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2016/17 Annual Network Service Plan

Emerald Distribution

July 2016

Table of Contents

Introduction	1
Financial Summary	2
Water Data	3
Revenue	4
Routine Expenditure	5
Operations	5
Preventive Maintenance	7
Corrective Maintenance	7
Routine Cost – Summary and Charts	10
Non-Routine Expenditure	11
Non-Routine Budget	12
Annuity Balance	14
Overview of Annuity Funded Non-Routine Projects 2013-41	15
Material Projects 2017-18	16
Material Projects 2019-23	16
Material Projects 2024-41	16
Appendix 1: Total Expenditure by Expense Type	17
Appendix 2: Organisational Chart of Local Resources	19
Notes	20

Introduction

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

This NSP compares SunWater's actuals for 2013, 2014 and 2015, budget for 2016 and budget for 2017 to the targets from the QCA's final report. The 2013-16 figures are provided for information only, with the focus the budget figures for 2017. The 2017 budget has been 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

Table 1: Operating Revenue Less Spend

Emerald IS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Forecast \$000	Budget \$000
Revenue	3	2,406	2,884	2,913	3,025	3,089
Less - Routine Expenditure	4 & 7	1,814	2,876	2,279	2,273	2,387
Less - Non-Routine Expenditure						
• Annuity Funded	5, 6 & 7	771	165	513	380	467
• Non Annuity Funded	5	25	8	-	-	-
Surplus (Deficit)		(205)	(165)	120	371	235

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 2017 year together with an estimate of revenue expected to be generated.

Figure 1: Breakdown of Irrigation Scheme Costs – 2017 Budget

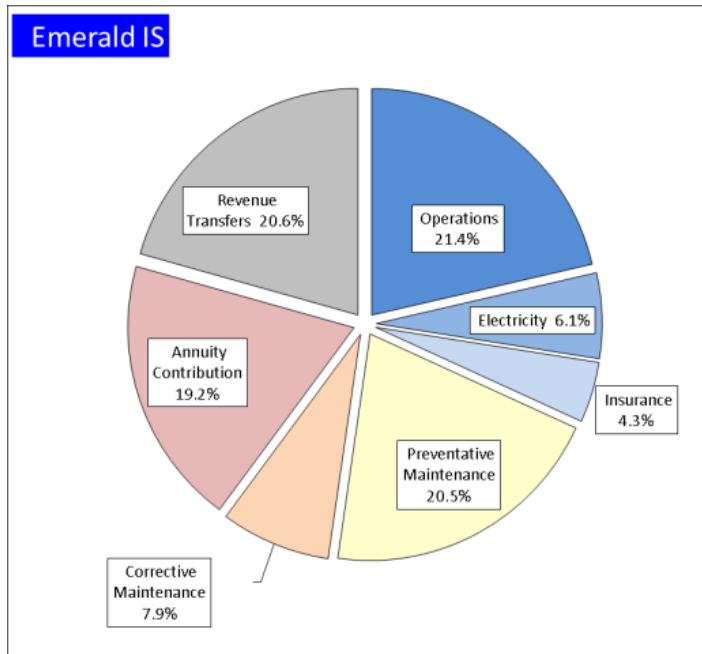


Figure 1 shows a high level summary of scheme costs and provides an indication of where revenue from irrigation water charges is applied. The item “Annuity Contribution” refers to the component of irrigation water charges that is applied toward the renewals annuity each year. The item “Revenue Transfers”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

Table 2: Water Data

	No. of Customers	Water Entitlements
		ML
2. Irrigation		83,078
3. Urban		90
4. Other		0
5. SunWater		28,697
Total	182	111,864

QCA Assumed Water Usage

74.9%

The 2017 budget is compiled taking onto account the QCA water use assumptions outlined above.

Revenue

Table 3: Revenue

Emerald IS	2013	2014	2015	2016	2017
	Actual \$000	Actual \$000	Actual \$000	Forecast \$000	Budget \$000
Irrigation	2,754	3,202	3,228	3,431	3,515
Industrial	-	-	-	-	-
Urban	-	8	12	-	-
Irrigation CSO	233	62	-	-	-
Revenue Transfers	(962)	(768)	(740)	(799)	(819)
Drainage	346	365	379	382	383
Other	35	15	7	11	11
Insurance Proceeds - Flood	-	-	27	-	-
Revenue Total	2,406	2,884	2,913	3,025	3,089

Note: Following feedback from customers, SunWater has unbundled bulk water charges from distribution system charges. This means that total revenue figures in past Performance Reports and NSPs may not match those above.

