

SunWater Limited
Level 10, 179 Turbot Street
PO Box 15336 City East
Brisbane Queensland 4002
www.sunwater.com.au
ACN 131 034 985



2016/17 Annual Network Service Plan

Eton Distribution

July 2016

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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

Eton IS		2013	2014	2015	2016	2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Forecast \$000	Budget \$000
Revenue	3	2,923	3,378	3,185	3,494	3,578
Less - Routine Expenditure	4 & 7	1,883	2,407	2,840	2,758	2,865
Less - Non-Routine Expenditure						
• Annuity Funded	5, 6 & 7	577	259	515	691	684
• Non Annuity Funded	5	26	10	3	-	-
Surplus (Deficit)		437	703	(173)	45	29

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

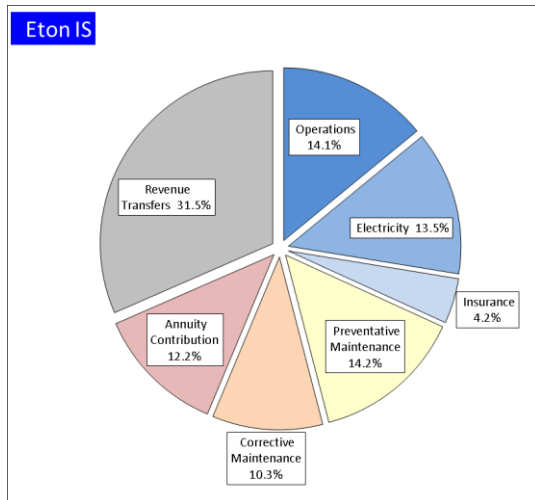


Figure 1 shows a high level summary of scheme costs and provides an indication of where revenue from irrigation water charges is applied. The item “Annuity Contribution” refers to the component of irrigation water charges that is applied toward the renewals annuity each year. The item “Revenue Transfers”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

Table 2: Water Data

	No. of Customers	Water Entitlements
		ML
1. Industrial		0
2. Irrigation		51,600
3. Urban		175
4. Other		125
5. SunWater		9,384
Total	328	61,284

QCA Assumed Water Usage

55.1%

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

Revenue

Table 3: Revenue

Eton IS	2013	2014	2015	2016	2017
	Actual	Actual	Actual	Forecast	Budget
	\$000	\$000	\$000	\$000	\$000
Irrigation	2,802	3,125	3,288	3,779	3,988
Industrial	-	6	7	-	-
Urban	-	9	11	-	-
Irrigation CSO	1,497	1,433	1,357	1,277	1,191
Revenue Transfers	(1,404)	(1,194)	(1,510)	(1,566)	(1,605)
Drainage	-	-	-	-	-
Other	29	-	3	4	4
Insurance Proceeds - Flood	-	-	28	-	-
Revenue Total	2,923	3,378	3,185	3,494	3,578

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

Eton 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	485	608	123	584	624	39	921	637	(284)	672	643	(29)	715	636	(80)	113	3,378	3,148	(230)	107
Electricity	255	467	212	381	499	119	458	534	76	655	577	(78)	688	618	(70)	111	2,437	2,695	259	90
Insurance	190	134	(56)	264	137	(127)	200	139	(61)	203	141	(62)	215	144	(72)	150	1,072	695	(377)	154
Operations Total	930	1,209	279	1,229	1,260	31	1,579	1,311	(268)	1,530	1,362	(168)	1,619	1,397	(221)	116	6,886	6,538	(348)	105
Preventative Maintenance	443	631	188	644	650	5	740	666	(73)	687	676	(11)	720	677	(43)	106	3,234	3,300	65	98
Corrective Maintenance	510	444	(67)	534	457	(76)	521	469	(52)	541	477	(64)	526	479	(47)	110	2,632	2,326	(306)	113
Routine Total	1,883	2,283	400	2,407	2,367	(40)	2,840	2,446	(393)	2,758	2,515	(243)	2,865	2,553	(312)	112	12,752	12,164	(589)	105

The budget routine spend is 12% above the QCA's target for 2017 however the budget falls to 107% 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 Eton 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 16% 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 106% of the QCA target when the electricity and insurance over-runs are taken into account.

