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2017 Annual Performance Report

St George Distribution

October 2017

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Introduction

This annual Performance Report is to provide to SunWater St George 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

St George 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	2,336	2,317	2,423	2,295	2,446	11,818
Less - Routine Expenditure	4 & 7	1,374	1,226	1,490	1,486	1,373	6,949
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	311	367	593	516	745	2,531
• Non Annuity Funded	5	-	-	-	-	-	-
Surplus (Deficit)		652	724	341	293	328	2,338

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 IS

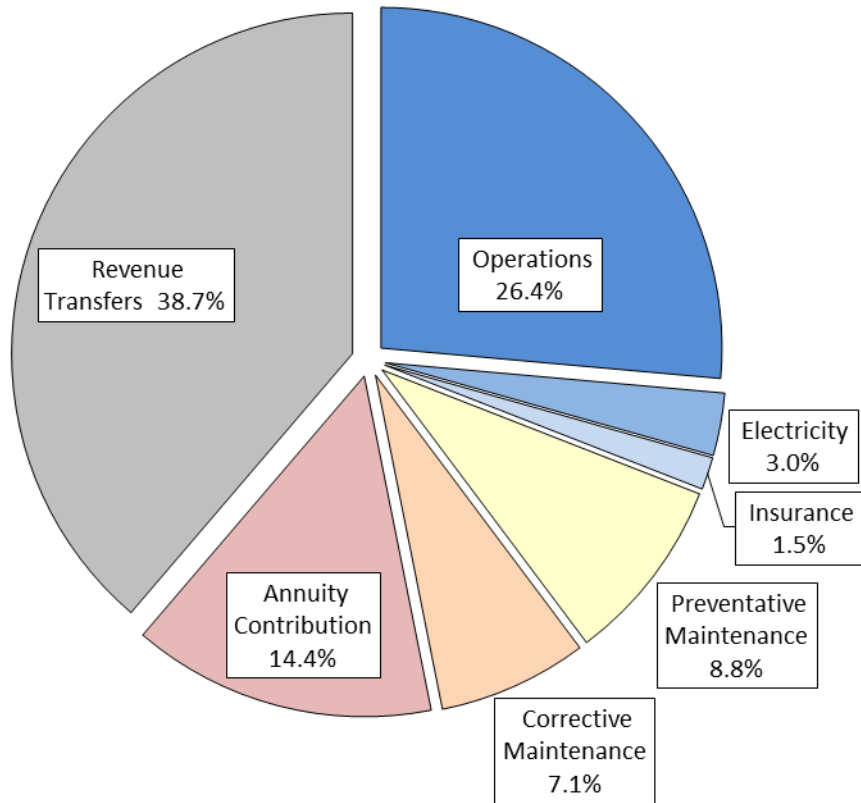


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		0	0	0	0	0
2. Irrigation		51,275	63,353	124	57,530	112
3. Urban		0	0	0	0	0
4. Other		0	0	0	0	0
5. SunWater		9,701	12,130	125	11,566	119
Service Contract Total	61	60,976	75,483	124	69,097	113

QCA Assumed Total Water Usage 93.4%

Revenue

Table 3 – Revenue

St George IS	2013	2014	2015	2016	2017	2013 to 2017
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000
Irrigation	2,607	2,671	2,891	2,959	3,250	14,379
Industrial	18	-	-	-	-	18
Urban	-	0	-	-	-	0
Irrigation CSO	497	401	305	203	96	1,502
Revenue Transfers	(998)	(966)	(1,005)	(1,091)	(1,135)	(5,194)
Drainage	203	210	217	224	235	1,089
Other	8	0	(0)	0	0	8
Insurance Proceeds - Flood	-	-	15	-	-	15
Revenue Total	2,336	2,317	2,423	2,295	2,446	11,818

* 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 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	708	826	119	698	849	151	841	868	27	865	874	9	774	867	93	3,886	4,284	399
Electricity	73	53	(21)	71	56	(15)	96	60	(36)	51	65	14	87	70	(18)	378	303	(75)
Insurance	73	48	(25)	97	49	(48)	74	50	(24)	67	51	(16)	45	52	6	356	249	(107)
Operations Total	854	927	74	866	954	88	1,011	978	(33)	983	990	7	906	988	82	4,620	4,837	217
Preventative Maintenance	457	344	(113)	279	354	76	263	363	100	298	368	70	259	368	109	1,555	1,797	241
Corrective Maintenance	63	247	184	82	254	172	216	260	44	205	262	57	208	260	53	773	1,283	510
Routine Total	1,374	1,518	144	1,226	1,562	336	1,490	1,601	111	1,486	1,620	133	1,373	1,616	243	6,949	7,916	968

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 below target
- Electricity costs were above 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:

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

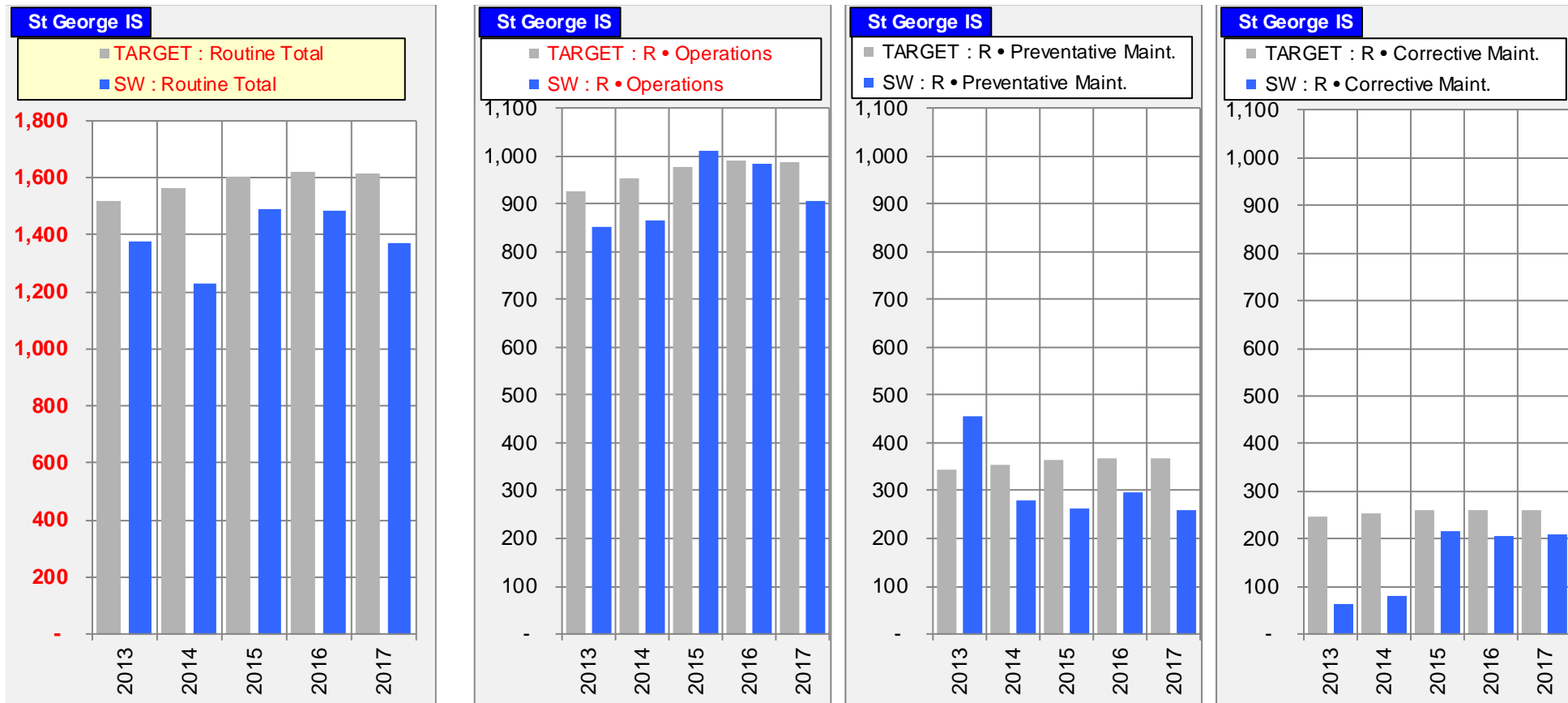
- Repair bulk water meters; and
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction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

St George 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	-	-	-	16	-	(16)	-	-	-	-	-	-	-	-	-	16	-	(16)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	6	-	(6)	192	-	(192)	190	-	(190)	-	-	-	-	-	-	387	-	(387)
R&E	305	2,005	1,701	160	35	(125)	403	92	(311)	516	214	(302)	745	294	(451)	2,128	2,640	512
Non-routine Total	311	2,005	1,695	367	35	(333)	593	92	(501)	516	214	(302)	745	294	(451)	2,531	2,640	109
Non Annuity Funded	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

<input type="checkbox"/> R&E Annuity Funded	15SGA13 Replace Access Crossing on TDC at Ch 25063	492,251
	17SGA08 17SGA08 Replace Failed Meters - SGM M034, BBM M006/M015M039/M040,TDC M004/M008	104,237
	17SGA07 17SGA07 Install platform and handrail compliant - CH1, CH5 & CHB2_2	39,115
	17SGA05 17SGA05 Repair access crossing - Channel B1 Access Crossing AC	31,047
	17SGA11 Refurbishment of Buckinbah Pumps	26,922
	15SGA09 Install signage & handover bridge (Wippell)	22,164
	17SGA03 17SGA03 Repair Access Crossing - Access Crossing AC06	13,635
	17SGA02 17SGA02 Repair Access Crossing Guardrails - DRN4_1 AC01	7,730
	17SGA09 Replace Vacuum Priming Pump Unit - St George PSTN	6,491
	17SGA04 17SGA04 Remove decking units to prevent access/use	1,954
	16SGA01 Construct Safety Fencing - St George Irrigation Area	0
	16SGA02 Replace Metered Outlets - St George Irrigation Area	-895
R&E Annuity Funded Total		744,651

Corrective Maintenance

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

Other

There was no expenditure categorised as “Annuity Funded Other”.