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. The QCA established the transfer cost for irrigation supplies at the cost reflective bulk water tariff. The revenue transfer above does not include the bulk water costs of SunWater's channel distribution system losses.

Routine Expenditure

Table 4: Routine Operating Expenditure

Emerald IS	2013			2014			2015			2016			2017				2013 to 2017			
	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Forecast \$000	QCA Target \$000	Variance \$000	SW Budget \$000	QCA Target \$000	Variance \$000	% of target	SW Forecast \$000	QCA Target \$000	Variance \$000	% of target
Operations	682	772	90	1,170	794	(376)	875	811	(63)	810	815	5	849	809	(40)	105	4,386	4,002	(384)	110
Electricity	36	64	27	161	68	(93)	229	140	(89)	206	151	(55)	242	162	(80)	149	875	585	(290)	150
Insurance	150	104	(46)	208	106	(102)	158	108	(50)	162	110	(52)	172	112	(60)	154	850	539	(311)	158
Operations Total	869	940	71	1,539	968	(571)	1,262	1,059	(203)	1,179	1,076	(103)	1,263	1,082	(180)	117	6,111	5,125	(986)	119
Preventative Maintenance	764	611	(153)	966	630	(337)	836	647	(189)	708	659	(49)	812	662	(150)	123	4,087	3,209	(879)	127
Corrective Maintenance	181	286	105	370	295	(75)	181	302	121	387	307	(80)	312	307	(5)	102	1,432	1,497	66	96
Routine Total	1,814	1,837	23	2,876	1,893	(983)	2,279	2,008	(271)	2,273	2,042	(232)	2,387	2,052	(335)	116	11,630	9,832	(1,798)	118

The budget routine spend is 16% above the QCA's target for 2017 however the budget falls to 110% of target when the above-QCA increases in insurance and electricity are taken into account.

Appendix 2 includes an organisation chart showing the labour resources based in Emerald and utilised in the scheme.

Operations

Operation activities include the day-to-day costs of the administration and management of the scheme, water delivery and meeting compliance obligations. Specific activities include the direct and non-direct cost of¹:

- Scheduling and delivering water, including processing water orders, releasing water, operating pump stations, regulation and monitoring of channel flows and monitoring of customer deliveries;
- Emergency responses for channel overflows and other emergency events;
- Meter reading;
- Administration of water accounts, billing, and receipting payments;
- Customer management, including enquiries, complaints and maintaining the customer service help desk;
- Scheme management, including licences and permits, rates, land management, planning and reporting;
- Insurance;
- Monitoring the security of infrastructure and unauthorised access and trespass;
- Managing public relations associated with the scheme; and

¹ Activities listed will not apply to all service contracts.

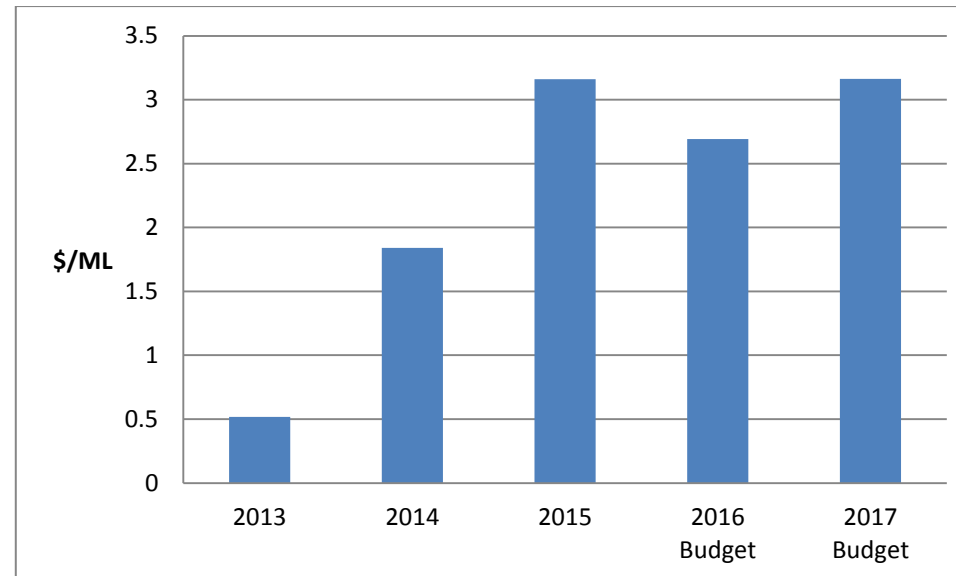
- Managing enquiries from adjoining landholders, and in some cases developers, that require input and negotiations with SunWater’s property and legal sections to resolve issues.