Electricity costs are budgeted 11% higher than the QCA target in 2017. The 2017 budget includes a 5% escalation of electricity prices, however indications are that after several years of above-QCA price increases, the transitional electricity tariffs will not escalate by 5% in 2016/17. This will relieve the price pressure on SunWater and our customers but prices remain above the level allowed by the QCA. In addition, SunWater has performed annual electricity reviews on many of its sites and moved sites to lower-priced tariffs where cost savings were apparent. This has served to further reduce the impact of previous electricity cost increases.

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 above the QCA’s target for 2017, mainly due to weed control cost, specifically Acrolein. The Acrolein injection strategy for Eton is budgeted at 4-5 injection periods each financial year which equates to approximately 18 cylinders. The price per cylinder when QCA projections were done was \$5,721 (ex gst). The number of cylinders used per year has fluctuated during the price path between 9 and 25. 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 increase account for approximately \$37k in budget overrun 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 that no further escalation.

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;

² Activities listed will not apply to all service contracts.

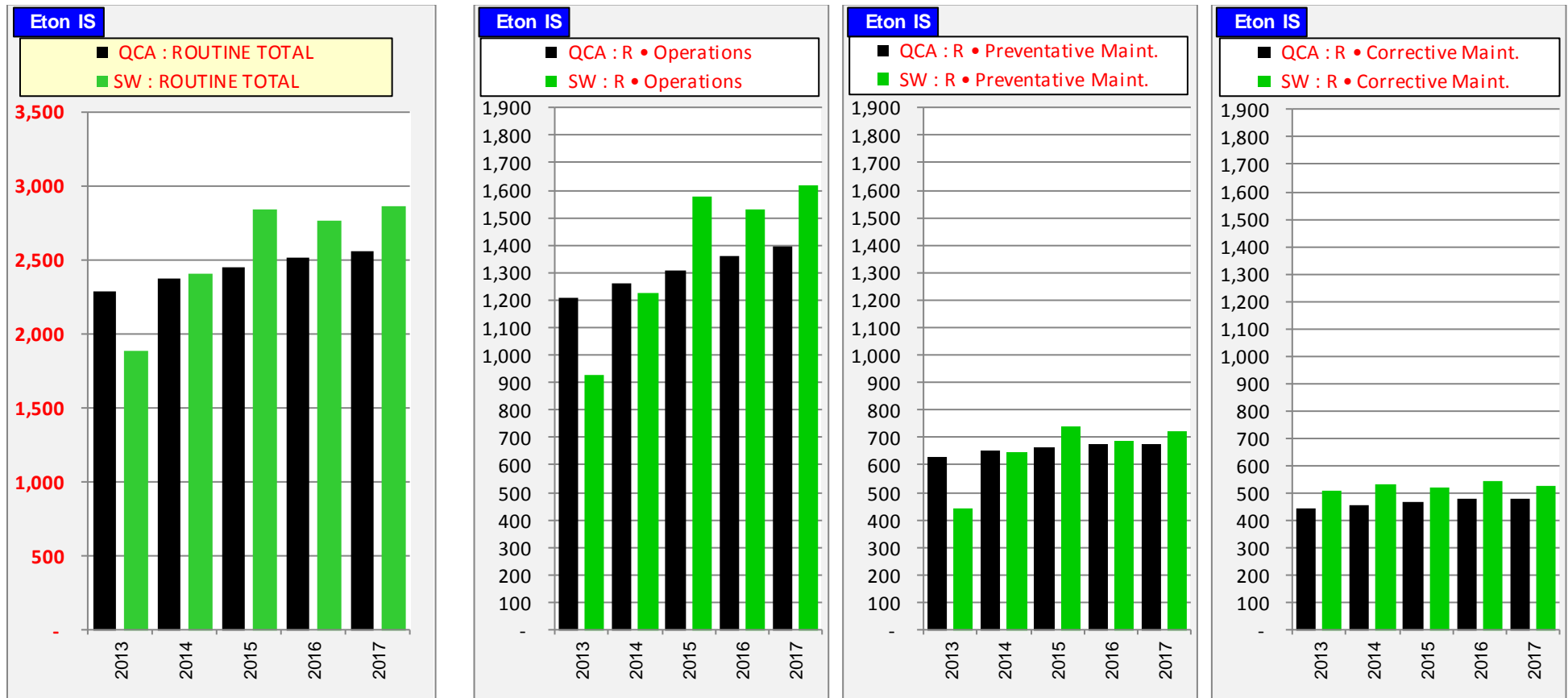
- De-silt intake structures;
- Repair concrete structure; and
- Repair control building.
- Storages (balancing storages and reservoirs)
 - Repair control gates and valves;
 - Repair walls, embankments and spillways; and
 - Repair concrete structures.
- Meters
 - Repair bulk water meters; and
 - Repair customer meters.
- Emergency corrective maintenance is maintenance that has to be carried out immediately to restore normal operation or supply to customers or to meet regulatory obligations (e.g. rectify a safety hazard) and includes:
 - Repair or correction of pump station faults;
 - Repair or correction of channel faults;
 - Repair or correction of pipeline faults; and
 - Response to theft or vandalism associated with scheme assets.

