

2017/18 ANNUAL NETWORK SERVICE PLAN

# ST GEORGE DISTRIBUTION

30 JUNE 2017



MAKING WATER WORK

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We're focused on reliability, efficiency and safety, ensuring the St George Irrigation Scheme continues to meet the needs and expectations of our 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 dam operations. No new major works are planned, but we will be delivering a program of investigations and repairs, looking specifically at a bridge structure 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.

**Justin Schultz**  
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](mailto: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 a slightly decrease routine expenditure.

A high-level summary of the budgeted financial performance of the St George 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**

St George IS	Table reference	2014 Actual \$000	2015 Actual \$000	2016 Actual \$000	2017 Forecast \$000	2018 Budget \$000
Revenue	Table 3	2,317	2,423	2,295	2,353	2,423
Less – Routine Expenditure	Table 4 & Table 7	1,226	1,490	1,486	1,625	1,561
Less – Non-Routine Expenditure						
• Annuity Funded	Table 5, Table 6 & Table 7	367	593	516	1,188	664
• Non Annuity Funded	Table 5	-	-	-	-	-
<b>Surplus (Deficit)</b>		<b>724</b>	<b>341</b>	<b>293</b>	<b>(460)</b>	<b>198</b>

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**

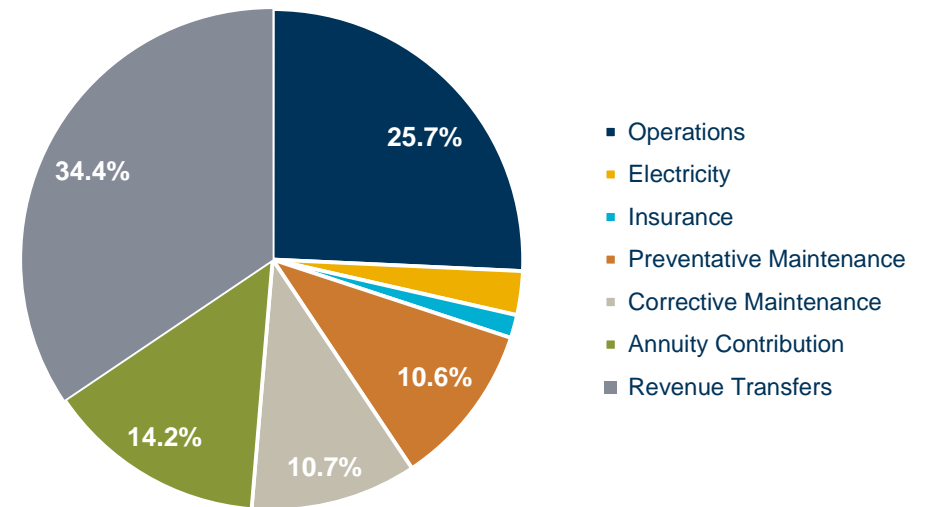


Figure 1 shows a high level summary of scheme costs and provides an indication of where revenue from irrigation water charges is applied. The item “Annuity Contribution” refers to the component of irrigation water charges that is applied toward the renewals annuity each year. The item “Revenue Transfers”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

# WATER DATA

St George Distribution's customer base consists of irrigation customers plus 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)
St George	IIS - St George IS	Irrigation		51,275
		SunWater		9,701
		Service Contract Total	61	60,976

QCA Assumed water use 93.4%

# REVENUE

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

**TABLE 3: REVENUE**

St George IS	2014 Actual \$000	2015 Actual \$000	2016 Actual \$000	2017 Forecast \$000	2018 Budget \$000
Irrigation	2,671	2,891	2,959	3,153	3,230
Industrial	-	-	-	-	-
Urban	0	-	-	-	-
Irrigation CSO	401	305	203	98	- <sup>1</sup>
Revenue Transfers	(966)	(1,005)	(1,091)	(1,131)	(1,047) <sup>2</sup>
Drainage	210	217	224	232	238
Other	0	(0)	0	1	1
Insurance Proceeds – Flood	-	15	-	-	-
<b>Revenue Total</b>	<b>2,317</b>	<b>2,423</b>	<b>2,295</b>	<b>2,353</b>	<b>2,423</b>

<sup>1</sup> 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.

