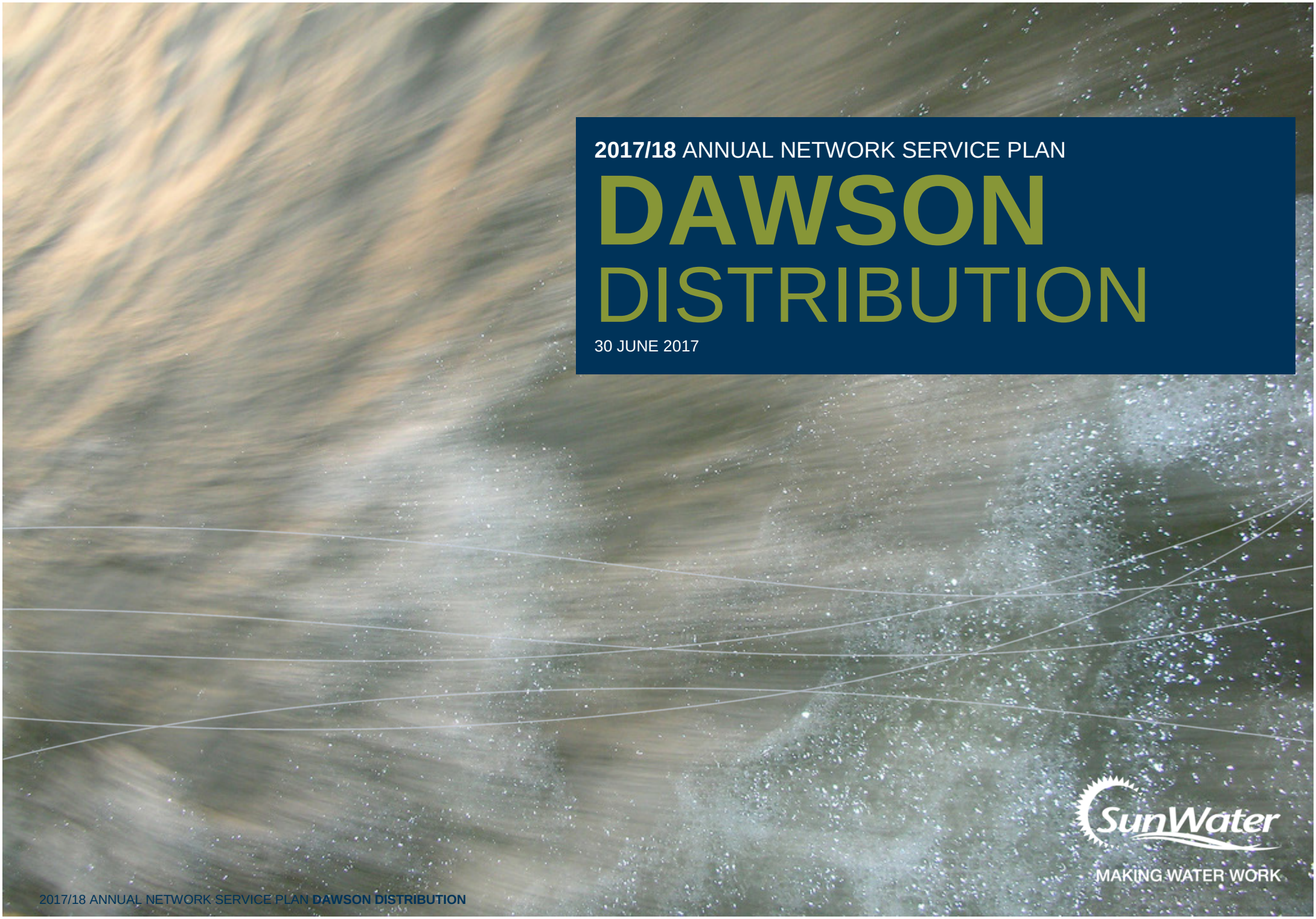


2017/18 ANNUAL NETWORK SERVICE PLAN

DAWSON DISTRIBUTION

30 JUNE 2017

SunWater

MAKING WATER WORK

CONTENTS

We're focused on reliability, efficiency and safety, ensuring the Dawson Distribution Scheme continues to meet the needs and expectations of our diverse customer base.

In this Network Service Plan (NSP) we outline a range of proposed immediate and longer-term improvement projects, and provide a detailed breakdown of anticipated revenue and costs for review.

Our focus for 2017/18 is maintaining a reliable water supply and continuing safe operations. No major works are planned, but we will be delivering an extensive program of investigations and repairs, looking specifically at systems, metering and outlet works. This is part of our commitment to maintaining high standards and delivering ongoing value.