Corrective maintenance is budgeted above 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 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 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

Eton 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	-	-	-	-	-	-	40	-	(40)	-	-	-	-	-	-	-	40	-	(40)	-
Preventative Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrective Maintenance (Flood)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&E	577	568	(9)	259	272	13	475	335	(140)	691	706	15	684	646	(38)	106	2,686	2,527	(160)	106
Non-routine Total	577	568	(9)	259	272	13	515	335	(180)	691	706	15	684	646	(38)	106	2,727	2,527	(200)	108
Non Annuity Funded	<u>26</u>			<u>10</u>			<u>3</u>			<u>-</u>			<u>-</u>				<u>39</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)
Replace Ultrasonic Flow Meter - OAKENDEN MAIN CHANNEL	Oakenden Main Channel Flow Meter Project - Replacement for existing non-functional arrangement, project required to accurately measure Kinchant Dam releases into Eton Irrigation Area.	99
Construction of an Alternative Access Road to the Eton Office from the Eton Homebush Road	The access from Flaherty St onto the Peak Downs Highway has been identified as Safety Risk. This project is for the planning and construction of alternative access from the end of Flaherty St via a SunWater easement onto the Eton Homebush Rd	70
Replace Obsolete Radios, RTU and Gate Position. Sensor Equipment. RG1A/RG1B – OAKENDEN MAIN CHANNEL	Oakenden Main Channel Regulator Gate 1 A&B Comms Project - Replacement of obsolete radio, Remote Terminal Units (RTU) and control equipment at Regulating Gates. Project based on standard asset life and risk.	74
Prepare Drawings & Tender Doc. to Replace Control Equipment & Switchboard. - VICTORIA PLAINS PUMPSTATION	Prepare documents to replace the control equipment as recommended in the options study.	52
Install two new Embankment. Subsurface Seepage. Drains near MO12 - OAKENDEN MAIN CHANNEL	Periodic seepage and customer issue in vicinity of MO12. Project to install sub-surface drainage at toe of channel embankment and redirect to nearby drainage system.	37
Other works	There are another 37 various works ranging from \$3,000 to \$15,000 for non-routine projects in 2017. Further detail was tabled at the IAC meeting.	352
Total		684

