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2017 Annual Performance Report

Three Moon Bulk

October 2017

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Introduction

This annual Performance Report is to provide to SunWater Three Moon Creek 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

Three Moon 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	398	417	490	947	437	2,688
Less - Routine Expenditure	4 & 7	394	493	387	464	483	2,222
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	210	336	723	45	103	1,417
• Non Annuity Funded	5	-	-	7	6	0	13
Surplus (Deficit)		(207)	(412)	(627)	432	(150)	(964)

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.

Three Moon WS

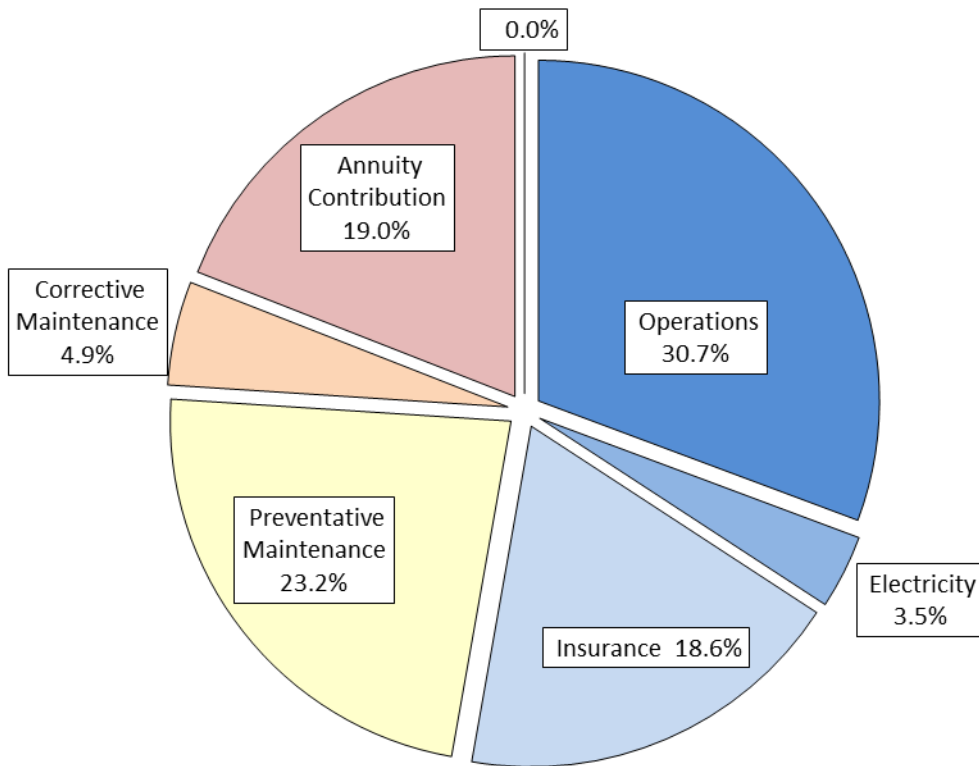


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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						
2. Irrigation		14,124	14,124	100	6,727	48
3. Urban		410	610	149	267	65
4. Other						
5. SunWater		0	0	0	0	0
Scheme Total	94	14,534	14,734	101	6,994	47

QCA Assumed Total Water Usage 50.8%

Total water use was below QCA assumed use. 200ML IWA in Urban was surrendered in 2017.

Revenue

Table 3 – Revenue

Three Moon WS	2013	2014	2015	2016	2017	2013 to 2017
	Actual	Actual	Actual	Actual	Actual	Actual
	\$000	\$000	\$000	\$000	\$000	\$000
Irrigation	311	333	329	342	350	1,666
Industrial	-	-	-	-	-	-
Urban	77	82	83	85	86	413
Irrigation CSO	7	-	-	-	-	7
Revenue Transfers	-	-	-	-	-	-
Drainage	-	-	-	-	-	-
Other	3	2	8	3	0	15
Insurance Proceeds - Flood	-	-	71	517	-	588
Revenue Total	398	417	490	947	437	2,688

* 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.

Routine Expenditure

Table 4 – Routine Operating Expenditure

Three Moon 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	204	201	(3)	187	210	23	154	210	57	189	208	19	183	209	26	917	1,038	121
Electricity	8	9	1	16	10	(6)	14	10	(4)	24	11	(12)	21	12	(9)	83	53	(30)
Insurance	70	38	(33)	127	38	(89)	88	39	(49)	80	40	(40)	111	40	(71)	476	195	(281)
Operations Total	282	248	(34)	330	258	(72)	256	260	4	293	259	(34)	315	261	(54)	1,476	1,285	(191)
Preventative Maintenance	64	89	25	101	93	(8)	119	93	(26)	142	92	(50)	139	92	(46)	565	459	(106)
Corrective Maintenance	48	14	(34)	62	14	(48)	12	14	2	29	14	(15)	29	14	(15)	181	70	(111)
Routine Total	394	350	(44)	493	365	(128)	387	367	(21)	464	365	(99)	483	368	(115)	2,222	1,814	(407)

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 above the QCA target:

- Insurance costs were higher than target;
- Electricity costs were above 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

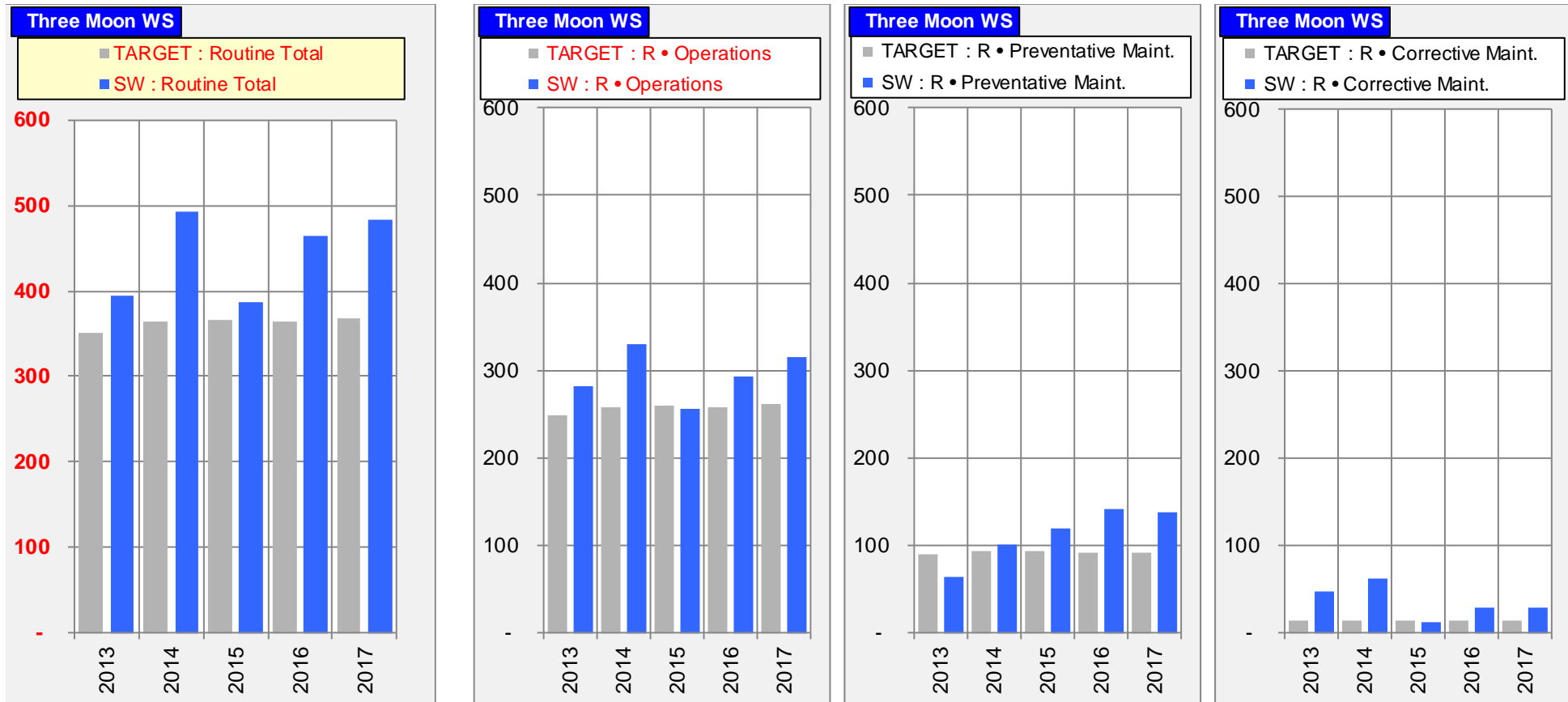
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair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

Corrective maintenance was above 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

Three Moon 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	-	-	-	-	18	18	27	7	(20)	2	-	(2)	17	-	(17)	46	25	(20)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	74	-	(74)	325	-	(325)	600	-	(600)	11	-	(11)	-	-	-	1,009	-	(1,009)
R&E	137	52	(84)	11	104	93	97	110	13	32	-	(32)	86	140	54	362	406	44
Non-routine Total	210	52	(158)	336	122	(213)	723	117	(606)	45	-	(45)	103	140	37	1,417	432	(986)
Non Annuity Funded																		
	-	-	-	-	-	-	7	-	-	6	-	-	0	-	-	13	-	-

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

R&E Annuity Funded	17TMC03 Study: Dam Safety Hydrology and Dam Break Review - CaniaDam	54,600
	16TMC01 Inspection (5 Yearly) Comprehensive - Avis, Bazley, Monto, Mulgildie, Youlambie Recharge Weirs and Youlambie Anabranh	14,609
	ADSCOPE-LBT Asset Delivery Scoping - Three Moon Supply	8,225
	17TMC01 Condition Assessment (2 Yearly) - Electrical - Cania Dam	5,301
	17TMC02 Develop Crane Strategy - Three Moon Creek Supply	3,509
R&E Annuity Funded Total		86,244

Corrective Maintenance

There were no annuity funded corrective maintenance Projects undertaken:

Other

The Annuity Funded Other Projects undertaken included:

Other	16TMC12 Create Material & Asset Hierarchy Standard & Task Lists - LBT Three Moon Supply	17,141
Other Total		17,141

R&E – Non Annuity

The “Non Annuity Funded Other” Projects undertaken included:

Customer Funded	16TMC11 Install new 50mm meter to serve Lot 6&8 RP816992	459
Customer Funded Total		459

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

Three Moon 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	(337)	(466)	(728)	(1,325)	(841)	(337)
Net Spend		(210)	(336)	(652)	472	(103)	(829)
Annuity Contribution		107	108	109	112	114	550
Interest		(25)	(35)	(55)	(99)	(63)	(277)
SunWater - Closing Balance		(466)	(728)	(1,325)	(841)	(893)	(893)
QCA - Closing Balance	(264)	(297)	(327)	(240)	(284)	(284)	
Difference	(202)	(431)	(998)	(601)	(609)	(609)	
Net Spend Analysis							
Spend	5 & 7	(210)	(336)	(723)	(45)	(103)	(1,417)
Insurance Proceeds Receipts							
• Prior Year		-	-	-	-	-	-
• Current Year		-	-	71	517	-	588
Net Spend		(210)	(336)	(652)	472	(103)	(829)

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)**

Three Moon 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	398			417			490			947			437			2,688		
Routine Spend																		
Operations																		
Labour	62	59	(3)	48	61	12	40	63	23	45	65	20	39	67	28	235	315	79
Contractors	3	3	0	3	4	0	9	4	(6)	3	4	1	4	4	0	22	19	(4)
Materials	1	0	(1)	2	0	(2)	0	0	0	2	0	(2)	0	0	0	6	2	(4)
Electricity	8	9	1	16	10	(6)	14	10	(4)	24	11	(12)	21	12	(9)	83	53	(30)
Insurance	70	38	(33)	127	38	(89)	88	39	(49)	80	40	(40)	111	40	(71)	476	195	(281)
Other	23	13	(10)	38	13	(25)	23	14	(9)	24	14	(10)	27	14	(12)	136	69	(67)
Non-directs	114	125	11	95	132	37	81	129	49	114	125	10	114	123	10	518	634	117
	282	248	(34)	330	258	(72)	256	260	4	293	259	(34)	315	261	(54)	1,476	1,285	(191)
Preventative Maintenance																		
Labour	20	28	8	31	29	(2)	40	30	(10)	44	31	(13)	48	32	(17)	183	150	(34)
Contractors	7	-	(7)	12	-	(12)	3	-	(3)	6	-	(6)	2	-	(2)	30	-	(30)
Materials	0	2	2	2	2	1	1	2	2	0	2	2	0	3	2	3	12	9
Other	1	2	1	0	2	2	2	2	1	2	2	0	3	2	(1)	9	11	2
Non-directs	36	57	21	56	59	4	74	58	(15)	90	56	(33)	84	56	(29)	340	287	(53)
	64	89	25	101	93	(8)	119	93	(26)	142	92	(50)	139	92	(46)	565	459	(106)
Corrective Maintenance																		
Labour	6	4	(2)	13	4	(9)	2	4	2	4	5	0	8	5	(3)	34	22	(12)
Contractors	16	-	(16)	12	-	(12)	-	-	-	11	-	(11)	4	-	(4)	42	-	(42)
Materials	10	1	(9)	13	1	(11)	3	1	(2)	5	1	(4)	4	1	(3)	33	5	(28)
Other	1	0	(1)	-	0	0	2	0	(2)	-	0	0	1	0	(1)	4	1	(4)
Non-directs	15	8	(7)	24	9	(15)	5	9	4	9	8	(1)	14	8	(6)	67	42	(25)
	48	14	(34)	62	14	(48)	12	14	2	29	14	(15)	29	14	(15)	181	70	(111)
Routine - total	394	350	(44)	493	365	(128)	387	367	(21)	464	365	(99)	483	368	(115)	2,222	1,814	(407)
Non-Routine Spend																		
Labour	26	7	(19)	23	28	5	129	19	(110)	7	-	(7)	11	13	2	195	67	(128)
Contractors	121	21	(99)	256	10	(246)	325	21	(305)	21	-	(21)	67	68	1	790	120	(670)
Materials	17	4	(13)	-	14	14	5	20	16	-	-	-	-	23	23	22	61	39
Other	1	2	1	3	2	(0)	13	11	(2)	3	-	(3)	4	4	1	23	20	(3)
Non-directs	46	18	(28)	54	68	14	251	46	(205)	14	-	(14)	22	31	9	387	164	(223)
Non-Routine - Total	210	52	(158)	336	122	(213)	723	117	(606)	45	-	(45)	103	140	37	1,417	432	(986)
Total Regulated Spend	605	403	(202)	829	487	(342)	1,110	484	(627)	509	365	(144)	586	508	(79)	3,639	2,246	(1,393)
Non Annuity Funded Spend	-			-			7			6			0			13		
Surplus (Deficit)	(207)			(412)			(627)			432			(150)			(964)		

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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