The operations budget in 2017 is 17% above the QCA target, however this is largely due to the increases in insurance costs and electricity being higher than allowed for by the QCA. Increased premiums followed flood events that have occurred in the past few years in Queensland. The budget for operations drops to 104% of the QCA target when the electricity and insurance over-runs are taken into account.

Electricity costs are budgeted higher than the QCA target in 2017. The QCA did not allow any cost for pumping from Selma pumpstation, which is required at low dam levels.

The chart below tracks pumping cost per ML delivered across the price path, based on actual and forecast data. The chart reflects the utilization of only the small relift pumps at the beginning of the price path and then utilization of the Selma pumpstation as the dam level dropped.

Figure 2: Electricity Cost per ML Delivered



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 includes¹:

- Condition monitoring – the inspection, testing or measurement of physical assets to report and record its condition and performance for determination of maintenance requirements. Condition monitoring is carried out on electrical, mechanical and civil assets including pump stations (pumps, electrical motors, valves, switchboards and associated equipment), channels (regulator gates, civil works, signs, structures, etc.), drains (civil works, structures etc.), pipelines (valves, air valves, scours easements etc.), and other infrastructure;
- Servicing – planned maintenance activities normally expected to be carried out routinely on physical assets including valves, cranes, sump pumps and associated equipment; and
- Weed control – which includes the following activities:
 - Slashing channels and drains;
 - Acrolein treatment of channels;
 - Copper Sulphate treatment; and
 - Spraying and other activities to control operational and noxious weeds within channel and drainage reserves and balancing storages and other land managed by SunWater

Preventive maintenance is budgeted 30% above the QCA's target for 2017, mainly due to weed control cost, specifically Acrolein. The Acrolein injection strategy for Emerald is budgeted for injections when required each financial year with 27 cylinders allowed in the QCA target. The price per cylinder when QCA projections were done was \$5,721 (ex gst). The number of cylinders used each year has fluctuated during the price path to as low as 4 in 2011 and to 33. Acrolein usage in 2011 was 4 cylinders due to flooding & dirty water which reduced the need for injections. In 2012 & 2013 with water clearing the usage was 27 cylinders each year. With water continuing to clear usage for 2014 increased to 37 cylinders & with 2015 usage year to date is 33 cylinders with an estimate of 4 cylinders to be used by the end of the year. For the new water year with the planting window extended from the 1st August to the 31st December it is estimated that an extra 10 cylinders may be required this would bring the total number of cylinders to 47, compare to the 27 allowed in the QCA target.

Also, during the price path the cost per Acrolein cylinder has increased to \$7,980 (ex gst) which exceeds QCA's projected CPI increases. The price and quantity increase accounts for over \$200,000 in budget overrun compared to the value allowed by the QCA and represents a key challenge in meeting QCA targets. Over the last 12 months SunWater has focused on the procurement of the product and also investigating alternative suppliers and application methods. It is apparent that it would take several years for an alternative supplier to gain approval to import Acrolein into the Australian market. SunWater has recently locked the current supplier into a set price for the next two years to ensure no further escalation in price.

Corrective Maintenance

Corrective maintenance includes activities to correct unexpected failures or to return an asset to an acceptable level of performance or condition. While these are difficult to forecast with accuracy, history has shown that such events can be expected and need to be factored into expenditure forecasts. Forecasts include provision for labour, materials and plant hire.

The corrective maintenance forecast does not include any costs of damage arising from major unexpected events, such as floods. These costs are categorised as non-routine corrective maintenance which is discussed in the following section.