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

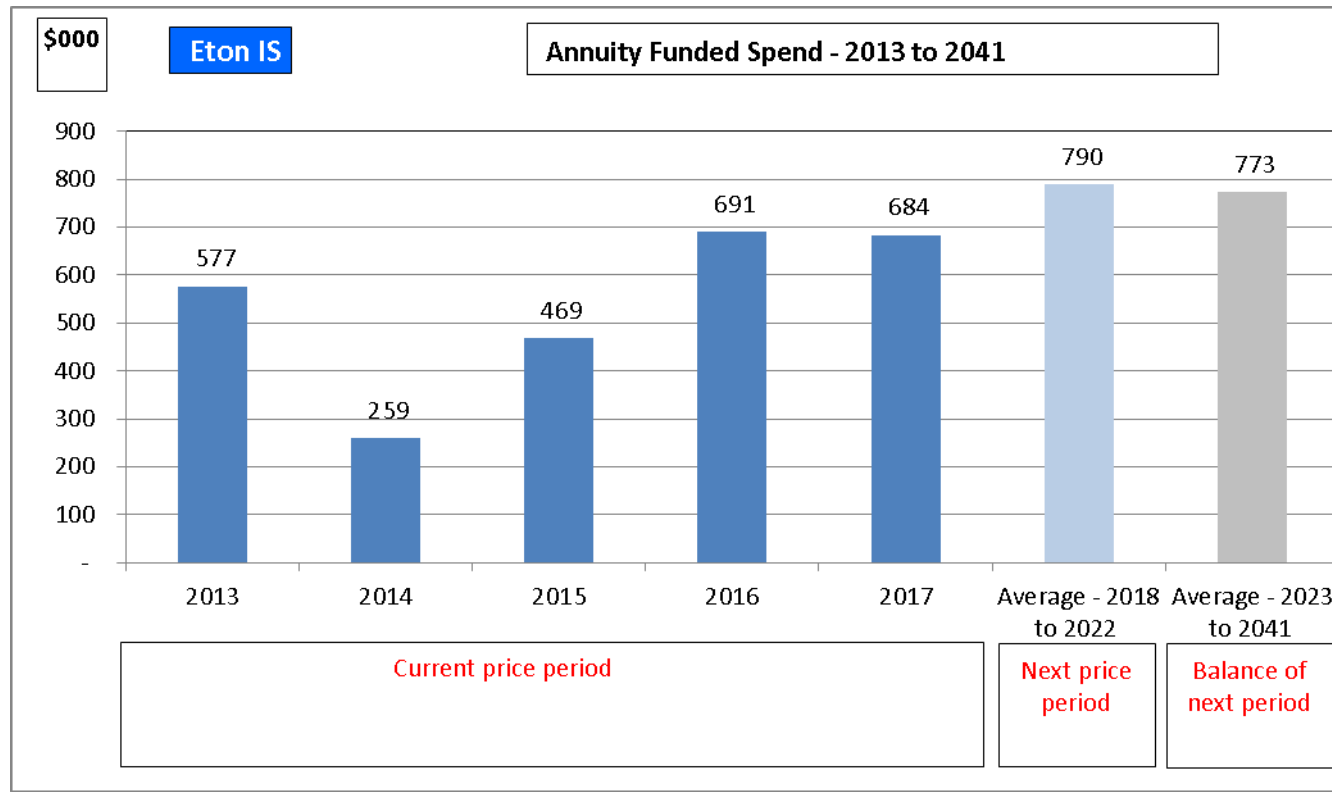
Eton IS		2013	2014	2015	2016	2017	2013 to 2017
	Table reference	Actual \$000	Actual \$000	Actual \$000	Forecast \$000	Budget \$000	Forecast \$000
Annuity							
Opening Balance	See below	(223)	(300)	(42)	71	(19)	(223)
Net Spend		(577)	(259)	(469)	(691)	(684)	(2,680)
Annuity Contribution		517	539	585	596	618	2,855
Interest		(17)	(22)	(3)	5	(1)	(39)
SunWater - Closing Balance		(300)	(42)	71	(19)	(87)	(87)
QCA - Closing Balance	(10)	256	525	454	461	461	
Difference	(289)	(298)	(454)	(473)	(547)	(547)	
Net Spend Analysis							
Spend	5 & 7	(577)	(259)	(515)	(691)	(684)	(2,727)
Insurance Proceeds Receipts							
• Prior Year		-	-	18	-	-	18
• Current Year		-	-	28	-	-	28
Net Spend	(577)	(259)	(469)	(691)	(684)	(2,680)	

* 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 3: 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.