<sup>2</sup> 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

St George 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	698	849	151	841	868	27	865	874	9	843	867	24	782	889	106	88
Electricity	71	56	(15)	96	60	(36)	51	65	14	70	70	(0)	86	71	(15)	121
Insurance	97	49	(48)	74	50	(24)	67	51	(16)	45	52	6	45	53	8	85
<b>Operations Total</b>	<b>866</b>	<b>954</b>	<b>88</b>	<b>1,011</b>	<b>978</b>	<b>(33)</b>	<b>983</b>	<b>990</b>	<b>7</b>	<b>959</b>	<b>988</b>	<b>29</b>	<b>914</b>	<b>1,013</b>	<b>99</b>	<b>90</b>
Preventative Maintenance	279	354	76	263	363	100	298	368	70	381	368	(13)	322	377	55	85
Corrective Maintenance	82	254	172	216	260	44	205	262	57	286	260	(25)	326	267	(59)	122
<b>Routine Total</b>	<b>1,226</b>	<b>1,562</b>	<b>336</b>	<b>1,490</b>	<b>1,601</b>	<b>111</b>	<b>1,486</b>	<b>1,620</b>	<b>133</b>	<b>1,625</b>	<b>1,616</b>	<b>(9)</b>	<b>1,561</b>	<b>1,656</b>	<b>95</b>	<b>94</b>

## 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<sup>3</sup>:

- 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.

<sup>3</sup> 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<sup>4</sup>:

- 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.

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<sup>4</sup> 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<sup>5</sup>.

- 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.

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<sup>5</sup> Activities listed will not apply to all service contracts.

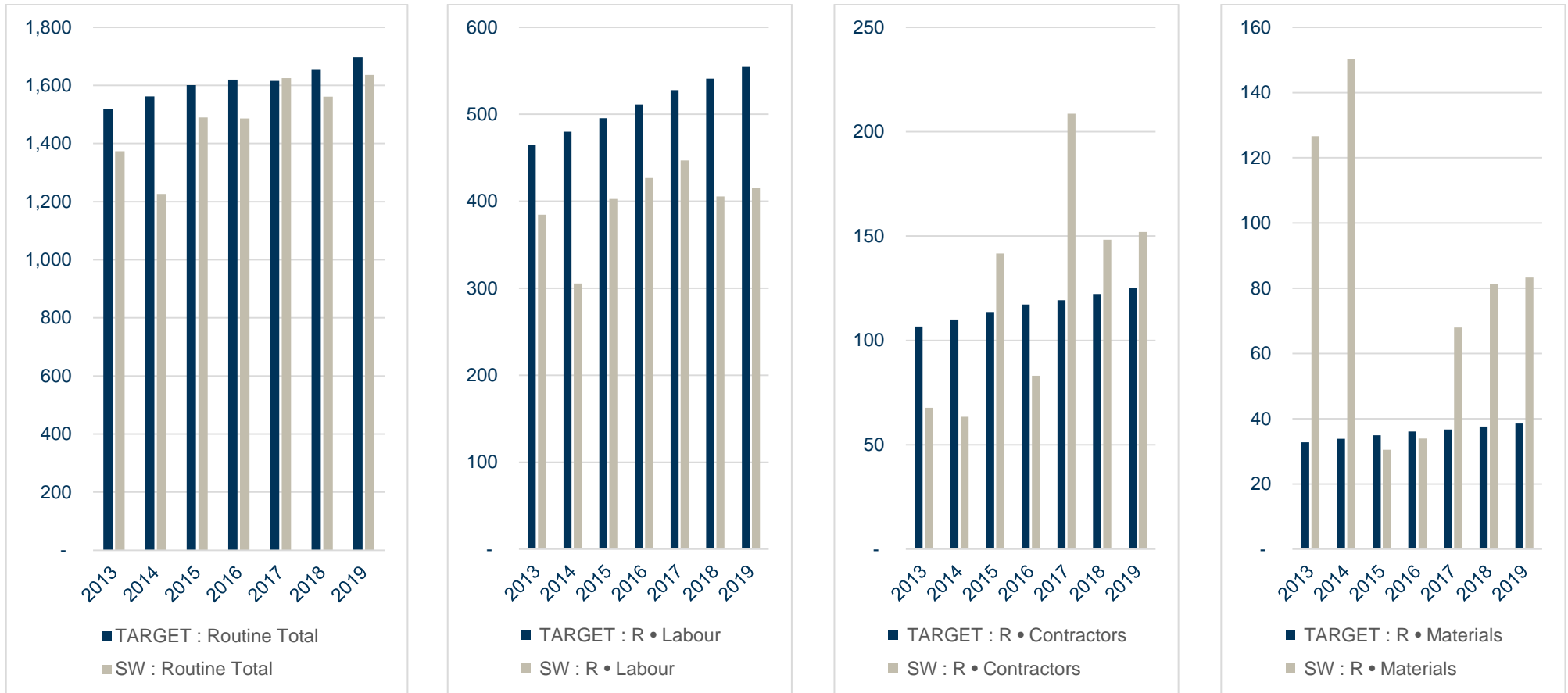


- Scheme Roads
  - Repair pot holes;
  - Grade roads; and
  - Repair, replace and paint guide posts and signs.
- Pump stations
  - Repair pumps and motors;
  - De-silt intake structures;
  - Repair concrete structure; and
  - Repair control building.
- Storages (balancing storages and reservoirs)
  - 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**

