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2017 Annual Performance Report

Upper Burnett Bulk

October 2017

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Introduction

This annual Performance Report is to provide to SunWater Upper Burnett 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

Upper Burnett 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	1,413	1,475	1,897	2,772	1,467	9,025
Less - Routine Expenditure	4 & 7	663	840	789	939	814	4,045
Less - Non-Routine Expenditure							
• Annuity Funded	5, 6 & 7	350	2,465	279	375	442	3,912
• Non Annuity Funded	5	3	105	28	4	-	141
Surplus (Deficit)		397	(1,936)	801	1,455	211	928

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.

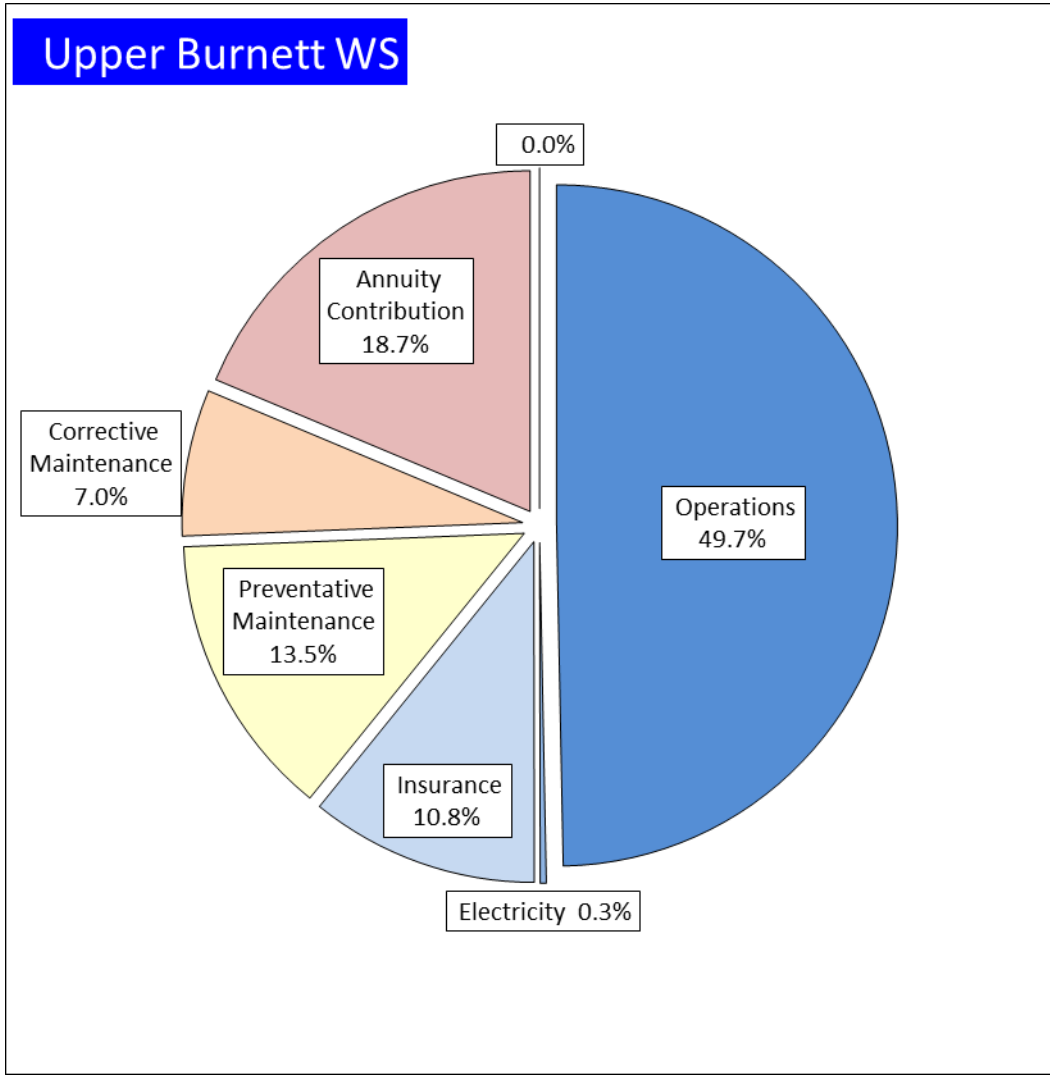


Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Actual

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		119	119	100	40	34
2. Irrigation		28,469	31,905	112	17,985	63
3. Urban		1,930	1,914	99	860	45
4. Other		0	0	0	0	0
5. SunWater		18,032	4,784	27	220	1
Scheme Total	155	48,550	38,723	80	19,105	39

QCA Assumed Water Usage for Total 66.0%
 Use is lower than the QCA assumed usage.