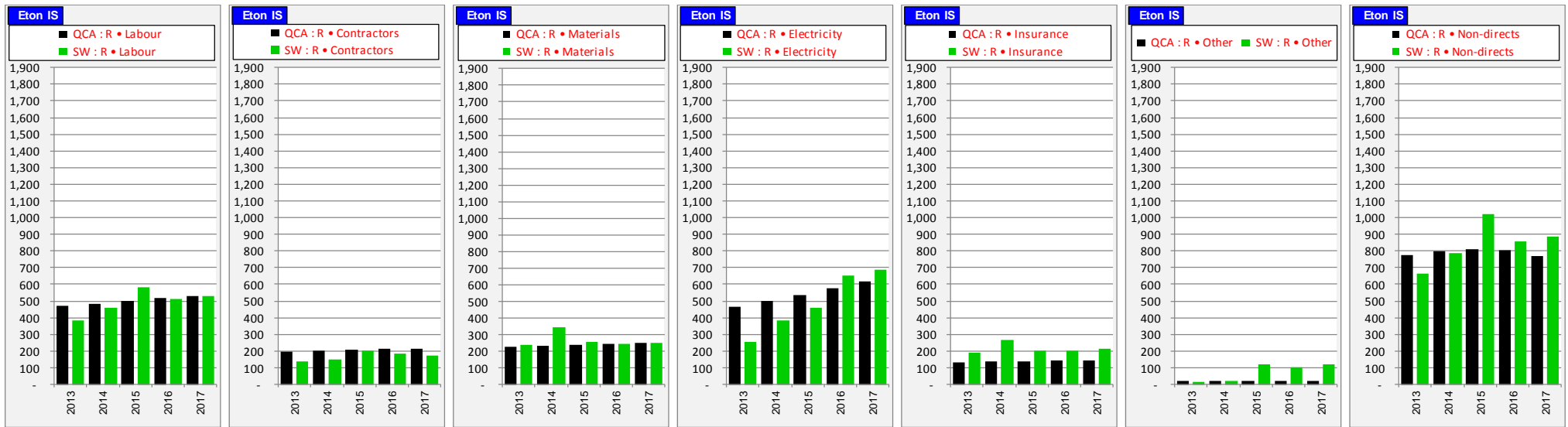
Appendix 1: Total Expenditure by Expense Type

Table 8: Expenditure for Activity by Type

Eton 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	2,923			3,378			3,185			3,494			3,578			16,558		
Routine Spend																		
Operations																		
Labour	173	224	51	209	231	22	332	238	(93)	251	246	(5)	264	254	(10)	1,228	1,193	(35)
Contractors	1	4	3	2	4	2	2	4	2	1	4	3	1	4	3	7	20	13
Materials	4	2	(2)	4	2	(2)	3	2	(1)	1	2	1	1	2	1	13	11	(2)
Electricity	255	467	212	381	499	119	458	534	76	655	577	(78)	688	618	(70)	2,437	2,695	259
Insurance	190	134	(56)	264	137	(127)	200	139	(61)	203	141	(62)	215	144	(72)	1,072	695	(377)
Other	13	3	(9)	16	3	(12)	15	4	(12)	7	4	(4)	14	4	(11)	66	18	(48)
Non-directs	295	375	80	353	383	30	570	389	(180)	411	387	(24)	435	372	(63)	2,064	1,906	(158)
	930	1,209	279	1,229	1,260	31	1,579	1,311	(268)	1,530	1,362	(168)	1,619	1,397	(221)	6,886	6,538	(348)
Preventative Maintenance																		
Labour	103	153	50	137	158	20	149	163	14	154	168	14	154	173	19	697	814	117
Contractors	67	97	31	93	101	8	116	104	(12)	104	107	3	104	109	5	483	518	34
Materials	89	130	41	176	134	(42)	189	138	(51)	155	143	(12)	185	145	(40)	794	691	(103)
Other	0	2	1	2	2	(0)	18	2	(16)	15	2	(13)	15	2	(13)	50	8	(42)
Non-directs	184	249	65	237	256	19	268	260	(8)	259	257	(3)	262	248	(15)	1,210	1,269	59
	443	631	188	644	650	5	740	666	(73)	687	676	(11)	720	677	(43)	3,234	3,300	65
Corrective Maintenance																		
Labour	108	92	(16)	116	95	(20)	104	98	(5)	110	101	(9)	113	105	(8)	550	492	(58)
Contractors	68	92	24	54	95	41	83	98	16	80	101	21	65	103	38	349	490	141
Materials	145	92	(53)	164	95	(68)	63	98	35	85	101	16	65	103	38	522	490	(31)
Other	1	13	12	2	14	11	86	14	(72)	78	14	(64)	91	15	(76)	259	70	(189)
Non-directs	187	153	(34)	198	158	(40)	186	160	(25)	188	159	(29)	192	153	(39)	951	783	(168)
	510	444	(67)	534	457	(76)	521	469	(52)	541	477	(64)	526	479	(47)	2,632	2,326	(306)
Routine - total	1,883	2,283	400	2,407	2,367	(40)	2,840	2,446	(393)	2,758	2,515	(243)	2,865	2,553	(312)	12,752	12,164	(589)
Non-Routine Spend																		
Labour	13	78	65	43	47	5	59	58	(0)	89	126	37	57	119	62	260	429	168
Contractors	496	199	(297)	87	52	(36)	226	65	(160)	237	137	(100)	448	129	(320)	1,494	581	(913)
Materials	19	82	63	44	52	7	72	64	(9)	185	137	(48)	55	126	71	375	461	85
Other	1	48	47	11	28	17	43	35	(8)	18	75	57	6	69	63	78	254	176
Non-directs	49	161	113	74	93	20	116	113	(3)	163	231	68	117	203	86	519	802	283
Non-Routine - Total	577	568	(9)	259	272	13	515	335	(180)	691	706	15	684	646	(38)	2,727	2,527	(200)
Total Regulated Spend	2,460	2,851	391	2,666	2,639	(27)	3,355	2,781	(574)	3,450	3,221	(228)	3,549	3,199	(350)	15,479	14,690	(789)
Non Annuity Funded Spend	26			10			3			-			-			39		
Surplus (Deficit)	437			703			(173)			45			29			1,040		