St George 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
<b>Annuity Funded</b>																				
Operations	16	-	(16)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	192	-	(192)	190	-	(190)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&E	160	35	(125)	403	92	(311)	516	214	(302)	1,188	294	(894)	664	-	(664)	-	120	23	(97)	519
<b>Non-Routine Total</b>	<b>367</b>	<b>35</b>	<b>(333)</b>	<b>593</b>	<b>92</b>	<b>(501)</b>	<b>516</b>	<b>214</b>	<b>(302)</b>	<b>1,188</b>	<b>294</b>	<b>(894)</b>	<b>664</b>	<b>-</b>	<b>(664)</b>	<b>-</b>	<b>120</b>	<b>23</b>	<b>(97)</b>	<b>519</b>
<b>Non Annuity Funded</b>	-			-			-			-			-				-			

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**

<b>Project title</b>	<b>Project scope</b>	<b>2018 budget (\$'000)</b>
<b>15SGA13 Replace Access Crossing - Stage 2 Construct / Install - TDC AC09</b>	This is a continuing project to replace the access bridge at Buckinbah Weir with a modern equivalent.	599
<b>Replace Meter - St George BBM M003</b>	A program of customer meter replacements is currently underway to meet AS4747 and NMI M10. This project is to upgrade the arrangement to an electromagnetic flow meter.	44
<b>Replace Protection Works - St George CH3 CO01</b>	The protection works at the offtake to channel 3 is completely ineffective and must be reinstated to ensure structural integrity.	8
<b>Upgrade Right &amp; Left Bank Security Signage - Moolabah Weir (refer DS Report Item 7b)</b>	This project is to upgrade security at Moolabah weir due to a recommendation in a recent dam safety investigation.	5
<b>2 Yearly 3rd Party Crane Inspection (AM.05) - St George PSTN 3T Crane</b>	This project is to ensure the completion of a 2 yearly 3rd party Crane inspection of the 3T crane at St George Pump Station.	4
<b>Repair Upstream Slab Edges and Downstream Voids - Buckinbah Channel Offtake (refer DS 7.2.2a &amp; b)</b>	5195018	3
<b>Total</b>		<b>664</b>

**TABLE 7: NON-ROUTINE PROJECTS 2019**

Project title	Project scope	2019 budget (\$'000)
<b>Review &amp; Update Previous Design to Detailed Status - St George Pump Station Replacement</b>	The St George Pump Station requires replacement due to condition, reliability and WHS issues. This project is to review existing designs to prepare documents, drawings and specifications for replacement.	111
<b>7 Yearly 3rd Party Crane Inspection (AM.05) - St George PSTN 3T Crane</b>	This project is to ensure the completion of a 7 yearly 3rd party Crane inspection of the 3T crane at St George Pump Station.	9
<b>Total</b>		<b>120</b>

