

2017/18 ANNUAL NETWORK SERVICE PLAN

NOGOA DISTRIBUTION

30 JUNE 2017



MAKING WATER WORK

CONTENTS

Introduction	3
Financial Summary	4
Water Data	5
Revenue	6
Routine Expenditure.....	7
Operations	7
Preventive maintenance	8
Corrective maintenance.....	8
Routine Cost Summary and Charts	10
Non-Routine Expenditure.....	11
Non-Routine Budget	12
Annuity Balance	15
Overview of annuity-funded, non-routine projects to 2043.....	16
Material projects 2018 and 2019.....	16
Material projects 2020–24	17
Material projects 2025–43	17
Appendix 1: Total Expenditure by Expense Type	18
Notes.....	21

We're focused on reliability, efficiency and safety, ensuring the Emerald 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 2017/2018 is maintaining a reliable water supply and continuing safe channel operations. No major works are planned, but we will be delivering an extensive program of investigations and repairs, looking specifically at systems and metering 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.

Jason Smith
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 both revenue and routine expenditure.

A high-level summary of the budgeted financial performance of the Nogoia 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

Nogoia IS	Table reference	2014 Actual \$000	2015 Actual \$000	2016 Actual \$000	2017 Forecast \$000	2018 Budget \$000
Revenue	Table 3	2,884	2,913	3,139	2,702	2,336
Less – Routine Expenditure	Table 4 & Table 7	2,876	2,279	2,342	2,438	2,631
Less – Non-Routine Expenditure						
• Annuity Funded	Table 5, Table 6 & Table 7	165	513	563	468	289
• Non Annuity Funded	Table 5	8	-	-	-	-
Surplus (Deficit)		(165)	120	234	(205)	(584)

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

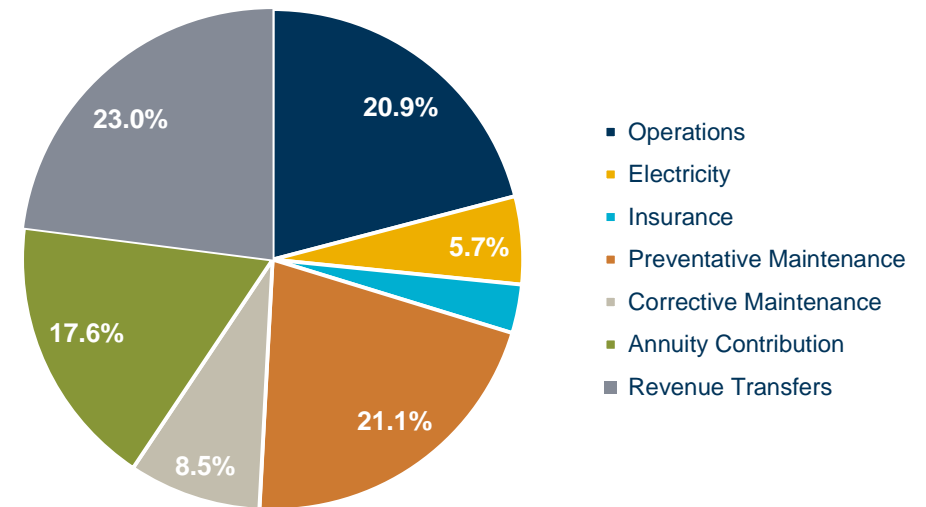


Figure 1 shows a high level summary of scheme costs and provides an indication of where revenue from irrigation water charges is applied. The item “Annuity Contribution” refers to the component of irrigation water charges that is applied toward the renewals annuity each year. The item “Revenue Transfers”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

WATER DATA

Nogoa 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)
Nogoa Mackenzie	LIW - Emerald IS	Irrigation		83,048
		Urban		90
		Other		0
		SunWater		28,697
		Service Contract Total	187	111,834

QCA Assumed water use 74.9%

REVENUE

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

TABLE 3: REVENUE

Nogoa IS	2014 Actual \$000	2015 Actual \$000	2016 Actual \$000	2017 Forecast \$000	2018 Budget \$000
Irrigation	3,202	3,228	3,475	3,078	2,938
Industrial	-	-	-	-	-
Urban	8	12	12	12	12
Irrigation CSO	62	-	-	-	- ¹
Revenue Transfers	(768)	(740)	(770)	(781)	(1,018) ²
Drainage	365	379	383	383	392
Other	15	7	39	11	11
Insurance Proceeds – Flood	-	27	-	-	-
Revenue Total	2,884	2,913	3,139	2,702	2,336