It is important to us that our customers are involved in making important decisions. We welcome and encourage your feedback on this NSP, and look forward to working with you to deliver the programs of work.

John Kelly
Service Manager

INTRODUCTION

At SunWater, we are committed to working collaboratively with our customers to deliver value and fit-for-purpose water solutions.

A recommendation from the 2013-17 review of SunWater's irrigation pricing was for SunWater to produce annual Network Service Plans (NSPs) to help keep customers informed throughout the pricing period. These annual NSPs will focus on both routine expenditure (opex) and non-routine expenditure. In particular, the NSPs will cover:

- past performance for opex and non-routine expenditure
- forecast opex and non-routine expenditure for the approaching year
- the long-term outlook for material non-routine spend.

In the past NSPs compared SunWater's costs with QCA targets set in the 2012 price review. The 2017/18 NSP is the first to fall outside the QCA price path which expires 30 June 2017. The price path has been extended for two years but new targets have not been formally set. For routine expenditure SunWater has adjusted the 2017 QCA targets for CPI and adopted that as the target spend.

Whilst adopting targets for routine spend is relatively simple, adopting a target for non-routine is more problematic. To improve transparency SunWater is presenting non-routine expenditure for both 2018 and 2019. No QCA targets exist so for this draft NSP SunWater has compared the budgeted non-routine spend for both years with the "projected" spend taken from the QCA's renewals annuity profile as provided in 2012. As the QCA renewals profile was developed based on assessments undertaken back in 2011 there is extensive divergence in the scope and cost of projects to be undertaken. Therefore, in the draft NSP, SunWater is presenting non-routine budgets for both 2018 and 2019 so that customers have visibility of non-routine maintenance activities over the two years.

The prior year figures are provided for information only, with the focus for NSP consultation being the draft budget figures for 2018. Given the 2018 figures are draft, they are subject to change. The 2018 budget will be finalised following customer and shareholder consultation.

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 using one of the following addresses:

Email: nspfeedback@sunwater.com.au

Post: NSP Feedback
PO Box 15536 City East
Brisbane Qld 4002

FINANCIAL SUMMARY

For 2017/18, SunWater plans to increase revenue and decrease routine expenditure.

A high-level summary of the budgeted financial performance of the Dawson Distribution service contract is presented in Table 1 below. Further detail on the planned spend, together with estimated revenue, is outlined on subsequent pages of this plan.

TABLE 1: OPERATING REVENUE LESS SPEND

Dawson IS	Table reference	2014 Actual $000	2015 Actual $000	2016 Actual $000	2017 Forecast $000	2018 Budget $000
Revenue	Table 3	1,501	1,839	1,648	1,591	1,490
Less – Routine Expenditure	Table 4 & Table 7	1,349	1,237	1,193	1,447	1,350
Less – Non-Routine Expenditure						
• Annuity Funded	Table 5, Table 6 & Table 7	67	215	185	338	273
• Non Annuity Funded	Table 5	-	-	-	-	-
Surplus (Deficit)		**85**	**388**	**269**	**(193)**	**(133)**

Table 1 is a high level summary of the budgeted financial performance of the service contract. This document provides further detail of the planned spend on routine functions and non-routine projects across the 2018 year together with an estimate of revenue expected to be generated.

FIGURE 1: BREAKDOWN OF TOTAL SCHEME COSTS – 2018 BUDGET

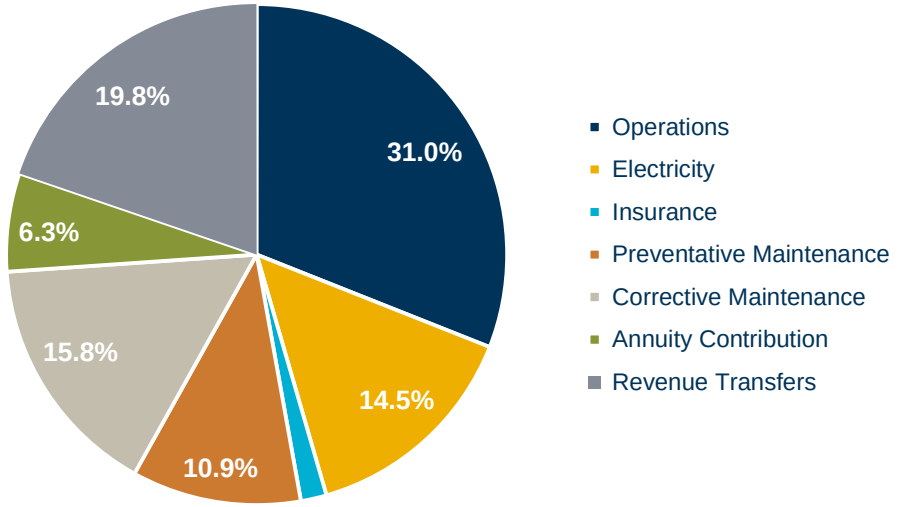


Figure 1 shows a high level summary of scheme costs and provides an indication of where revenue from irrigation water charges is applied. The item “Annuity Contribution” refers to the component of irrigation water charges that is applied toward the renewals annuity each year. The item “Revenue Transfers” refers to the contribution towards the cost of the bulk water scheme.