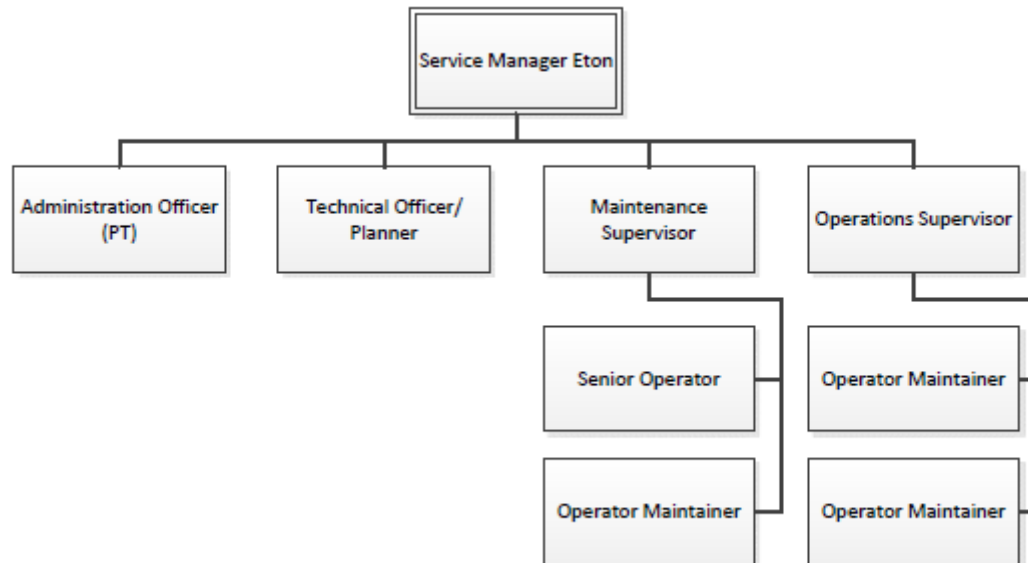
The charts below graphically report routine costs by expense type compared to the QCA target.

Figure 4: 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. These resources also support the Lower Mary distribution system and time sheeting is used to ensure labour costs are apportioned to the correct service contact.



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

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