There are two types of corrective maintenance – scheduled and emergency²:

- Scheduled corrective maintenance is maintenance that can be planned and scheduled, and includes:
 - Channels
 - De-silting channels and catch drains;
 - Erosion control and repair of rock protection works;
 - Repair fencing;
 - Repair concrete structures; and
 - Repair regulator gates, control valves, etc.
 - Drains
 - De-silting drains;
 - Erosion control and repair of rock protection works;
 - Repair fencing; and
 - Repair concrete structures.
 - Pipelines
 - Pipe breaks
 - Repair air valves, scour valves, etc.;
 - Erosion control and repair of rock protection works; and
 - Repair concrete structures.
 - Scheme Roads
 - Repair pot holes;
 - Grade roads; and
 - Repair, replace and paint guide posts and signs.
 - Pump stations
 - Repair pumps and motors;
 - De-silt intake structures;
 - Repair concrete structure; and
 - Repair control building.
 - Storages (balancing storages and reservoirs)
 - Repair control gates and valves;
 - Repair walls, embankments and spillways; and
 - Repair concrete structures.

² Activities listed will not apply to all service contracts.

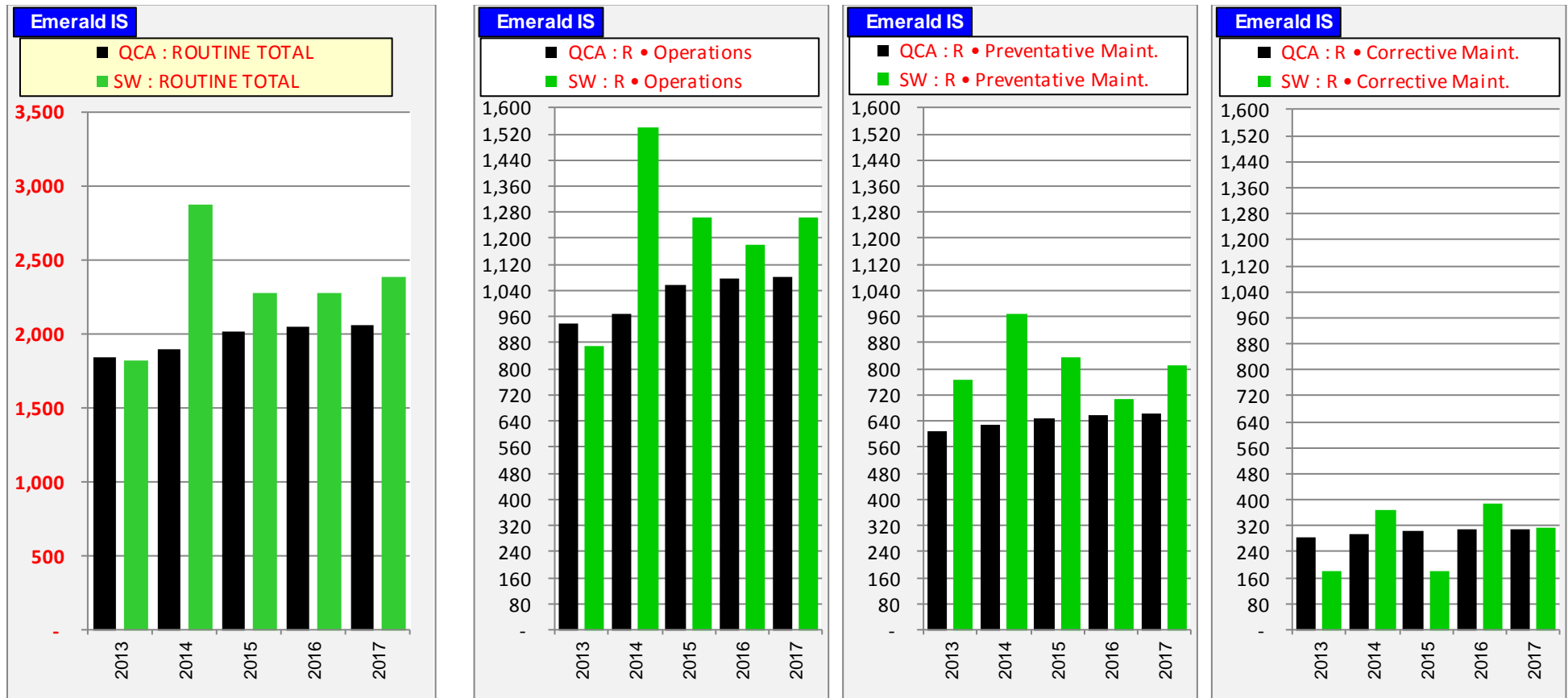
- Meters
 - Repair bulk water meters; and
 - Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or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

Corrective maintenance is budgeted close to the QCA's target for 2017. SunWater will continue to refine budgets with the aim of bringing the overall expenditure into line with target.