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

Nogoa 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	1,170	794	(376)	875	811	(63)	863	815	(48)	912	809	(103)	928	829	(98)	112
Electricity	161	68	(93)	229	140	(89)	344	151	(193)	242	162	(80)	251	166	(85)	151
Insurance	208	106	(102)	158	108	(50)	143	110	(34)	139	112	(27)	139	114	(24)	121
Operations Total	1,539	968	(571)	1,262	1,059	(203)	1,350	1,076	(275)	1,292	1,082	(210)	1,317	1,110	(207)	119
Preventative Maintenance	966	630	(337)	836	647	(189)	750	659	(91)	827	662	(165)	936	679	(257)	138
Corrective Maintenance	370	295	(75)	181	302	121	242	307	65	319	307	(12)	379	315	(63)	120
Routine Total	2,876	1,893	(983)	2,279	2,008	(271)	2,342	2,042	(300)	2,438	2,052	(386)	2,631	2,103	(528)	125

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 of³:

- 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 includes⁴:

- 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 136% above the QCA's target for 2018, mainly due to allowance for additional contractors. Ongoing review of work required will be undertaken to minimise costs over QCA target.

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 emergency⁵.

- 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.

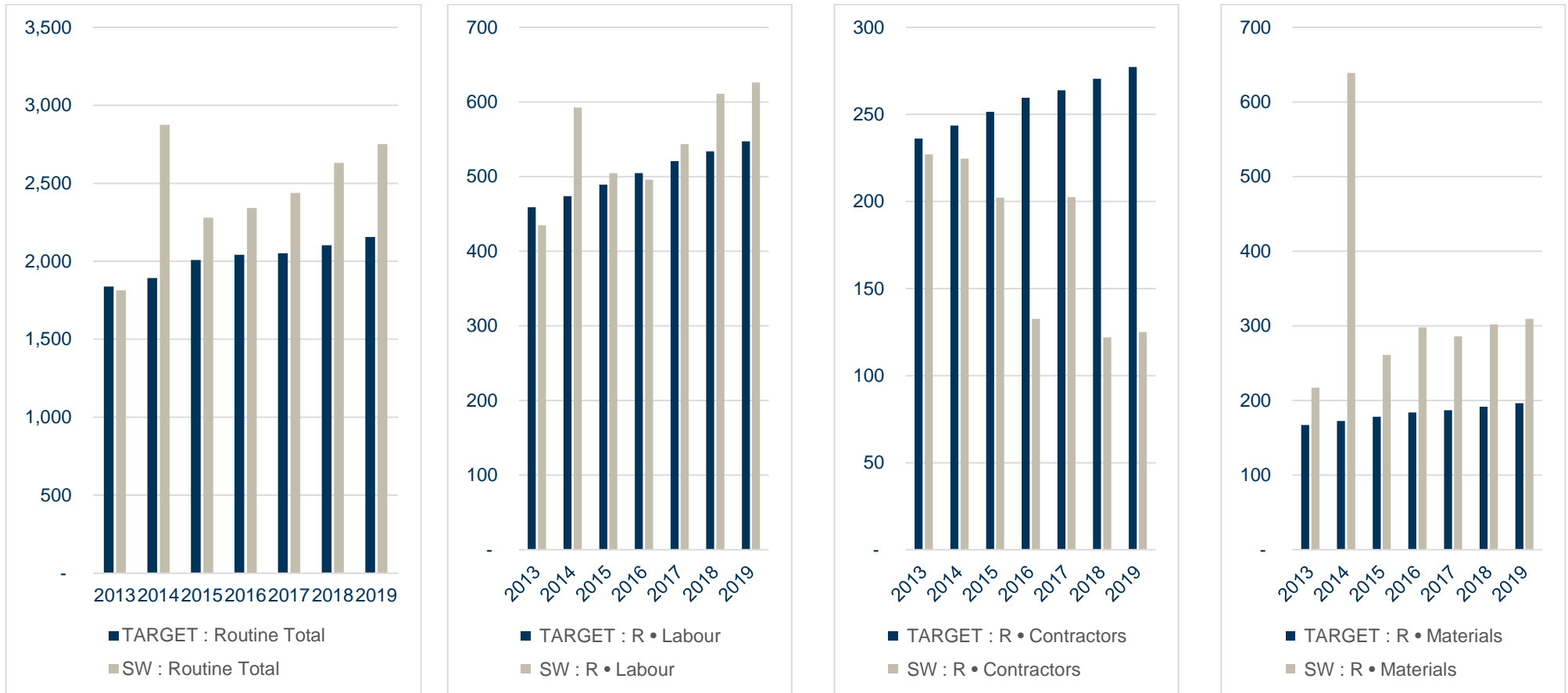
⁵ Activities listed will not apply to all service contracts.