WATER DATA

Dawson Distribution's customer base includes irrigation and urban customers, as well as SunWater. SunWater's entitlements relate to channel system distribution losses.

TABLE 2: WATER DATA

Scheme	Service Contract	Customer Segment	No. of Customers	Water Entitlements (ML)
Dawson Valley	LIT - Dawson IS	Industrial		0
		Irrigation		15,850
		Urban		2
		SunWater		4,005
		Service Contract Total	46	19,857

QCA Assumed water use 73.5%

REVENUE

SunWater's anticipated revenue for 2017/18 is provided in Table 3.

TABLE 3: REVENUE

Dawson IS	2014 Actual $000	2015 Actual $000	2016 Actual $000	2017 Forecast $000	2018 Budget $000
Irrigation	1,228	1,215	1,396	1,379	1,446
Industrial	-	0	0	-	-
Urban	0	1	1	1	1
Irrigation CSO	447	425	401	386	349 [1]
Revenue Transfers	(220)	(216)	(222)	(229)	(361) [2]
Drainage	46	47	49	52	53
Other	-	0	-	2	2
Insurance Proceeds – Flood	-	366	23	-	-
Revenue Total	**1,501**	**1,839**	**1,648**	**1,591**	**1,490**

[1] The draft NSP published in April 2017 included SunWater's estimate of the required CSO for the service contract. Since publication of the draft NSP SunWater has been advised by Government of the actual CSO to be paid. The actual CSO will be based on the 2017 CSO adjusted downwards for any real price increase paid by customers. The Government's decision to not fully fund the required CSO results in a state wide short fall of approximately $8 million which is funded via cross-subsidy from SunWater's commercial activities.

[2] 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. In 2012, the QCA established the transfer cost for irrigation supplies at the cost reflective bulk water tariff. Now that the QCA prices path has ended SunWater has recalculated the cost reflective tariff and revenue transfers based on the actual cost for providing bulk water services. Any increases reflect increases in uncontrollable cost like insurance premiums, electricity, IGEM cost and flood damage. The revisions to revenue transfer arrangements will not affect prices paid by customers in 2018 and 2019, however it is important for SunWater to be transparent and signal to customers the cost pressures being experienced. These cost pressure will not flow to prices until after the completion of the next pricing review. Note also that the revenue transfer costs above do not include the bulk water costs of SunWater's channel distribution system losses.

ROUTINE EXPENDITURE

TABLE 4: ROUTINE OPERATING EXPENDITURE

Dawson IS	2014			2015			2016			2017			2018			
	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 Forecast $000	QCA Target $000	Variance $000	SW Budget $000	QCA Forecast $000	Variance $000	% of target
Operations	583	548	(35)	588	557	(31)	467	558	92	596	552	(44)	567	566	(1)	100
Electricity	190	168	(23)	164	179	15	206	194	(12)	246	207	(39)	265	212	(52)	125
Insurance	46	23	(22)	36	24	(12)	33	24	(8)	30	25	(6)	30	25	(5)	121
Operations Total	**819**	**739**	**(80)**	**788**	**760**	**(28)**	**705**	**776**	**71**	**873**	**784**	**(89)**	**862**	**803**	**(59)**	**107**
Preventative Maintenance	404	398	(6)	320	408	88	329	412	83	321	410	89	200	421	221	48
Corrective Maintenance	126	210	85	129	215	87	159	217	58	253	216	(37)	289	221	(67)	131
Routine Total	**1,349**	**1,347**	**(2)**	**1,237**	**1,383**	**147**	**1,193**	**1,405**	**212**	**1,447**	**1,410**	**(37)**	**1,350**	**1,445**	**95**	**93**

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 of[3]:

- 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;
- Managing public relations associated with the scheme; and
- Managing enquiries from adjoining landholders, and in some cases developers, that require input and negotiations with SunWater's property and legal sections to resolve issues.

[3] Activities listed will not apply to all service contracts.