Routine Cost – Summary and Charts

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

Figure 3: 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 2016; 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.

Non-Routine Budget

The budget non-routine spend for 2017 is shown in the table below, along with the actual spend for 2013, 2014, 2015 and the budget spend for 2016.

Table 5: Non-Routine Expenditure

Emerald IS	2013			2014			2015			2016			2017				2013 to 2017			
	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Forecast \$000	QCA Target \$000	Variance \$000	SW Budget \$000	QCA Target \$000	Variance \$000	% of target	SW Forecast \$000	QCA Target \$000	Variance \$000	% of target
Annuity Funded																				
Operations	-	-	-	10	-	(10)	5	8	3	-	-	-	-	-	-	-	14	8	(6)	183
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&E	771	177	(595)	156	246	90	509	523	15	380	203	(177)	467	584	117	80	2,283	1,733	(550)	132
Non-routine Total	771	177	(595)	165	246	81	513	531	18	380	203	(177)	467	584	117	80	2,297	1,741	(556)	132
Non Annuity Funded	<u>25</u>			<u>8</u>			<u>-</u>			<u>-</u>			<u>-</u>				<u>33</u>			

The details for the five major projects planned for 2017 are provided below:

Table 6: Non-Routine Projects 2017

Project Title	Project Scope	2017 Budget (\$'000)
Refurbish Channel Roads – SELMA & WEEMAH MAIN CHANNELS	Re-grade and gravel channel access roads to reinstate condition and serviceability.	98
Replace Corroded Armco Gates - SELMA MAIN CHANNEL	Replace a prioritised list of gates due to condition.	85
Replace Switchyard Assets - Selma Switchyard (Substation Q) – SELMA IRRIGATION SYSTEM	This project is to replace the switchyard assets at Selma Pump Station to comply with the current Australian Standards. Existing isolators are also unserviceable and require replacement. Options for switchgear selection were reviewed in 2012 and the most cost effective replacement selected. This project is continuing from 2015 and expected to be completed this year.	53
Refurbish Channel Banks and Batters - SELMA MAIN CHANNEL	Re-profile inner channel banks and beds back to design profile and capacity.	50
Refurbish pump - bearings, bushes, sleeves - high reliability essential – SELMA IRRIGATION SYSTEM	Refurbish Pump Unit 3 based on standard refurbishment period and condition.	47
Other works	There are another 6 various works in the non-routine projects ranging from \$20,000 to \$32,000. Further detail was tabled at the IAC meeting.	134
Total		467

Annuity Balance

The estimated 2016 and 2017 annuity balances are shown below; the annuity contribution shown has been set by the QCA. 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 2017 is shown in the following table.