- 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 costs is managing the rising cost of 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

Nogoa 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	10	-	(10)	5	8	3	7	-	(7)	-	-	-	-	-	-	-	-	-	-	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&E	156	246	90	509	523	15	557	203	(353)	468	584	115	289	353	64	82	156	1,018	862	15
Non-Routine Total	165	246	81	513	531	18	563	203	(360)	468	584	115	289	353	64	82	156	1,018	862	15
Non Annuity Funded	10	-	(10)	5	8	3	7	-	(7)	-	-	-	-	-	-	-	-	-	-	-

Details of the five 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)
Refurbish PUN2 - Selma PSTN (Requested by N Farrell)	This project is to refurbish pump 2 at Selma Pump Station. The pump requires refurbishment to restore efficiency and ensure reliable operation.	65
Replace Inlet Head, Wing Walls & Aprons to Cross Drain Culvert - SMC CD35	This project is to replaced failed components of the cross drain culvert. There are structural cracks in the headwalls and wingwalls and it is no longer considered structurally sound.	37
Replace Access Crossing - LN3_2 875M	This project is to replace the access crossing due to poor condition of the asset. There has been some material loss, the headwalls have moved from the culverts and the culvert has failed in places.	28
Replace Access Crossing - RR4_1 420.56M	This project is to replace the access crossing due to poor condition of the asset. The culvert is heavily silted, the headwalls have displaced and the culvert is cracking and spalling in places.	28
Install AWMA Control Gate in Check Structure - Selma S4 CK	This project is to replace the existing drop board check structure with an AWMA control gate to address the manual handling hazard.	26
Other works	There are ten other non-routine projects for 2018 ranging from \$3,000 to \$21,000. Further detail will be tabled at the IAC meeting.	104
Total		289

TABLE 7: NON-ROUTINE PROJECTS 2019

Project title	Project scope	2019 budget (\$'000)
Refurbish Pump - Selma PSTN PUN1	This project is to refurbish pump 1 at Selma Pump Station. The pump requires refurbishment to restore efficiency and ensure reliable operation.	66
Replace Meter - Selma S4 MO5782	This project is to replace a failed customer flow meter along Selma Lateral 4 in Emerald.	52
Replace Control Equipment (Options Analysis) - Selma SMC RG02 Gates 1 to 4, S2 GT01, S2 GT02 Gate 1, 2	This project is to replace the gate control equipment. An options analysis will identify lowest WoL refurbishment/replacement strategy for control equipment.	10
Refurbish Drainage Inlet - Selma DI04 on LN1	This project is to refurbish the drainage inlet to prevent further damage. Wing walls are completely removed and will allow water to cause further damage.	7
Repair Concrete Sill - Selma Drain LN1 DI06	This project is to repair the concrete sill of the drainage inlet to prevent further damage. There is significant spalling of the concrete headwall and minor displacement of the structure.	7
Other works	There are two other non-routine projects for 2018 ranging from \$6,000 to \$7,000. Further detail will be tabled at the IAC meeting.	13
Total		156

