Queensland Urban Utilities

Information Return 2011/12

31 August 2011

QUEENSLAND Urban Utilities

Contact Us

PHONE US

For general enquiries contact us from 7am - 7pm weekdays **13 26 57**.

For faults and emergencies contact us 24 hours **13 23 64**.

If you are calling from overseas please call general enquiries on **+ 61 7 3403 8069**.

EMAIL US

Contact us by email for all general enquiries.
customerservice@urbanutilities.com.au

To report a fault or emergency, please phone (13 23 64) to ensure that it's prioritised as soon as you report it.

MAIL US

Queensland Urban Utilities
GPO Box 2765
Brisbane QLD 4001

VISIT US

Level 6, Brisbane Transit Centre
171 Roma Street
Brisbane

For more information on any of the initiatives, projects and services mentioned in this report, visit the Queensland Urban Utilities website at **www.urbanutilities.com.au.**

Contents

PART A
VALUE FOR MONEY SERVICES 1

VALUE FOR MONEY SERVICES II

A.1 Overview ii
A.2 Your Urban Water Cycle iii
A.3 Investing in Our Services vi
A.4 Customer Consultation x
A.5 The January Flood xi
A.6 Our Prices xii
A.7 Pricing Structure 2011/12 xiv

PART B
QUEENSLAND URBAN UTILITIES
INFORMATION RETURN 2011/12 1

1 INTRODUCTION 2

1.1 QCA Information Requirements 2011/12 2
1.2 Document Structure 4

2 ABOUT QUEENSLAND URBAN UTILITIES 5

2.1 Who We Are 5
2.1.1 Water Sector Reform 5
2.1.2 Queensland Urban Utilities 5
2.2 Governance 5
2.2.1 Our Board 5
2.2.2 Board Committees 8
2.2.3 Executive Leadership Team 8
2.3 Our Corporate Objectives 8
2.4 What We Do 8
2.4.1 Our Services 8
2.4.2 Our Service Area 9
2.4.3 Our Infrastructure Network and Customer Base 9
2.5 Our Relationship with the Councils 10

3 OUR CUSTOMERS 11

3.1 Customer Water and Wastewater Code 11
3.2 Customer Service Standards and Charter 11
3.3 Vulnerable Customer Support 11
3.3.1 Financial Hardship Policy 11
3.3.2 Pensioner Rebates 12
3.3.3 Dialysis Patient Policy 12

4 OUR OPERATING ENVIRONMENT 13

4.1 Our Regulatory Framework 13
4.1.1 The Queensland Competition Authority 13
4.1.2 Interim Price Monitoring 13
4.1.3 Non-regulated services 13
4.1.4 Beyond 2013 14
4.2 Service Standards 14
4.2.1 Legislative Framework 14
4.2.2 Water Netserv Plan 15
4.2.3 Transitional Arrangements 15
4.2.4 Customer Service Standards 15
4.3 Key Financial and Accounting Policies 16
4.3.1 Capitalisation Policy 16
4.3.2 Taxation Policy 16
4.3.3 Financial System Cost Allocation 17
4.3.4 Statement of Accounting Principles and Policy 18
4.4 Budget Process – Expenditure 18
4.5 Efficient Service Delivery 20
4.5.1 Achievements to Date 20
4.5.2 Budgeted Efficiencies (2011/12) 20
4.5.3 Cumulative Efficiency Targets 21
4.5.4 Operating and Capital Expenditure 21
4.5.5 Efficiency in Procurement 22
4.5.6 Identifying New Efficiencies 23
4.6 January 2011 Flood 23
4.6.1 Customer and Community Assistance 23
4.6.2 Completing the Recovery 24

5 OUR PRICES 25
5.1 Changes to the DRR Act 25
5.1.1 Interim Price Cap 25
5.1.2 Development of a Price Mitigation Plan 25
5.1.3 Development of a Final Price Path ... 25
5.2 Pricing Principles 26
5.3 Price Setting Process 27
5.4 Carbon Pricing 27

6 DEMAND FORECASTINC 28
6.1 Overview 28
6.2 Resident Population 28
6.2.1 Developing Serviced Population Forecasts 30
6.2.2 Developing Property Growth Forecasts 32
6.3 Per Capita Demand 32
6.3.1 Water Restrictions and Water Efficiency 32
6.3.2 Demand Management Planning 33
6.3.3 Per Capita Demand Forecasting 33
6.4 Design Standards 34
6.5 Non-Revenue Water 36

7 PRUDENT AND EFFICIENT EXPENDITURE 37
7.1 Infrastructure Planning 37
7.1.1 Statutory Requirement 37
7.1.2 Industry Trends 37
7.1.3 Community Considerations 37
7.1.4 Regional Considerations 37
7.1.5 Population Growth 37
7.2 Operating & Maintaining Our Assets 38
7.2.1 Operational Maintenance 39
7.2.2 Capital Renewal/Rehabilitation 39
7.3 Capital Planning and Delivery 40
7.3.1 Capital Planning Approach 40
7.3.2 Making the Investment Decision ... 42
7.3.3 Independent Review 43
7.3.4 Capital Investment by Driver 45