Preventive maintenance

Preventive maintenance is maintaining the ongoing operational performance and service capacity of physical assets to the required 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 includes[4]:

- 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 dams, channel and drainage reserves and balancing storages and other land managed by SunWater

Preventive maintenance is budgeted below the QCA's target for 2018.

[4] Activities listed will not apply to all service contracts.

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 emergency[5].

- 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.

[5] Activities listed will not apply to all service contracts.

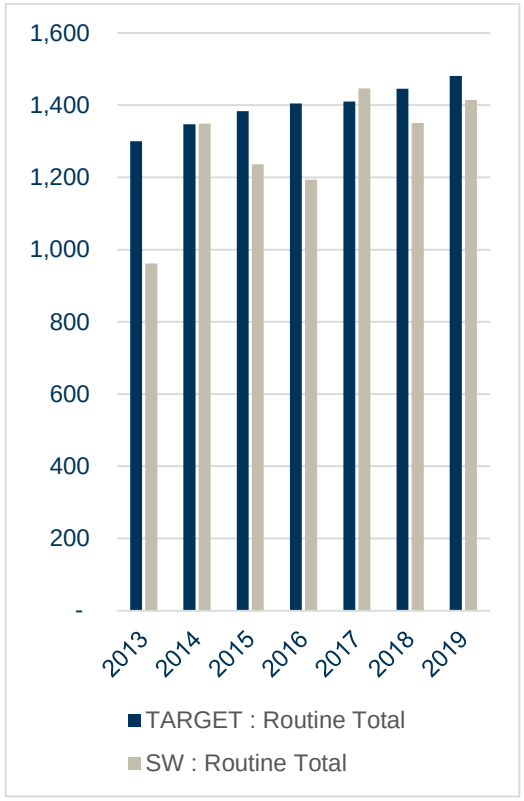
- Scheme Roads
  - Repair pot holes;
  - Grade roads; and
  - Repair, replace and paint guide posts and signs.
- Pump stations
  - Repair pumps and motors;
  - De-silt intake structures;
  - Repair concrete structure; and
  - Repair control building.
- Storages (balancing storages and reservoirs)
  - Repair control gates and valves;
  - Repair walls, embankments and spillways; and
  - Repair concrete structures.
- Meters
  - Repair bulk water meters; and
  - Repair customer meters.

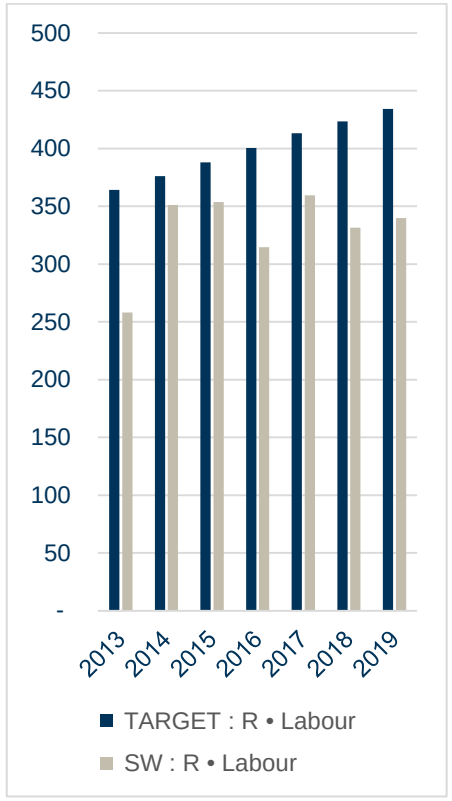
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
  - Repair or correction of pump station faults;
  - Repair or correction of channel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