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*

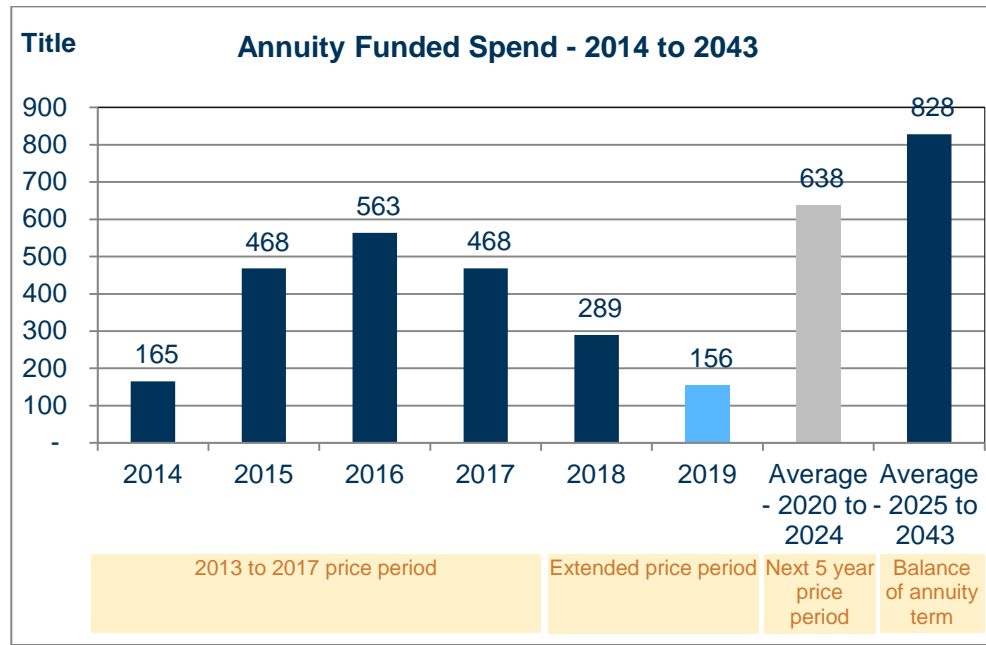
Nogoa IS	Table Reference	2014 Actual \$000	2015 Actual \$000	2016 Actual \$000	2017 Forecast \$000	2018 Budget \$000	2019 Forecast \$000
Annuity							
Opening Balance		(177)	292	554	765	1,117	1,693
Net Spend	See below	(165)	(468)	(563)	(468)	(289)	(156)
Annuity Contribution		647	708	734	762	782	801
Interest		(13)	22	41	57	84	127
SunWater – Closing Balance		292	554	765	1,117	1,693	2,465
QCA – Closing Balance		1,003	1,255	1,880	2,199	2,792	2,784
Difference		(711)	(701)	(1,114)	(1,082)	(1,099)	(319)
Net Spend Analysis							
Spend	Table 5 Table 7	(165)	(513)	(563)	(468)	(289)	(156)
Insurance Proceeds Receipts							
• Prior Year		-	18	-	-	-	-
• Current Year		-	27	-	-	-	-
Net Spend		(165)	(468)	(563)	(468)	(289)	(156)

*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

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 2018 and 2019 periods.

Material projects 2020–24

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 2020-24 period

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

Nogoa 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	2,884			2,913			3,139			2,702			2,336		
Routine Spend															
Operations															
Labour	383	290	(92)	307	300	(8)	301	309	8	307	319	12	319	327	8
Contractors	3	-	(3)	3	-	(3)	2	-	(2)	57	-	(57)	2	-	(2)
Materials	120	4	(116)	-	4	4	0	4	4	2	4	2	2	4	2
Electricity	161	68	(93)	229	140	(89)	344	151	(193)	242	162	(80)	251	166	(85)
Insurance	208	106	(102)	158	108	(50)	143	110	(34)	139	112	(27)	139	114	(24)
Other	24	18	(6)	47	18	(29)	47	19	(28)	34	19	(15)	37	20	(17)
Non-directs	641	482	(158)	517	489	(27)	512	483	(30)	511	467	(44)	567	479	(88)
	1,539	968	(571)	1,262	1,059	(203)	1,350	1,076	(275)	1,292	1,082	(210)	1,317	1,110	(207)
Preventative Maintenance															
Labour	168	115	(53)	164	119	(46)	146	123	(23)	160	126	(34)	205	130	(76)
Contractors	123	176	53	137	182	44	29	188	158	80	191	110	25	196	171
Materials	370	134	(236)	245	139	(106)	292	143	(149)	259	145	(114)	275	149	(126)
Other	6	6	(0)	5	6	1	20	6	(14)	48	6	(42)	54	6	(48)
Non-directs	300	198	(101)	285	202	(84)	263	200	(63)	280	193	(87)	376	198	(178)
	966	630	(337)	836	647	(189)	750	659	(91)	827	662	(165)	936	679	(257)
Corrective Maintenance															
Labour	42	68	26	33	71	38	49	73	24	77	75	(1)	86	77	(9)
Contractors	99	67	(32)	61	70	8	101	72	(30)	65	73	8	95	75	(20)