Table 7: Annuity Balance

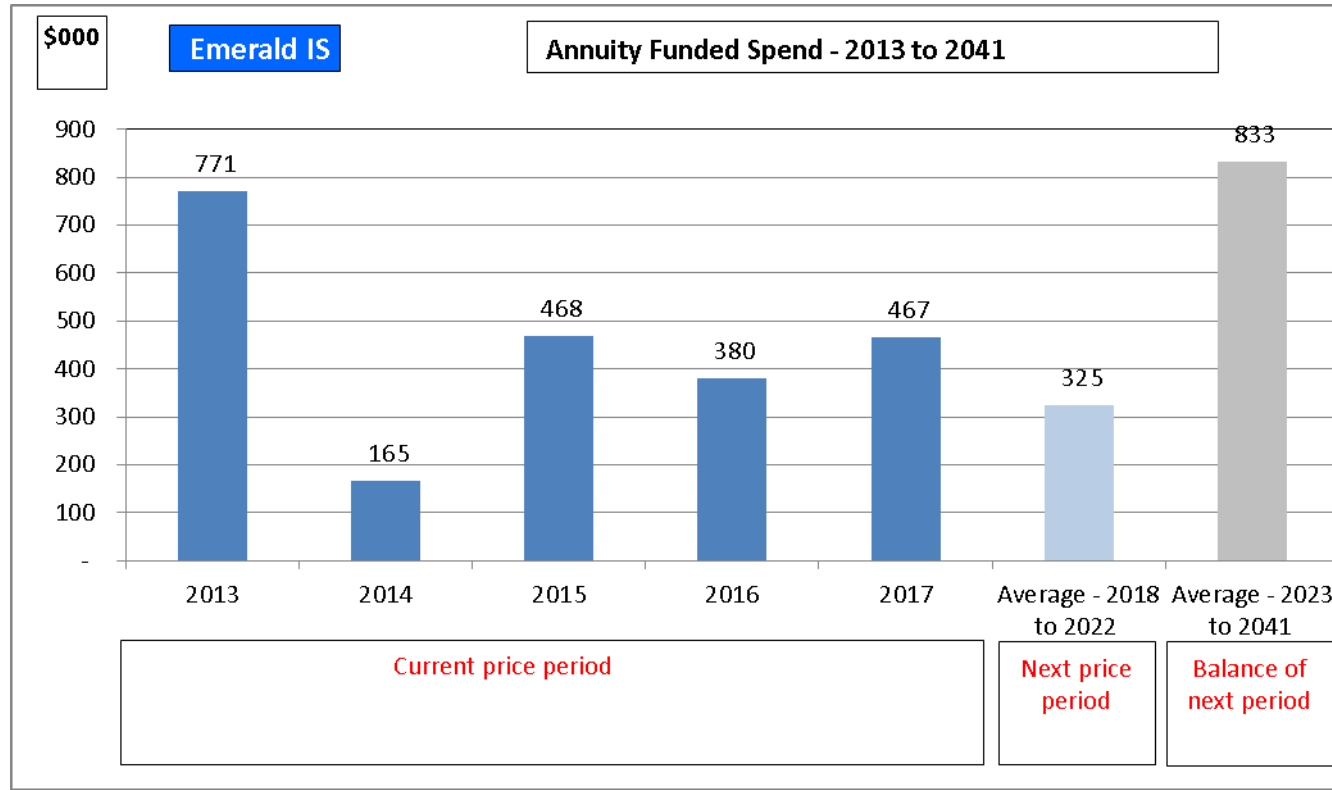
Emerald IS		2013	2014	2015	2016	2017	2013 to 2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Forecast \$000	Budget \$000	Forecast \$000
Annuity							
Opening Balance	See below	(14)	(177)	292	554	948	(14)
Net Spend		(771)	(165)	(468)	(380)	(467)	(2,252)
Annuity Contribution		610	647	708	734	762	3,461
Interest		(1)	(13)	22	41	71	120
SunWater - Closing Balance		(177)	292	554	948	1,315	1,315
QCA - Closing Balance		560	1,003	1,255	1,880	2,199	2,199
Difference		(737)	(711)	(701)	(931)	(884)	(884)
Net Spend Analysis							
Spend	5 & 7	(771)	(165)	(513)	(380)	(467)	(2,297)
Insurance Proceeds Receipts							
• Prior Year		-	-	18	-	-	18
• Current Year		-	-	27	-	-	27
Net Spend		(771)	(165)	(468)	(380)	(467)	(2,252)

* All 2016 and 2017 figures are subject to change once actual spend is known.

Overview of Annuity Funded Non-Routine Projects 2013-41

The renewals annuity is calculated over a 20-year planning period; given that the following pricing period ends in 2022, the estimated renewals spend out until 2041 will affect the next pricing review. The estimated renewals expenditure out to 2041 is shown in the chart following.

Figure 4: Annuity Expenditure 2013-41



All material renewals items out until 2041 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 2017-18

The evenness in the spread of estimated project costs and/or spend that has already occurred over 2013-16 means there are no projects which exceed the materiality threshold for this service contract for the 2017-18 period.

Material Projects 2019-23

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 2019-23 period.

Material Projects 2024-41

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 2023-41 period.

