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2017 Annual Performance Report

St George Bulk

October 2017

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Introduction

This annual Performance Report is to provide to SunWater St George 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

St George 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	1,529	1,500	1,518	1,636	1,692	7,874
Less - Routine Expenditure	4 & 7	937	1,255	783	904	740	4,619
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	771	471	498	770	1,315	3,825
• Non Annuity Funded	5	-	-	-	0	-	0
Surplus (Deficit)		(180)	(226)	237	(39)	(363)	(570)

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.

St George WS

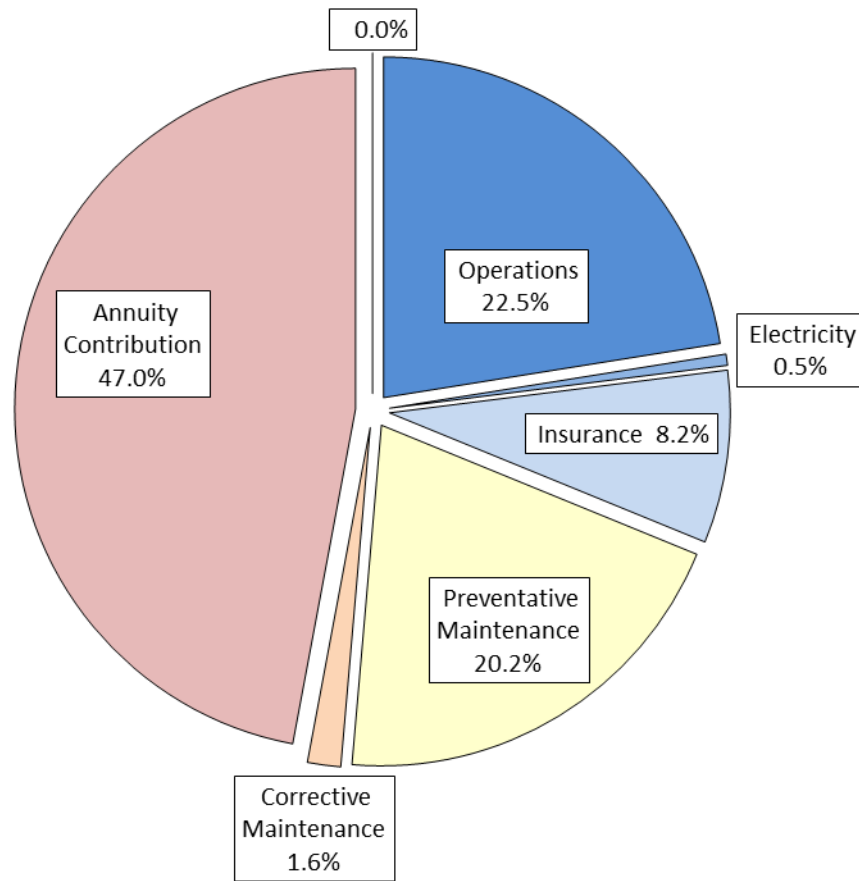


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		60	210	350	4	7
2. Irrigation		71,770	80,165	112	75,313	87
3. Urban		3,024	1,816	60	1,336	44
4. Other		0	0	0	0	0
5. SunWater		9,721	13,014	134	11,697	651
Scheme Total	166	84,575	95,205	113	88,350	104

QCA Assumed Total Water Usage 94.2%

Revenue

Table 3 – Revenue

St George WS	2013	2014	2015	2016	2017	2013 to 2017
	Actual	Actual	Actual	Actual	Actual	Actual
	\$000	\$000	\$000	\$000	\$000	\$000
Irrigation	325	331	348	356	365	1,724
Industrial	6	6	6	6	6	31
Urban	169	175	176	179	182	881
Irrigation CSO	-	-	-	-	-	-
Revenue Transfers	998	966	1,005	1,091	1,135	5,194
Drainage	-	-	-	-	-	-
Other	31	22	3	4	4	64
Insurance Proceeds - Flood	-	-	(20)	-	-	(20)
Revenue Total	1,529	1,500	1,518	1,636	1,692	7,874