Revenue

Table 3 – Revenue

Upper Burnett WS	2013	2014	2015	2016	2017	2013 to 2017
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Actual \$000
Irrigation	676	764	764	788	815	3,807
Industrial	-	16	22	24	25	87
Urban	727	586	605	613	624	3,155
Irrigation CSO	-	-	-	-	-	-
Revenue Transfers	-	-	-	-	-	-
Drainage	-	-	-	-	-	-
Other	11	109	26	7	3	156
Insurance Proceeds - Flood	-	-	480	1,339	-	1,820
Revenue Total	1,413	1,475	1,897	2,772	1,467	9,025

Routine Expenditure

Table 4 – Routine Operating Expenditure

Upper Bumett 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	404	487	83	493	507	14	531	508	(23)	587	504	(83)	497	506	9	2,512	2,511	(1)
Electricity	8	7	(1)	7	8	1	5	8	3	2	9	7	3	10	7	25	42	17
Insurance	129	67	(63)	235	68	(167)	147	69	(78)	132	70	(62)	109	71	(37)	752	344	(407)
Operations Total	542	561	19	734	582	(152)	683	585	(97)	721	583	(139)	609	587	(22)	3,289	2,898	(391)
Preventative Maintenance	97	140	43	77	146	69	94	146	52	156	145	(11)	135	145	10	559	721	162
Corrective Maintenance	24	34	10	29	36	7	12	36	23	62	36	(26)	70	36	(34)	197	177	(20)
Routine Total	663	735	72	840	764	(76)	789	767	(22)	939	763	(175)	814	768	(46)	4,045	3,797	(248)

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 above the QCA target.

- Insurance costs are higher than target;
- Operational costs are lower than 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:

- 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

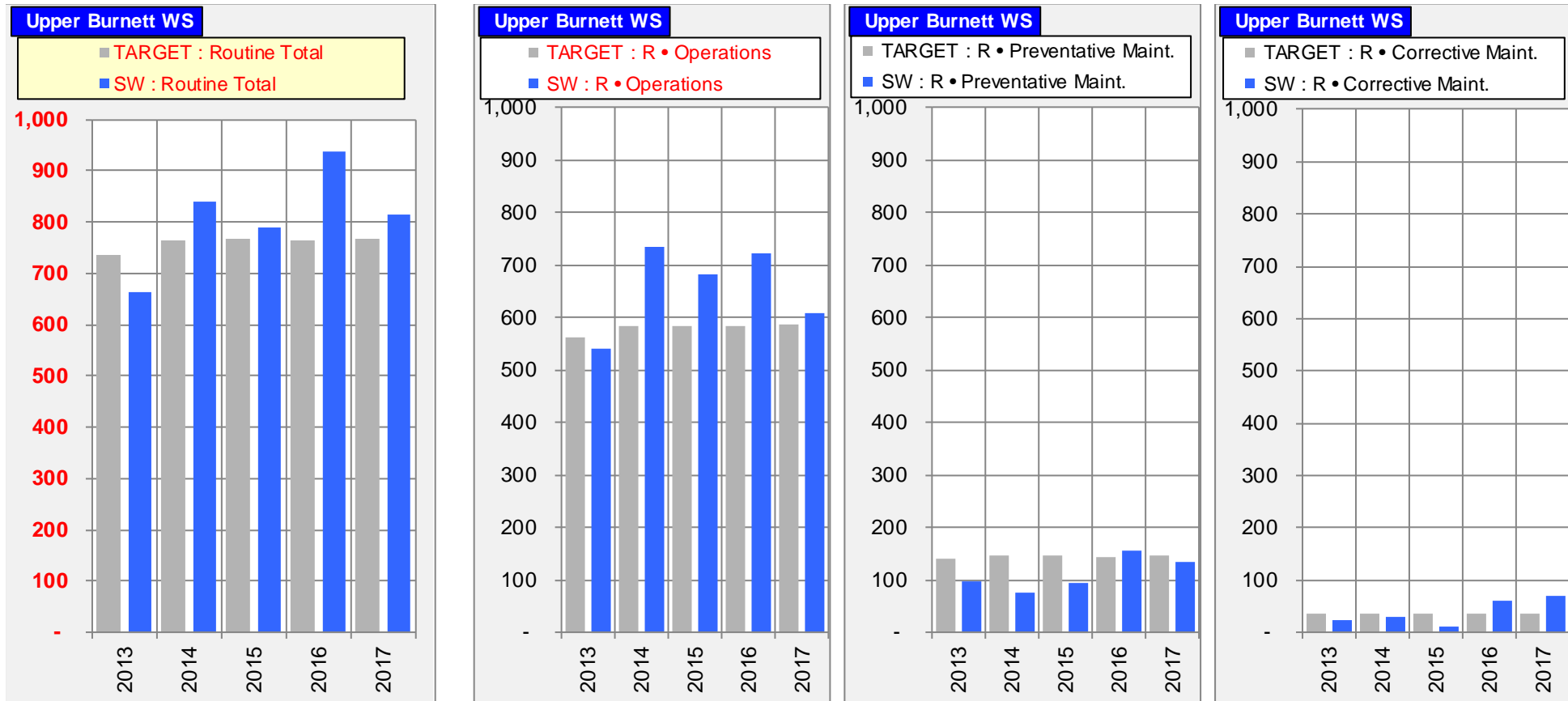
- Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair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