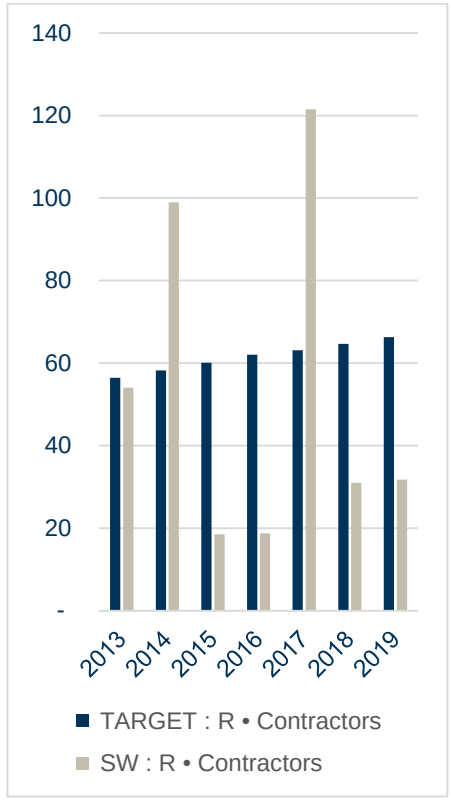
Routine Cost Summary and Charts

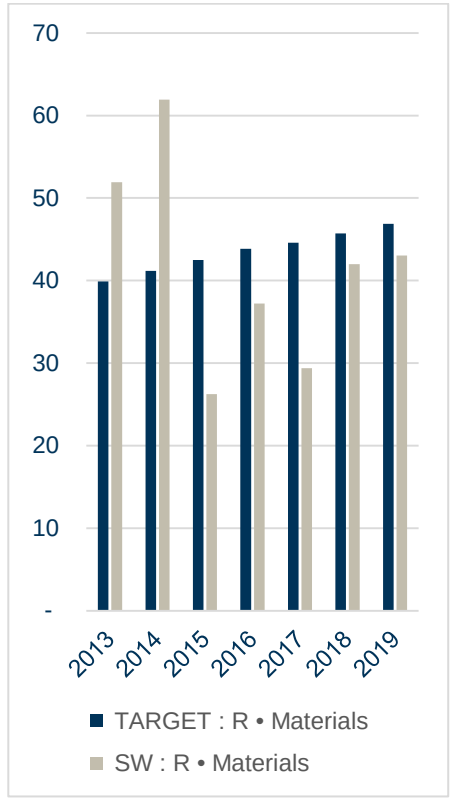
In summary the key challenges in managing routine cost lie with reigning the cost of electricity and insurance premiums. The information in Table 4 above is re-presented in the charts below to graphically show SunWater's performance against the QCA targets.

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 2017; 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 indicative program of works from the 2010-11 year. While this was the best estimate of expected work at the time, in some cases, the QCA's funding allowance for renewals work across the price path 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, reducing upward pressure on water charges.

For 2018 and 2019 no QCA targets exist so for this draft NSP SunWater has compared the budgeted non-routine spend for both years with the "projected" spend taken from the QCA's renewals annuity profile as provided in 2012. As the QCA renewals profile was developed based on assessments undertaken back in 2011 there is extensive divergence in the scope and cost of projects to be undertaken. Therefore, in the draft NSP, SunWater is presenting non-routine budgets for both 2018 and 2019 so that customers have visibility of non-routine maintenance activities over the two years prior to the next price review.

Non-Routine Budget

The budget non-routine spend for 2018 is shown in the table below, along with the actual spend for prior years.

TABLE 5: NON-ROUTINE EXPENDITURE

Dawson IS	2014			2015			2016			2017			2018				2019			
	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 Budget $000	QCA Forecast $000	Variance $000	% of target	SW Forecast $000	QCA Forecast $000	Variance $000	% of target
Annuity Funded																				
Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	0	-	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&E	67	374	307	215	215	(0)	185	106	(79)	338	120	(218)	273	122	(151)	224	359	569	209	63
Non-Routine Total	**67**	**374**	**307**	**215**	**215**	**(0)**	**185**	**106**	**(79)**	**338**	**120**	**(218)**	**273**	**122**	**(151)**	**224**	**359**	**569**	**209**	**63**
Non Annuity Funded																				

Details of the major non-routine projects planned for 2018 and 2019 are provided below in Table 6 and Table 7.

TABLE 6: NON-ROUTINE PROJECTS 2018

Project title	Project scope	2018 budget ($'000)
Replace Bulk Flow Meter - THE PSTN FMTR, Ults Mace	5193281 This project is required to ensure the bulk metering from the Theodore pump station is functional prior to LMA transition	76
Replace Bulk Flow Meter - Gibber Gunyah PSTN FMTR1	5132153 This project is required to ensure the bulk metering from the Gibber Gunyah pump station is functional prior to LMA transition	76
Replace Bulk Flow Meter - Gibber Gunyah PSTN FMTR2	5132153 This project is required to ensure the bulk metering from the Gibber Gunyah pump station is functional prior to LMA transition	76
13DVA04 Documents, Drawings, Specs and Cost Estimate for PLC and SCADA system - Gibber Gunyah	5145850 This project is to develop the documentation required to upgrade the SCADA and PLC system in the Gibber Gunyah Pump Station	13
Fabricate and Install New Safety Screen - Theodore CH D AC01	5178224 The safety screen at this location has corroded to the extent of now not meeting its design function, This project will replace the screen.	8
Other works	There are three other non-routine projects for 2018 each of $8,000. Further detail will be tabled at the IAC meeting.	24
Total		**273**