# 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\***

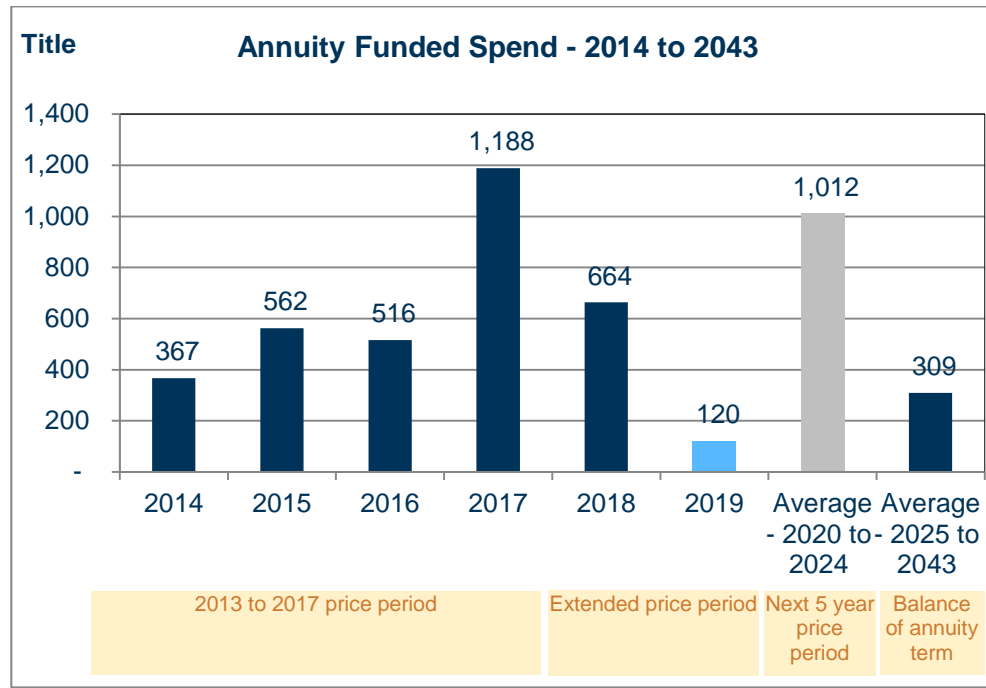
St George IS	Table Reference	2014 Actual \$000	2015 Actual \$000	2016 Actual \$000	2017 Forecast \$000	2018 Budget \$000	2019 Forecast \$000
<b>Annuity</b>							
Opening Balance		(1,528)	(1,605)	(1,881)	(2,113)	(3,038)	(3,496)
Net Spend	See below	(367)	(562)	(516)	(1,188)	(664)	(120)
Annuity Contribution		405	407	424	422	433	444
Interest		(114)	(120)	(141)	(158)	(228)	(262)
<b>SunWater – Closing Balance</b>		(1,605)	(1,881)	(2,113)	(3,038)	(3,496)	(3,434)
<b>QCA – Closing Balance</b>		(3,351)	(3,287)	(3,323)	(3,443)	(3,268)	(3,093)
<b>Difference</b>		1,745	1,406	1,209	405	(228)	(342)
<b>Net Spend Analysis</b>							
Spend	Table 5 Table 7	(367)	(593)	(516)	(1,188)	(664)	(120)
Insurance Proceeds Receipts							
• Prior Year		-	15	-	-	-	-
• Current Year		-	15	-	-	-	-
<b>Net Spend</b>		<b>(367)</b>	<b>(562)</b>	<b>(516)</b>	<b>(1,188)</b>	<b>(664)</b>	<b>(120)</b>

\*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

### Replace Access Crossing - Stage 2 Construct / Install - TDC AC09

- Year: 2018
- Current estimate: \$599,000
- 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 Submersible Type Pump Station - Stage 1.1 - St George PSTN

- Year: 2020
- Current estimate: \$1,009,000
- Options analysis completed: No

### Replace Submersible Type Pump Station - Stage 1.2 - St George PSTN

- Year: 2021
- Current estimate: \$1,035,000
- Options analysis completed: No

### Replace Submersible Type Pump Station - Stage 2 - St George PSTN

- Year: 2022
- Current estimate: \$2,413,000
- Options analysis completed: No

## Material projects 2025–43

Projects in the program of works for 2025-43 should be viewed as indicative at this stage and will be refined as the next pricing review draws closer.

### Replace Switchboard

- Year: 2033
- Current estimate: \$333,000
- Options analysis completed: No.

# APPENDIX 1: TOTAL EXPENDITURE BY EXPENSE TYPE

TABLE 9: EXPENDITURE FOR ACTIVITY BY TYPE

	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
<b>Revenue</b>	2,317			2,423			2,295			2,353			2,423		
<b>Routine Spend</b>															
Operations															
Labour	201	299	98	304	309	5	300	319	19	268	329	61	252	337	85
Contractors	32	4	(28)	5	4	(1)	6	5	(1)	61	5	(57)	8	5	(4)
Materials	104	20	(84)	3	21	18	12	21	10	50	22	(28)	51	22	(29)
Electricity	71	56	(15)	96	60	(36)	51	65	14	70	70	(0)	86	71	(15)
Insurance	97	49	(48)	74	50	(24)	67	51	(16)	45	52	6	45	53	8
Other	19	41	22	19	42	23	40	43	3	19	44	25	23	45	22
Non-directs	341	485	144	510	492	(18)	508	487	(22)	445	468	23	447	480	32
	866	954	88	1,011	978	(33)	983	990	7	959	988	29	914	1,013	99
<b>Preventative Maintenance</b>															
Labour	82	94	12	59	97	38	79	100	22	105	104	(1)	77	106	30
Contractors	25	92	67	63	95	32	46	98	52	67	100	33	65	102	37
Materials	31	6	(24)	15	7	(8)	19	7	(13)	15	7	(8)	20	7	(13)
Other	4	11	6	21	11	(10)	20	11	(8)	18	11	(7)	21	12	(9)
Non-directs	136	151	15	105	153	48	135	151	17	176	146	(30)	139	150	11
	279	354	76	263	363	100	298	368	70	381	368	(13)	322	377	55
<b>Corrective Maintenance</b>															
Labour	23	87	64	40	90	50	49	92	44	74	95	21	77	98	21
Contractors	6	14	8	74	14	(60)	32	15	(17)	81	15	(66)	75	15	(60)
Materials	15	7	(8)	13	8	(5)	3	8	5	3	8	5	10	8	(2)

