	(383)
QCA - Closing Balance		221	250	428	619	423	423
Difference		(433)	(362)	(380)	(920)	(806)	(806)
Net Spend Analysis							
Spend	5 & 7	(23)	(84)	(56)	(553)	(261)	(978)
Insurance Proceeds Receipts							
• Prior Year		-	-	9	-	-	9
• Current Year		-	-	14	-	-	14
Net Spend		(23)	(84)	(33)	(553)	(261)	(955)

Appendix – Total Expenditure by Expense Type

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

Proserpine 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	2,482			2,633			2,922			3,034			3,159			14,231		
Routine Spend																		
Operations																		
Labour	135	135	(0)	167	139	(28)	120	144	23	107	148	42	118	153	35	647	719	72
Contractors	46	38	(9)	50	39	(12)	65	40	(25)	50	41	(9)	28	42	15	240	201	(39)
Materials	19	7	(12)	27	7	(19)	9	8	(1)	1	8	7	3	8	5	59	38	(21)
Electricity	7	5	(2)	7	5	(1)	-	6	6	-	6	6	-	7	7	13	29	16
Insurance	164	88	(76)	296	89	(207)	194	91	(104)	176	92	(84)	182	94	(88)	1,013	454	(558)
Other	60	83	23	82	85	3	120	86	(33)	92	88	(4)	87	90	3	441	432	(9)
Non-directs	264	301	37	316	318	2	241	311	70	257	301	45	258	301	43	1,336	1,533	197
	695	656	(39)	944	682	(261)	750	686	(64)	683	686	2	675	695	20	3,748	3,406	(342)
Preventative Maintenance																		
Labour	13	28	15	20	29	9	69	30	(38)	58	31	(27)	79	32	(47)	240	151	(88)
Contractors	3	40	37	16	41	26	27	43	16	46	44	(2)	26	45	19	118	214	96
Materials	3	3	(0)	16	3	(13)	3	3	1	3	3	0	3	3	1	27	16	(11)
Other	2	8	6	1	8	7	5	9	3	3	9	6	4	9	5	16	44	28
Non-directs	26	62	36	39	66	27	128	65	(64)	123	63	(60)	140	62	(77)	455	317	(138)
	48	142	95	91	148	57	232	150	(82)	233	150	(83)	252	152	(100)	855	742	(113)
Corrective Maintenance																		
Labour	13	5	(8)	4	5	2	18	6	(13)	2	6	4	5	6	1	43	28	(15)
Contractors	15	19	4	12	20	8	118	21	(98)	11	21	11	38	22	(16)	194	104	(91)
Materials	21	2	(19)	18	2	(16)	9	2	(7)	4	2	(2)	1	2	1	53	10	(43)
Other	3	12	9	0	12	12	10	13	3	1	13	13	2	14	12	15	64	49
Non-directs	30	13	(17)	8	13	6	39	13	(26)	4	13	9	11	13	2	92	65	(27)
	83	52	(31)	42	53	11	194	55	(140)	22	56	34	57	56	(0)	398	271	(126)
Routine - total	826	850	24	1,077	884	(193)	1,176	890	(286)	938	892	(47)	984	903	(80)	5,001	4,419	(582)
Non-Routine Spend																		
Labour	3	6	3	28	30	2	8	7	(1)	74	7	(68)	53	74	21	166	124	(43)
Contractors	2	6	4	1	33	32	32	7	(24)	315	7	(307)	48	79	32	397	134	(263)
Materials	13	6	(7)	0	33	33	-	7	7	-	7	7	4	79	76	17	134	116
Other	-	3	3	4	18	14	0	4	4	11	4	(7)	59	43	(16)	74	73	(1)
Non-directs	5	15	10	52	73	22	16	17	1	153	16	(137)	98	167	70	324	289	(35)
Non-Routine - Total	23	37	13	84	188	104	56	42	(13)	553	42	(511)	261	444	183	978	752	(225)
Total Regulated Spend	849	887	38	1,162	1,072	(90)	1,231	932	(299)	1,492	934	(558)	1,245	1,347	102	5,978	5,172	(807)
Non Annuity Funded Spend	-			1			-			16			-			17		
Surplus (Deficit)	1,633			1,470			1,691			1,527			1,914			8,236		

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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