TABLE 7: NON-ROUTINE PROJECTS 2019

Project title	Project scope	2019 budget ($'000)
Design & Costing for Replacement Pump Stations - Theodore	5145901 This project is to prepare designs and costings for the replacement of the Theodore and Gibber Gunyah Pump Stations. The pump stations are due for replacement in 2023 and 2024	261
13DVA04 Supply, Install, Commission for PLC and SCADA System - Gibber Gunyah PSTN	5145852 This project is to install the PLC and SCADA upgrades into the Gibber Gunyah Pump Station as per the previous years project	77
Replace Meter, 350Mm Ults Siemens - Theodore CHF M119	5178239 This project is to replace a customer meter. If the meter is still functional the meter will not be replaced.	11
Repair Damaged Headwalls & Install Handrails - Gibber Gunyah Drain CH6 Overflow 574M	5178248 Condition assessment dictates that repairs are required to the headwalls on Gibber Gunyah drain CH6 overflow as well as handrail installation for safety of operations staff	9
Total		**359**

ANNUITY BALANCE

The estimated 2017 and 2018 annuity balances are shown below; the annuity contribution shown has been set by the QCA and assumed to apply in 2018. SunWater aims to limit the annuity spend to the QCA's targets over the 5-year price path in order to manage the annuity balance to reasonable levels.

The impacts of budgeted non-routine spend on the annuity balance for 2018 is shown in the following table.

TABLE 8: ANNUITY BALANCE*

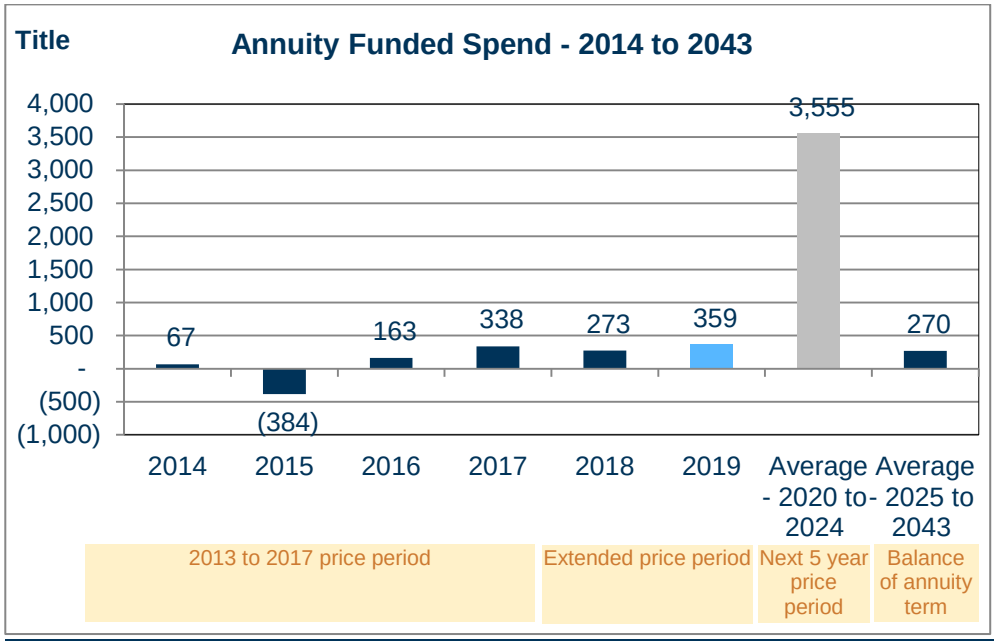
Dawson IS	Table Reference	2014 Actual $000	2015 Actual $000	2016 Actual $000	2017 Forecast $000	2018 Budget $000	2019 Forecast $000
Annuity							
Opening Balance		1,108	1,206	1,787	1,868	1,783	1,760
Net Spend	See below	(67)	384	(163)	(338)	(273)	(359)
Annuity Contribution		82	107	110	113	116	119
Interest		83	90	134	140	134	132
SunWater – Closing Balance		**1,206**	**1,787**	**1,868**	**1,783**	**1,760**	**1,651**
QCA – Closing Balance		2,327	2,394	2,578	2,764	2,965	2,737
Difference		(1,121)	(607)	(709)	(980)	(1,205)	(1,086)
Net Spend Analysis							
Spend	Table 5 Table 7	(67)	(215)	(185)	(338)	(273)	(359)
Insurance Proceeds Receipts							
• Prior Year		-	233	-	-	-	-
• Current Year		-	366	23	-	-	-
Net Spend		**(67)**	**384**	**(163)**	**(338)**	**(273)**	**(359)**

*All 2017 and 2018 figures are subject to change once actual spend is known.