* 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

St George 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	495	609	113	727	634	(93)	298	637	339	429	633	205	314	637	324	2,262	3,151	888
Electricity	4	8	5	5	9	4	7	10	2	4	10	7	7	11	4	27	48	21
Insurance	77	41	(36)	139	42	(97)	135	42	(93)	118	43	(75)	114	44	(71)	583	212	(371)
Operations Total	576	658	82	871	685	(186)	440	689	249	550	687	137	436	692	257	2,873	3,411	538
Preventative Maintenance	229	225	(4)	230	235	6	325	235	(90)	339	232	(107)	282	234	(48)	1,405	1,162	(243)
Corrective Maintenance	132	139	7	154	145	(9)	18	145	128	15	144	128	22	145	123	341	718	377
Routine Total	937	1,022	85	1,255	1,066	(190)	783	1,069	286	904	1,063	159	740	1,071	331	4,619	5,290	672

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.

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

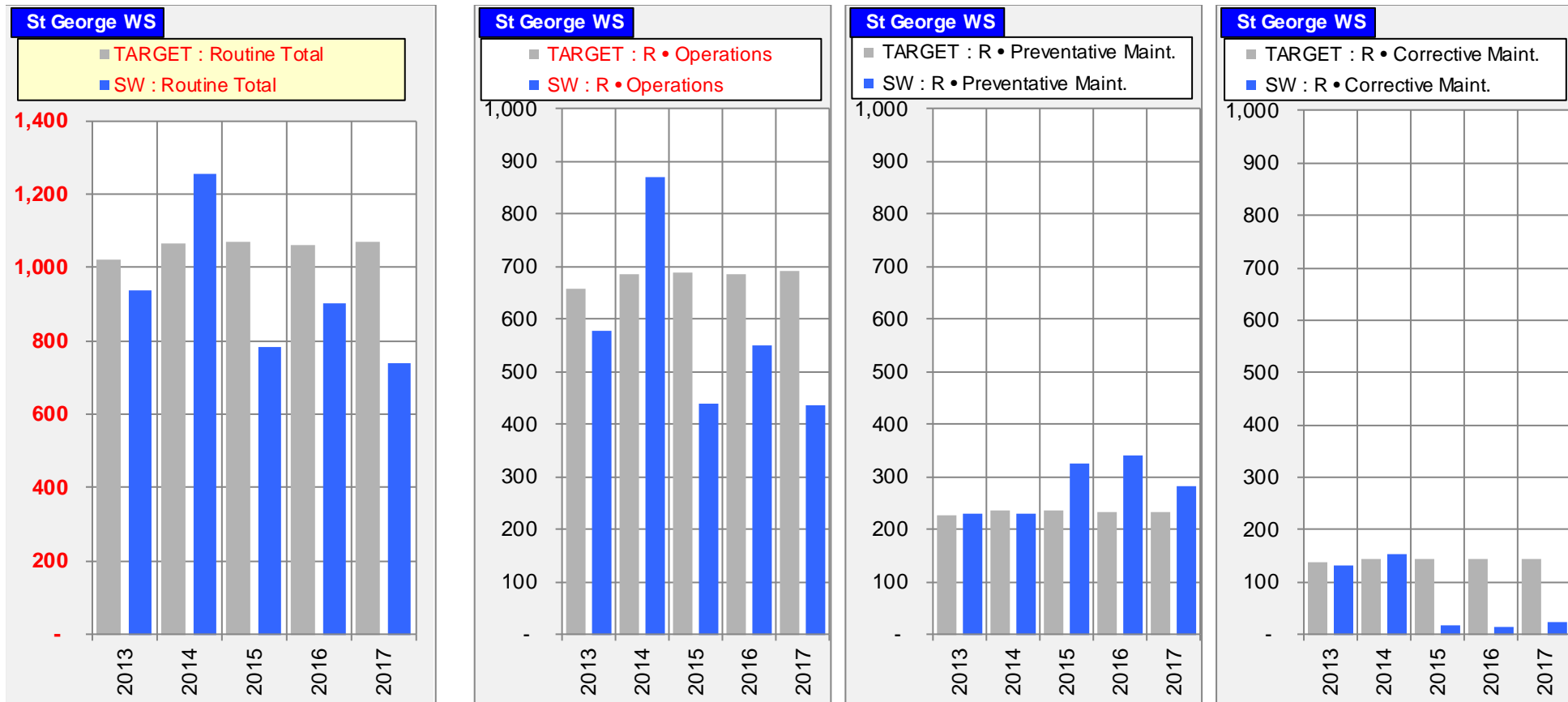
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair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