Upper Bumett 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	-	-	-	-	-	-	-	-	-	6	-	(6)	17	-	(17)	23	-	(23)
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	310	-	(310)	2,229	-	(2,229)	108	-	(108)	276	-	(276)	11	-	(11)	2,934	-	(2,934)
R&E	41	206	165	237	250	13	171	224	53	93	160	67	414	276	(138)	955	1,116	160
Non-routine Total	350	206	(145)	2,465	250	(2,215)	279	224	(55)	375	160	(214)	442	276	(167)	3,912	1,116	(2,796)
Non Annuity Funded	3			105			28			4			-			141		

R&E – Annuity Funded

The annuity funded R&E Projects undertaken included:

R&E Annuity Funded	17UBP04 Inspection (5 Yearly) Comprehensive - Wuruma Dam	139,466
	10UBP10 Claude Wharton Weir - Decommission Fabridam (2015) Replace Fabridam (Design 2010-12) (Manufacture & Install 2013)	86,356
	17UBP07 Clean Pressure Relief Drains - Wuruma Dam	70,996
	15UBP04 Design/Fabricate Trashescreen Guides Extensions - Inlet to Outlet Works - Wuruma Dam	24,976
	17UBP09 Study: Dam Safety Hydrology and Dam Break Review - Wuruma Dam	23,678
	17UBP02 Inspections (5 Yearly) Comprehensive - Jones Weir	19,284
	17UBP01 Inspection (5 Yearly) Comprehensive - John Goleby Weir	17,557
	17UBP05 Refurbish Left & Right Guard Valves - Wuruma Dam (Options - 2017, Refurbish - 2018)	10,063
	17UBP03 Deformation Survey - Claude Wharton Weir (must be done prior to 5 yearly inspection) (2006/07 DS Rec 3)	5,753
	17UBP06 Install Survey Points - Claude Wharton Weir	5,539
	17UBP08 Develop Crane Strategy - Upper Burnett Supply	4,602
	ADSCOPE-BBU Asset Delivery Scoping - Upper Burnett Supply	3,588
	17UBP10 17UBP10 Replace Meter #37013 Upper Burnett Muirhead	1,225
	14UBP06 Develop Discharge Rating Curve for Wuruma Dam	722
R&E Annuity Funded Total	413,805	

Corrective Maintenance

The annuity funded corrective maintenance spend included the following activities:

Corrective Maintenance	17UBP13 FD01 (2017) Flood Damage Repairs post TC Debbie - Claude Wharton Weir	9,001
	17UBP14 FD01 (2017) Flood Damage Repair post TC Debbie - Jones Weir	2,457
Corrective Maintenance Total	11,458	

Other

Other expenditure categorised as “Annuity-funded Other” included:

Other	16UBP12 Create Material & Asset Hierarchy Standard & Task Lists - BBU	17,141
Other Total	17,141	

R&E – Non Annuity

There was no expenditure on Non-annuity funded R&E projects:

Annuity Balance

The 2017 annuity balance is shown below.