Overview of annuity-funded, non-routine projects to 2043

The renewals annuity is calculated over a 20-year planning period; given that the following pricing period ends in 2024, the estimated renewals spend out until 2043 will affect the next pricing review. The estimated renewals expenditure out to 2043 is shown in the chart following.

FIGURE 3: ANNUITY EXPENDITURE TO 2043



All material renewals items out until 2043 are discussed in the sections following. Materiality is defined as >10% of the present value of the period in question. SunWater will develop options analyses for all material items in the annuity calculation planning period. These reports will be tailored to suit project complexity and budget, with detailed options analyses being completed within the current and following 5-year pricing periods and high-level options analyses for the 20-year period beyond the next price path. The materiality tests will be applied each year as part of annual planning process. Given that there will be project variations, some items will no longer require options analysis in future years and new items may join the list.

Material projects 2018 and 2019

Design & Costing for Replacement Pump Stations – Theodore

- Year: 2019
- Current estimate: $261k
- Options analysis completed: No

Material projects 2020–24

Projects in the program of works for 2020-24 should be viewed as indicative at this stage and will be refined as the next pricing review draws closer.

Replace pump station as per options analysis recommendations

- Year: 2023
- Current estimate: $6,435,000
- Options analysis completed: No

Replace pump station as per options analysis

- Year: 2024
- Current estimate: $10,414,000
- Options analysis completed: No

Material projects 2025–43

The evenness in the spread of estimated project costs means there are no projects which exceed the materiality threshold for this service contract for the 2025-43 period.

APPENDIX 1: TOTAL EXPENDITURE BY EXPENSE TYPE

TABLE 9: EXPENDITURE FOR ACTIVITY BY TYPE

Dawson IS	2014			2015			2016			2017			2018		
	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 Budget $000	QCA Forecast $000	Variance $000
Revenue	**1,501**			**1,839**			**1,648**			**1,591**			**1,490**		
Routine Spend															
Operations															
Labour	213	197	(16)	213	204	(9)	169	210	42	210	217	6	198	222	24
Contractors	1	-	(1)	2	-	(2)	-	-	-	23	-	(23)	1	-	(1)
Materials	6	0	(5)	3	1	(3)	1	1	(0)	1	1	(0)	2	1	(1)
Electricity	190	168	(23)	164	179	15	206	194	(12)	246	207	(39)	265	212	(52)
Insurance	46	23	(22)	36	24	(12)	33	24	(8)	30	25	(6)	30	25	(5)
Other	13	5	(7)	9	6	(3)	12	6	(7)	16	6	(10)	16	6	(10)
Non-directs	350	344	(6)	361	348	(14)	285	342	57	346	329	(17)	349	337	(12)
	819	**739**	**(80)**	**788**	**760**	**(28)**	**705**	**776**	**71**	**873**	**784**	**(89)**	**862**	**803**	**(59)**
Preventative Maintenance															
Labour	106	113	6	102	116	15	104	120	16	80	124	44	47	127	80
Contractors	81	55	(26)	14	57	43	15	59	44	62	60	(2)	20	61	41
Materials	35	25	(9)	14	26	12	9	27	18	20	27	7	15	28	13
Other	4	13	9	16	14	(3)	24	14	(10)	23	15	(9)	32	15	(17)
Non-directs	177	191	14	173	194	21	176	192	15	136	185	49	86	189	104
	404	**398**	**(6)**	**320**	**408**	**88**	**329**	**412**	**83**	**321**	**410**	**89**	**200**	**421**	**221**
Corrective Maintenance															
Labour	31	66	35	39	68	29	42	70	28	69	73	4	86	75	(11)
Contractors	16	3	(13)	2	3	1	3	3	(0)	37	3	(34)	10	3	(7)

Dawson IS	2014			2015			2016			2017			2018		
Materials	21	15	(6)	8	16	7	27	16	(11)	8	17	9	25	17	(8)
Other	4	15	11	12	15	3	13	16	2	23	16	(7)	15	16	1
Non-directs	53	111	59	67	113	46	73	111	39	116	107	(9)	153	110	(43)
	126	**210**	**85**	**129**	**215**	**87**	**159**	**217**	**58**	253	216	(37)	289	221	(67)
Routine Total	**1,349**	**1,347**	**(2)**	**1,237**	**1,383**	**147**	**1,193**	**1,405**	**212**	**1,447**	**1,410**	**(37)**	**1,350**	**1,445**	**95**
Non-Routine Spend															
Labour	8	60	51	8	38	29	16	19	3	18	22	4	31	21	(10)
Contractors	42	65	23	143	41	(102)	129	21	(109)	252	24	(228)	12	23	11
Materials	0	65	65	32	41	9	1	21	19	25	24	(1)	145	23	(122)
Other	1	36	35	9	22	13	4	11	7	-	13	13	23	12	(11)
Non-directs	16	148	132	23	73	50	35	35	0	43	38	(5)	62	44	(19)
Non-Routine Total	**67**	**374**	**307**	**215**	**215**	**(0)**	**185**	**106**	**(79)**	**338**	**120**	**(218)**	**273**	**122**	**(151)**
Total Regulated Spend	**1,416**	**1,721**	**305**	**1,452**	**1,598**	**146**	**1,378**	**1,511**	**132**	**1,785**	**1,530**	**(255)**	**1,624**	**1,567**	**(57)**
Non Annuity Funded Spend															
Surplus (Deficit)	85			388			269			(193)			(133)		