St George 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	110	-	(110)	77	-	(77)	54	-	(54)	30	-	(30)	98	-	(98)	369	-	(369)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	402	-	(402)	217	-	(217)	(0)	-	0	-	-	-	-	-	-	619	-	(619)
R&E	259	576	317	177	545	368	444	582	138	740	444	(296)	1,217	542	(674)	2,837	2,689	(148)
Non-routine Total	771	576	(195)	471	545	74	498	582	84	770	444	(326)	1,315	542	(773)	3,825	2,689	(1,136)
Non Annuity Funded	-	-	-	-	-	-	-	-	-	0	-	-	-	-	-	0	-	-

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

<input type="checkbox"/> R&E Annuity Funded	16BAL12 Install a Filter Zone between Thuraggi Inlet and Outlet - Beardmore Dam	450,914
	14SGA01 Jack Taylor Weir: Undertake Electrical Safety Upgrade Including As Built Drawings	287,451
	14SGA04 Beardmore Dam: Refurbish Electrical System - (refer 2012 Supplementary 5 Yearly Inspection HB#1268007)	285,364
	17BAL04 Beardmore Dam - Replace Piezometers as per Senior Dam Surveillance Officer Request	70,953
	17BAL06 St George Supply - Update O&M Manuals & SOPs	36,964
	17BAL07 Jack Taylor Weir - Inspection (5 Yearly) Comprehensive	24,217
	17BAL10 Beardmore Dam - Installation of a Tailwater Gauging Station	22,473
	15BAL06 Beardmore Dam - Replacement of lighting and conduits in dam Gallery	11,558
	ADSCOPE-IBS Asset Delivery Scoping - St George Supply	9,642
	17BAL12 Replace failed meter MO24	9,162
	17BAL05 Beardmore Dam - Jet Blast 59 Foundation Drains in Gallery (Dam Safety Requirement)	7,121
	Options Study Beardmore Dissipator/Apron	886
	17BAL03 Jack Taylor Weir - Study: Options & Detailed Methodology to Safely Undertake Painting of Gates	219
	16BAL10 Jack Taylor Weir - Refurbish Winch Motors Nos 11 & 12	0
	16BAL05 Beardmore Dam - Options Analysis on the Winches	0
	16BAL14 Beardmore Dam - Refurbish Dissipator Slab - Installation of concrete plinth	-198
R&E Annuity Funded Total		1,216,726

Corrective Maintenance

There was no expenditure categorised as “Annuity Funded Corrective Maintenance”

Other

The “Annuity-funded Other” Projects included:

<input type="checkbox"/> Other	17BAL08 Beardmore Dam - Operational Project to manage Sept 2016 Flood Event	45,877
	17BAL11 FD01 (2017) Flood Operations during TC Debbie - Beardmore Dam	29,330
	16BAL18 Create Material & Asset Hierarchy Standard & Task Lists - IBS	23,141
Other Total		98,348

R&E – Non Annuity

There was no expenditure on projects categorised as “Non Annuity”.

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

St George 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	128	(8)	154	382	290	128
Net Spend		(771)	(471)	(424)	(770)	(1,315)	(3,751)
Annuity Contribution		625	634	640	649	657	3,206
Interest		10	(1)	12	29	22	71
SunWater - Closing Balance		(8)	154	382	290	(346)	(346)
QCA - Closing Balance		1,258	1,442	1,608	1,934	2,194	2,194
Difference		(1,267)	(1,287)	(1,226)	(1,644)	(2,540)	(2,540)
Net Spend Analysis							
Spend	5 & 7	(771)	(471)	(498)	(770)	(1,315)	(3,825)
Insurance Proceeds Receipts							
• Prior Year		-	-	94	-	-	94
• Current Year		-	-	(20)	-	-	(20)
Net Spend		(771)	(471)	(424)	(770)	(1,315)	(3,751)

Insurance claims on repairs to Beardmore Dam and Thuraggi Water Course as a result of floods are still pending. The negative figure in 2015 “Current Year” insurance proceeds indicates an insurance proceeds allocation adjustment.