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

St George 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	(1,506)	(1,528)	(1,605)	(1,881)	(2,113)	(1,506)
Net Spend		(311)	(367)	(562)	(516)	(745)	(2,501)
Annuity Contribution		402	405	407	424	422	2,060
Interest		(113)	(114)	(120)	(141)	(158)	(647)
SunWater - Closing Balance		(1,528)	(1,605)	(1,881)	(2,113)	(2,594)	(2,594)
QCA - Closing Balance		(3,461)	(3,351)	(3,287)	(3,323)	(3,443)	(3,443)
Difference		1,933	1,745	1,406	1,209	849	849
Net Spend Analysis							
Spend	5 & 7	(311)	(367)	(593)	(516)	(745)	(2,531)
Insurance Proceeds Receipts							
• Prior Year		-	-	15	-	-	15
• Current Year		-	-	15	-	-	15
Net Spend		(311)	(367)	(562)	(516)	(745)	(2,501)

Appendix – Total Expenditure by Expense Type

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

St George 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	2,336			2,317			2,423			2,295			2,446			11,818		
Routine Spend																		
Operations																		
Labour	228	290	61	201	299	98	304	309	5	300	319	19	249	329	79	1,282	1,545	263
Contractors	2	4	2	32	4	(28)	5	4	(1)	6	5	(1)	72	5	(68)	117	22	(95)
Materials	92	19	(72)	104	20	(84)	3	21	18	12	21	10	30	22	(8)	240	104	(137)
Electricity	73	53	(21)	71	56	(15)	96	60	(36)	51	65	14	87	70	(18)	378	303	(75)
Insurance	73	48	(25)	97	49	(48)	74	50	(24)	67	51	(16)	45	52	6	356	249	(107)
Other	4	39	35	19	41	22	19	42	23	40	43	3	18	44	26	100	209	109
Non-directs	382	474	92	341	485	144	510	492	(18)	508	487	(22)	405	468	62	2,147	2,405	258
	854	927	74	866	954	88	1,011	978	(33)	983	990	7	906	988	82	4,620	4,837	217
Preventative Maintenance																		
Labour	136	91	(45)	82	94	12	59	97	38	79	100	22	58	104	45	414	486	72
Contractors	65	89	24	25	92	67	63	95	32	46	98	52	69	100	30	268	474	206
Materials	26	6	(20)	31	6	(24)	15	7	(8)	19	7	(13)	18	7	(11)	109	33	(76)
Other	0	10	10	4	11	6	21	11	(10)	20	11	(8)	15	11	(4)	60	54	(6)
Non-directs	230	147	(83)	136	151	15	105	153	48	135	151	17	98	146	48	704	749	45
	457	344	(113)	279	354	76	263	363	100	298	368	70	259	368	109	1,555	1,797	241
Corrective Maintenance																		
Labour	20	84	64	23	87	64	40	90	50	49	92	44	55	95	40	186	448	262
Contractors	1	13	12	6	14	8	74	14	(60)	32	15	(17)	23	15	(8)	135	71	(65)
Materials	9	7	(1)	15	7	(8)	13	8	(5)	3	8	5	8	8	0	47	38	(9)
Other	0	10	10	0	11	11	18	11	(7)	36	11	(24)	30	11	(19)	84	54	(30)
Non-directs	33	132	99	38	136	98	72	138	66	86	136	50	92	130	39	320	671	351
	63	247	184	82	254	172	216	260	44	205	262	57	208	260	53	773	1,283	510
Routine - total	1,374	1,518	144	1,226	1,562	336	1,490	1,601	111	1,486	1,620	133	1,373	1,616	243	6,949	7,916	968
Non-Routine Spend																		
Labour	35	258	223	39	6	(33)	57	12	(45)	44	38	(6)	65	41	(23)	240	356	116
Contractors	157	846	688	217	7	(210)	390	12	(377)	263	41	(222)	422	44	(378)	1,449	950	(499)
Materials	9	768	759	3	7	4	36	36	(0)	61	41	(20)	91	94	2	200	945	745
Other	39	37	(2)	37	4	(34)	(7)	7	14	54	23	(31)	36	40	5	159	111	(48)
Non-directs	70	96	26	72	12	(60)	117	25	(92)	93	70	(23)	131	74	(57)	484	278	(206)
Non-Routine - Total	311	2,005	1,695	367	35	(333)	593	92	(501)	516	214	(302)	745	294	(451)	2,531	2,640	109
Total Regulated Spend	1,685	3,523	1,839	1,593	1,597	4	2,083	1,693	(390)	2,002	1,833	(169)	2,118	1,910	(208)	9,480	10,556	1,076
Non Annuity Funded Spend	-			-			-			-			-			-		
Surplus (Deficit)	652			724			341			293			328			2,338		

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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