Nogoa IS	2014			2015			2016			2017			2018		
Materials	149	35	(114)	16	36	19	6	37	31	25	38	13	25	39	14
Other	1	10	9	11	11	(0)	5	11	6	22	11	(11)	15	12	(3)
Non-directs	80	114	34	60	116	56	80	114	34	130	110	(20)	157	113	(44)
	370	295	(75)	181	302	121	242	307	65	319	307	(12)	379	315	(63)
Routine Total	2,876	1,893	(983)	2,279	2,008	(271)	2,342	2,042	(300)	2,438	2,052	(386)	2,631	2,103	(528)
Non-Routine Spend															
Labour	30	45	15	100	117	16	56	40	(16)	65	117	52	39	69	31
Contractors	22	50	27	199	120	(79)	361	56	(305)	223	141	(82)	85	79	(5)
Materials	4	50	46	26	171	145	1	27	27	61	96	35	27	75	48
Other	57	27	(30)	8	59	50	34	15	(19)	-	53	53	63	34	(29)
Non-directs	52	75	23	180	65	(115)	111	65	(47)	119	177	58	76	96	19
Non-Routine Total	165	246	81	513	531	18	563	203	(360)	468	584	115	289	353	64
Total Regulated Spend	3,041	2,139	(902)	2,792	2,539	(253)	2,905	2,245	(660)	2,907	2,636	(271)	2,920	2,456	(464)
Non Annuity Funded Spend	8			-			-			-			-		
Surplus (Deficit)	(165)			120			234			(205)			(584)		

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.

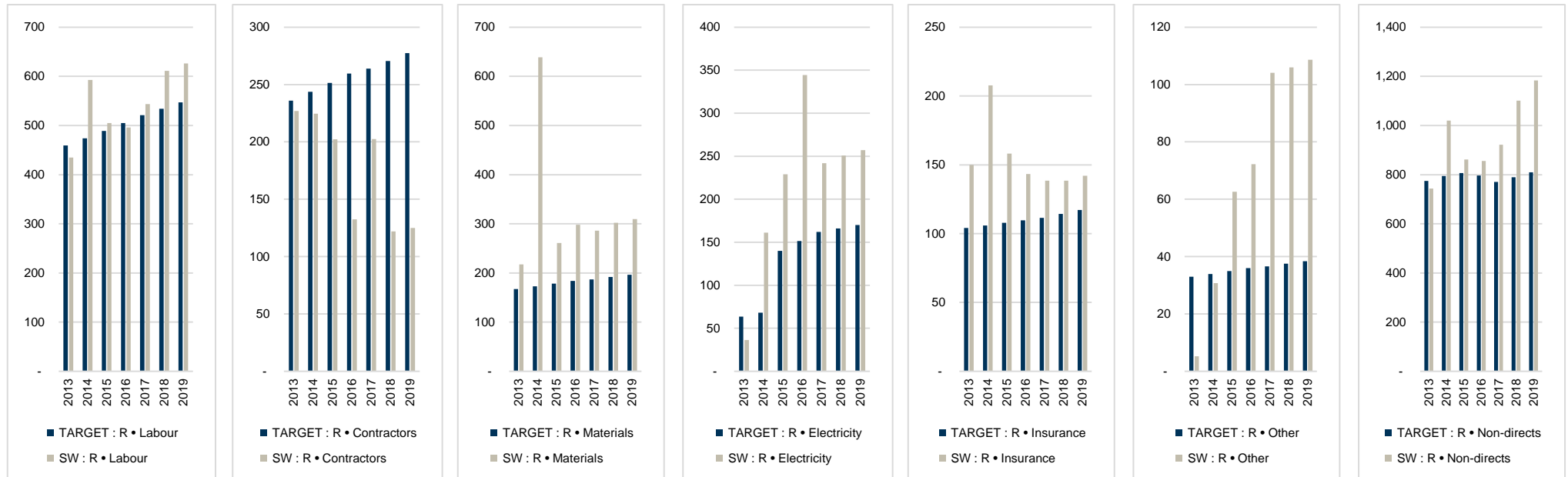
Local overheads are spread across service contracts managed in each locality. They include regional accommodation costs, vehicle costs, local admin support and other local labour not directly booked to activities within service contracts.

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, 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

This report has been produced by SunWater to provide information for client use only. The information contained in this report is limited by the scope and the purpose of the study, and should not be regarded as completely exhaustive. Permission to use or quote information from this report in studies external to the Corporation must first be obtained from the Chief Executive, SunWater.