Appendix – Total Expenditure by Expense Type

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

St George 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	1,529			1,500			1,518			1,636			1,692			7,874		
Routine Spend																		
Operations																		
Labour	155	154	(1)	173	159	(14)	83	164	81	121	169	48	87	175	88	619	821	201
Contractors	4	16	13	35	17	(18)	24	17	(6)	8	18	10	10	18	8	80	87	7
Materials	3	65	62	161	67	(94)	5	69	64	5	71	66	2	72	70	175	343	168
Electricity	4	8	5	5	9	4	7	10	2	4	10	7	7	11	4	27	48	21
Insurance	77	41	(36)	139	42	(97)	135	42	(93)	118	43	(75)	114	44	(71)	583	212	(371)
Other	6	29	23	13	30	17	9	30	22	7	31	24	15	31	16	50	152	101
Non-directs	328	345	17	345	362	17	177	357	180	288	344	56	200	341	141	1,338	1,748	410
	576	658	82	871	685	(186)	440	689	249	550	687	137	436	692	257	2,873	3,411	538
Preventative Maintenance																		
Labour	75	69	(6)	66	71	5	97	73	(24)	92	76	(17)	89	78	(11)	419	366	(53)
Contractors	12	3	(9)	22	3	(19)	24	3	(21)	28	3	(26)	26	3	(23)	112	14	(98)
Materials	5	6	1	17	6	(11)	2	6	4	5	6	1	3	6	3	32	30	(2)
Other	1	3	2	6	3	(2)	20	3	(16)	16	3	(13)	8	4	(5)	51	17	(34)
Non-directs	137	145	8	120	153	33	182	150	(32)	197	145	(52)	156	143	(13)	792	736	(56)
	229	225	(4)	230	235	6	325	235	(90)	339	232	(107)	282	234	(48)	1,405	1,162	(243)
Corrective Maintenance																		
Labour	36	42	6	47	43	(3)	2	45	43	2	46	44	3	48	45	89	224	135
Contractors	10	3	(7)	15	3	(13)	6	3	(4)	0	3	2	7	3	(4)	39	14	(26)
Materials	13	3	(10)	8	3	(5)	3	3	(0)	1	3	2	5	3	(2)	29	14	(16)
Other	7	3	(4)	0	3	3	2	3	2	5	3	2	1	3	2	15	16	0
Non-directs	66	89	22	84	94	9	4	92	87	7	88	82	6	88	82	168	451	283
	132	139	7	154	145	(9)	18	145	128	15	144	128	22	145	123	341	718	377
Routine - total	937	1,022	85	1,255	1,066	(190)	783	1,069	286	904	1,063	159	740	1,071	331	4,619	5,290	672
Non-Routine Spend																		
Labour	166	74	(92)	68	71	4	102	91	(11)	147	73	(73)	233	68	(165)	715	378	(338)
Contractors	71	249	178	63	179	116	175	107	(67)	277	78	(199)	590	141	(449)	1,176	755	(421)
Materials	86	49	(38)	140	66	(74)	1	98	97	22	78	57	16	143	127	264	433	169
Other	146	1	(145)	71	32	(39)	23	53	30	22	41	20	40	31	(9)	302	158	(143)
Non-directs	301	204	(98)	130	197	67	198	232	34	303	173	(131)	436	160	(276)	1,368	965	(403)
Non-Routine - Total	771	576	(195)	471	545	74	498	582	84	770	444	(326)	1,315	542	(773)	3,825	2,689	(1,136)
Total Regulated Spend	1,708	1,598	(110)	1,726	1,611	(116)	1,281	1,651	370	1,674	1,507	(168)	2,055	1,613	(442)	8,444	7,980	(464)
Non Annuity Funded Spend	-			-			-			0			-			0		
Surplus (Deficit)	(180)			(226)			237			(39)			(363)			(570)		

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

Disclaimer

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