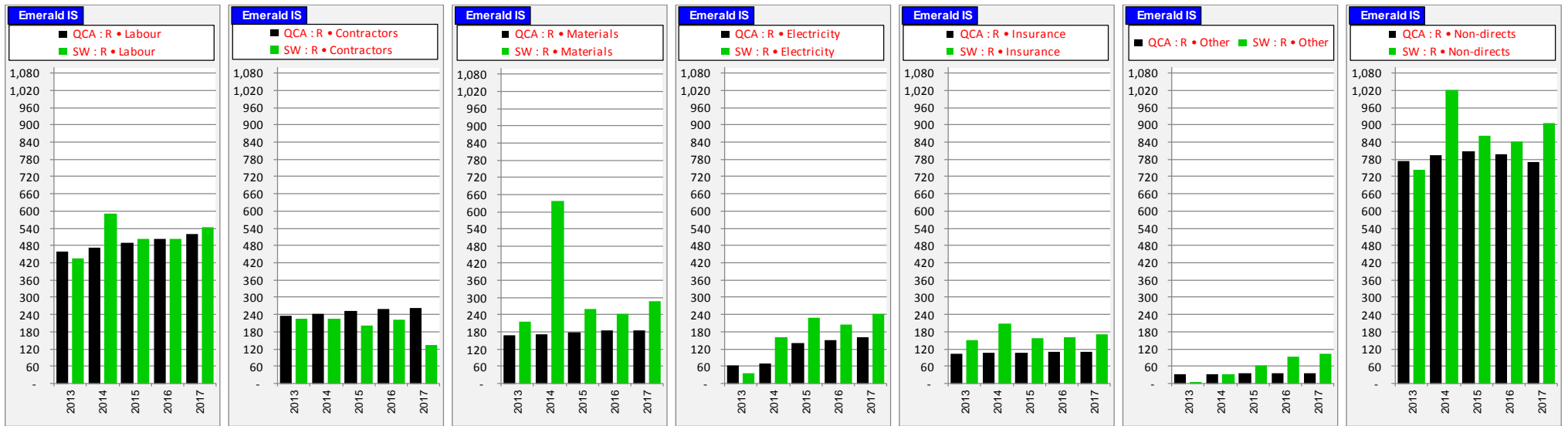
Appendix 1: Total Expenditure by Expense Type

Table 8: Expenditure for Activity by Type

Emerald IS	2013			2014			2015			2016			2017			2013 to 2017		
	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Actual \$000	QCA Target \$000	Variance \$000	SW Forecast \$000	QCA Target \$000	Variance \$000	SW Budget \$000	QCA Target \$000	Variance \$000	SW Forecast \$000	QCA Target \$000	Variance \$000
Revenue	2,406			2,884			2,913			3,025			3,089			14,317		
Routine Spend																		
Operations																		
Labour	253	281	28	383	290	(92)	307	300	(8)	295	309	14	307	319	12	1,545	1,500	(46)
Contractors	-	-	-	3	-	(3)	3	-	(3)	3	-	(3)	3	-	(3)	12	-	(12)
Materials	3	4	1	120	4	(116)	-	4	4	2	4	2	2	4	2	127	19	(108)
Electricity	36	64	27	161	68	(93)	229	140	(89)	206	151	(55)	242	162	(80)	875	585	(290)
Insurance	150	104	(46)	208	106	(102)	158	108	(50)	162	110	(52)	172	112	(60)	850	539	(311)
Other	5	17	12	24	18	(6)	47	18	(29)	29	19	(10)	34	19	(15)	139	91	(48)
Non-directs	421	470	49	641	482	(158)	517	489	(27)	481	483	2	503	467	(36)	2,562	2,392	(171)
	869	940	71	1,539	968	(571)	1,262	1,059	(203)	1,179	1,076	(103)	1,263	1,082	(180)	6,111	5,125	(986)
Preventative Maintenance																		
Labour	129	111	(18)	168	115	(53)	164	119	(46)	134	123	(11)	160	126	(34)	756	594	(161)
Contractors	220	171	(49)	123	176	53	137	182	44	120	188	68	70	191	121	670	908	237
Materials	184	130	(54)	370	134	(236)	245	139	(106)	190	143	(47)	259	145	(114)	1,247	691	(556)
Other	(0)	6	6	6	6	(0)	5	6	1	33	6	(27)	48	6	(42)	91	30	(62)
Non-directs	232	193	(39)	300	198	(101)	285	202	(84)	231	200	(31)	275	193	(82)	1,323	986	(337)
	764	611	(153)	966	630	(337)	836	647	(189)	708	659	(49)	812	662	(150)	4,087	3,209	(879)
Corrective Maintenance																		
Labour	52	66	14	42	68	26	33	71	38	76	73	(3)	77	75	(1)	280	353	74
Contractors	7	65	58	99	67	(32)	61	70	8	100	72	(28)	60	73	13	327	347	20
Materials	31	34	3	149	35	(114)	16	36	19	50	37	(13)	25	38	13	271	179	(92)
Other	0	10	10	1	10	9	11	11	(0)	31	11	(20)	22	11	(11)	65	53	(12)
Non-directs	91	111	20	80	114	34	60	116	56	130	114	(16)	128	110	(18)	488	565	76
	181	286	105	370	295	(75)	181	302	121	387	307	(80)	312	307	(5)	1,432	1,497	66
Routine - total	1,814	1,837	23	2,876	1,893	(983)	2,279	2,008	(271)	2,273	2,042	(232)	2,387	2,052	(335)	11,630	9,832	(1,798)
Non-Routine Spend																		
Labour	67	23	(44)	30	45	15	100	117	16	20	40	20	65	117	52	282	342	60
Contractors	421	25	(396)	22	50	27	199	120	(79)	277	56	(221)	223	141	(82)	1,143	392	(751)
Materials	19	25	6	4	50	46	26	171	145	35	27	(8)	61	96	35	145	369	224
Other	126	14	(113)	57	27	(30)	8	59	50	-	15	15	-	53	53	192	167	(25)
Non-directs	138	90	(49)	52	75	23	180	65	(115)	48	65	17	118	177	59	536	472	(64)
Non-Routine - Total	771	177	(595)	165	246	81	513	531	18	380	203	(177)	467	584	117	2,297	1,741	(556)
Total Regulated Spend	2,586	2,014	(572)	3,041	2,139	(902)	2,792	2,539	(253)	2,654	2,245	(409)	2,854	2,636	(218)	13,927	11,573	(2,355)
Non Annuity Funded Spend	25			8			-			-			-			33		
Surplus (Deficit)	(205)			(165)			120			371			235			357		