Other	0	11	11	18	11	(7)	36	11	(24)	3	11	8	25	12	(13)
Non-directs	38	136	98	72	138	66	86	136	50	125	130	6	139	134	(5)
	82	254	172	216	260	44	205	262	57	286	260	(25)	326	267	(59)
<b>Routine Total</b>	1,226	1,562	336	1,490	1,601	111	1,486	1,620	133	1,625	1,616	(9)	1,561	1,656	95
<b>Non-Routine Spend</b>															
Labour	39	6	(33)	57	12	(45)	44	38	(6)	31	41	10	15	-	(15)
Contractors	217	7	(210)	390	12	(377)	263	41	(222)	761	44	(717)	561	-	(561)
Materials	3	7	4	36	36	(0)	61	41	(20)	179	94	(85)	30	-	(30)
Other	37	4	(34)	(7)	7	14	54	23	(31)	113	40	(73)	3	-	(3)
Non-directs	72	12	(60)	117	25	(92)	93	70	(23)	103	74	(29)	55	-	(55)
<b>Non-Routine Total</b>	367	35	(333)	593	92	(501)	516	214	(302)	1,188	294	(894)	664	-	(664)
<b>Total Regulated Spend</b>	1,593	1,597	4	2,083	1,693	(390)	2,002	1,833	(169)	2,813	1,910	(903)	2,224	1,656	(568)
Non Annuity Funded Spend															
Surplus (Deficit)	724			341			293			(460)			198		

## 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.

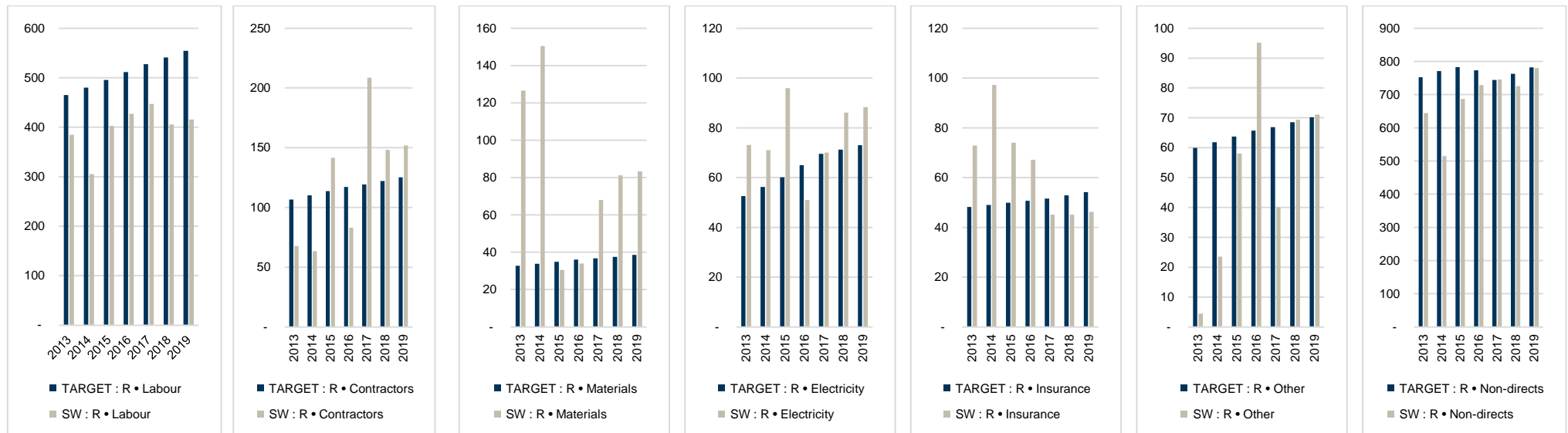
Local overheads are spread across service contracts managed in each locality. They include regional accommodation costs, vehicle costs, local admin support and other local labour not directly booked to activities within service contracts.

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	1.606	

## Disclaimer

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