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.

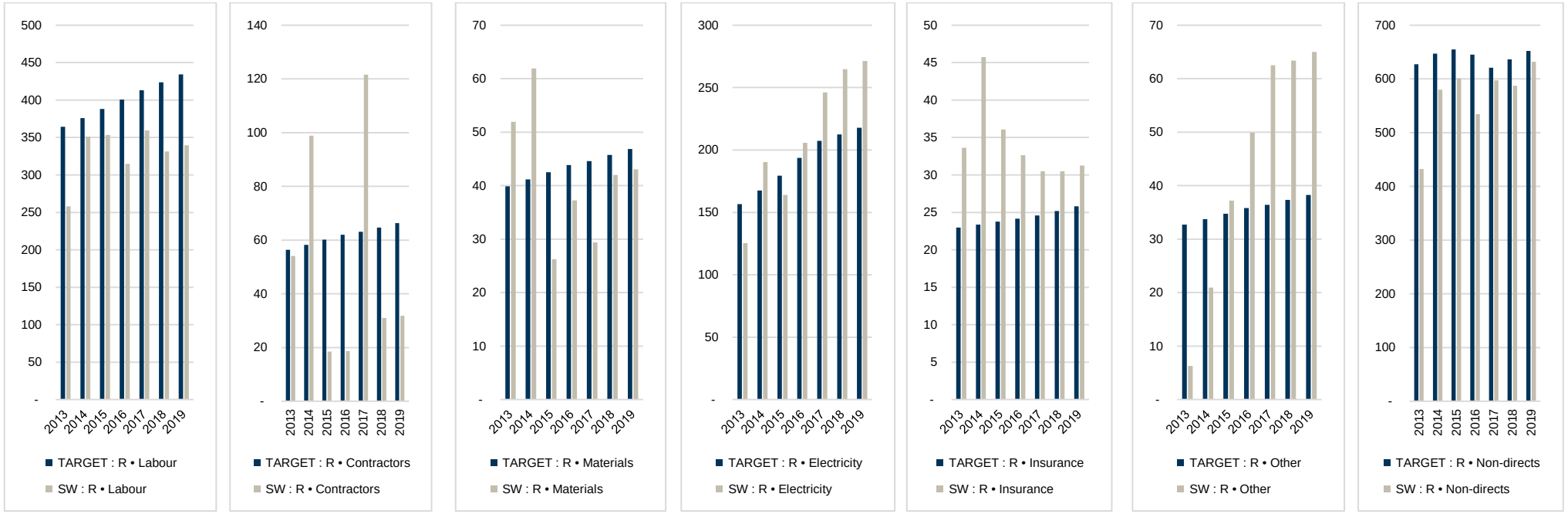
Local overheads are spread across service contracts managed in each locality. They include regional accommodation costs, vehicle costs, local admin support and other local labour not directly booked to activities within service contracts.

Corporate overhead costs are more generic than indirect cost and local overheads and are spread across all service contacts based on direct labour. They include the cost of HR and payroll, ICT, corporate 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 for recovering non-direct cost was reviewed and accepted by the QCA during the 2012 pricing review.

The charts below graphically report routine costs by expense type compared to the QCA target.

FIGURE 4: ROUTINE EXPENDITURE BY EXPENSE TYPE ($'000)



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 prices were presented in real dollars ($2011). To convert the QCA reported real dollars to nominal dollars multiply by the conversion factors listed below. The conversion factors 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 10: CONVERSION FACTORS FOR REAL $2011 TO NOMINAL DOLLARS

	2013	2014	2015	2016	2017	2018	2019
QCA Conversion Factor	1.0510	1.0770	1.1040	1.1310	1.1600	1.189	1.2187
Accumulative March Quarter CPI	1.0494	1.0714	1.1050	1.1208	1.1397	1.1606	

Disclaimer

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