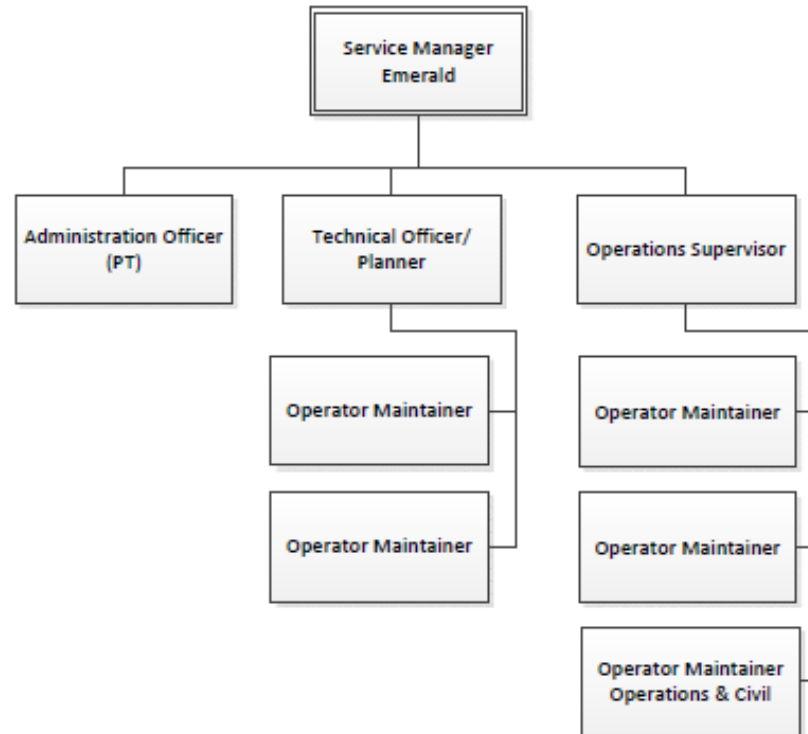
The charts below graphically report routine costs by expense type compared to the QCA target.

Figure 5: Routine Expenditure by Expense Type (\$'000)



Appendix 2: Organisational Chart of Local Resources

The chart below outlines the human resources engaged locally in providing services in the channel distribution system.



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 9: Conversion Factors for real \$2011 to Nominal Dollars

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

Disclaimer

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