Table 6 – Annuity Balance

Upper Burnett 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	(199)	(401)	(2,724)	(2,380)	(1,414)	(199)
Net Spend		(350)	(2,465)	373	965	(442)	(1,920)
Annuity Contribution		163	173	175	180	187	876
Interest		(15)	(30)	(204)	(178)	(106)	(533)
SunWater - Closing Balance		(401)	(2,724)	(2,380)	(1,414)	(1,776)	(1,776)
QCA - Closing Balance		385	336	312	355	293	293
Difference		(786)	(3,060)	(2,692)	(1,769)	(2,068)	(2,068)
Net Spend Analysis							
Spend	5 & 7	(350)	(2,465)	(279)	(375)	(442)	(3,912)
Insurance Proceeds Receipts							
• Prior Year		-	-	172	-	-	172
• Current Year		-	-	480	1,339	-	1,820
Net Spend		(350)	(2,465)	373	965	(442)	(1,920)

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)**

Upper Burnett 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	1,413			1,475			1,897			2,772			1,467			9,025		
Routine Spend																		
Operations																		
Labour	120	141	21	137	146	9	149	151	2	145	155	10	137	160	23	689	754	65
Contractors	19	9	(9)	10	10	(1)	27	10	(17)	17	10	(6)	20	11	(10)	93	50	(43)
Materials	4	3	(1)	39	3	(36)	12	3	(9)	13	4	(10)	4	4	(1)	73	17	(55)
Electricity	8	7	(1)	7	8	1	5	8	3	2	9	7	3	10	7	25	42	17
Insurance	129	67	(63)	235	68	(167)	147	69	(78)	132	70	(62)	109	71	(37)	752	344	(407)
Other	34	34	0	49	35	(14)	55	36	(20)	82	36	(45)	48	37	(12)	268	178	(90)
Non-directs	226	298	72	258	313	55	287	308	21	330	298	(32)	287	294	8	1,388	1,511	123
	542	561	19	734	582	(152)	683	585	(97)	721	583	(139)	609	587	(22)	3,289	2,898	(391)
Preventative Maintenance																		
Labour	32	44	12	27	45	18	32	47	15	44	48	4	45	50	5	179	233	54
Contractors	2	3	2	-	3	3	1	4	3	11	4	(7)	8	4	(4)	22	18	(4)
Materials	0	3	2	1	3	2	1	3	2	2	3	1	0	3	3	4	14	10
Other	0	2	2	2	2	1	2	2	0	6	2	(3)	4	2	(2)	14	11	(3)
Non-directs	63	88	25	48	92	45	59	91	32	94	88	(6)	78	87	9	341	446	105
	97	140	43	77	146	69	94	146	52	156	145	(11)	135	145	10	559	721	162
Corrective Maintenance																		
Labour	3	9	6	6	10	3	1	10	8	9	10	1	16	10	(6)	35	49	14
Contractors	13	2	(11)	0	2	2	-	2	2	20	2	(18)	10	2	(8)	43	11	(32)
Materials	3	3	0	10	3	(7)	-	3	3	7	3	(4)	11	3	(7)	31	16	(15)
Other	-	1	1	0	1	1	8	1	(7)	5	1	(4)	4	1	(3)	17	5	(12)
Non-directs	6	19	13	12	20	8	3	19	17	20	19	(2)	29	19	(10)	70	95	25
	24	34	10	29	36	7	12	36	23	62	36	(26)	70	36	(34)	197	177	(20)
Routine - total	663	735	72	840	764	(76)	789	767	(22)	939	763	(175)	814	768	(46)	4,045	3,797	(248)
Non-Routine Spend																		
Labour	62	32	(30)	140	39	(100)	50	36	(14)	49	31	(18)	98	48	(50)	399	187	(212)
Contractors	147	27	(120)	1,906	43	(1,863)	123	37	(86)	180	-	(180)	143	51	(93)	2,499	158	(2,341)
Materials	11	47	37	26	43	17	3	42	39	5	50	46	4	48	44	48	231	182
Other	20	17	(3)	48	24	(24)	3	21	18	25	9	(16)	19	27	8	115	98	(17)
Non-directs	111	83	(29)	346	101	(245)	100	88	(12)	116	69	(46)	178	102	(76)	851	443	(408)
Non-Routine - Total	350	206	(145)	2,465	250	(2,215)	279	224	(55)	375	160	(214)	442	276	(167)	3,912	1,116	(2,796)
Total Regulated Spend	1,014	940	(73)	3,305	1,014	(2,292)	1,068	991	(77)	1,314	924	(390)	1,256	1,044	(212)	7,956	4,912	(3,044)
Non Annuity Funded Spend	3			105			28			4			-				141	
Surplus (Deficit)	397			(1,936)			801			1,455			211				928	

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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