8 REVENUE REQUIREMENT 50
8.1 Relevant Expenditure/Revenue Assumptions 50
8.1.1 Level of disaggregation 50
8.1.2 Allocation Principles 51
8.1.3 Treatment of Capital Revenues 51
8.1.4 Treatment of Flood Related Expenditure 51
8.2 Regulatory Asset Base 52
8.2.1 Establishment Costs 54
8.2.2 Capital Expenditure 55
8.2.3 Depreciation and Disposals ..... (Return of Capital) 57
8.3 Operating Expenditure 57
8.3.1 Indexation 57
8.3.2 Bulk Water 58
8.3.3 Operating Costs 58
8.4 Return on Capital 60
8.4.1 Tax Depreciation 61
8.5 Capital Revenues 61
8.5.1 Donated Assets 61
8.5.2 Developer cash contributions 63
8.6 Maximum Allowable Revenue 66
8.7 Utility Revenue 68
8.7.1 Recovery against MAR – 2010/11 and 2011/12 70

9 CONCLUSION 72
9.1 Key Business Details 72
9.2 Director's Statement 72

Contents

10 ABBREVIATIONS, ACRONYMS AND GLOSSARY 73

10.1 Abbreviations & Acronyms 73

10.2 Glossary of Terms 74

ANNEXURES 77

ANNEX A
INFORMATION REQUIREMENTS FOR 2011/12 79

ANNEX B
BOARD BIOGRAPHIES 111

ANNEX C
CUSTOMER SERVICE STANDARDS 115

ANNEX D
DESIGN STANDARDS – SOURCE DOCUMENTS 121

ANNEX E
CAPITAL PRIORITISATION 125

ANNEX F
INFORMATION RETURN ADJUSTMENTS 2010/11 131

ANNEX G
MINUTE EXTRACT 139

Table of tables

Table A-1 Residential Water and Sewerage Prices 2011/12 xv

Table 1-1 QCA Information Requirements 3

Table 2-1 Cities and Townships Serviced by Queensland Urban Utilities 9

Table 2-2 Our Customer Base and Assets 10

Table 4-1 Non-Regulated Services 13

Table 4-2 Summary of Key Statutory Planning Requirements 14

Table 4-3 Capitalisation Policy 16

Table 4-4 Key 2011/12 Budget Parameters 19

Table 4-5 Efficiency Achievements 2010/11 20

Table 5-1 Pricing Principles 26

Table 6-1 Projected New Dwellings Required Between 2011 and 2031 30

Table 6-2 Financial Forecast Annual Growth Rates – 2011/12 to 2013/14 32

Table 6-3 Per Capita Demand – Key Financial Assumptions 34

Table 6-4 Key Sewerage Design Parameters 35

Table 6-5 Non-Revenue Water – Major Components 36

Table 7-1 Project Development and Cost Accuracy 43

Table 7-2 Key Projects 2011/12 – Growth 46

Table 7-3 Key Projects 2011/12 – Renewals 47

Table 7-4 Key Projects 2011/12 – Compliance 48

Table 7-5 Key Projects 2011/12 – Improvements 49

Table 8-1 Current Separability of Data by Service Categories 50

Table 8-2 Forecast Flood-Related Expenditure 51

Table 8-3 Regulatory Asset Base (1 July 2008) 53

Table 8-4 Regulatory Asset Base Roll Forward ($'000s) 54

Table 8-5 Capital Expenditure 'as-incurred' - excluding donated assets 55

Table 8-6 Capital Expenditure 'as-commissioned' - excluding donated assets 56

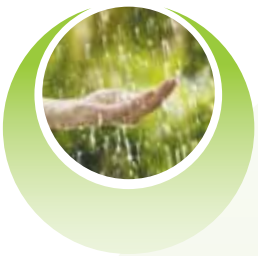
Table of figures

Table 8-7 Engineering Construction Price Index for Australia 56
Table 8-8 Assumed Annual Growth Factors..... 57
Table 8-9 Assumed Annual Cost Indexation Factors (Budget and Forecast) 58
Table 8-10 Operating Costs 59
Table 8-11 Distributor-retailer Operating Cost Movements 2010/11 to 2011/12 60
Table 8-12 Regulatory WACC Parameters..... 61
Table 8-13 Donated Assets - Basis for Forecasts..... 62
Table 8-14 Donations – Local and Trunk Infrastructure 64
Table 8-15 Developer Cash Contributions – Trunk Infrastructure..... 65
Table 8-16 Developer Cash Contributions – 2011/12 Budget Development 66
Table 8-17 Maximum Allowable Revenue – Water 67
Table 8-18 Maximum Allowable Revenue – Sewerage... 67
Table 8-19 Budget and Forecast MAR Comparison – 2010/11 68
Table 8-20 Revenue from Services 69
Table 9-1 Business Details 72

Figure A-1 Our Service Area ii
Figure A-2 Queensland Urban Utilities' Purpose, Vision and Objectives..... iii
Figure A-3 SEQ Urban Water Cycle iv
Figure A-4 Operating Cost Breakdown – 2010/11 to 2013/14 vii
Figure A-5 Relative Contributions to Operating Cost Increases – 2010/11 to 2013/14..... vii
Figure A-6 Capital Expenditure (as-incurred) by Driver – 2010/11 to 2013/14 viii
Figure A-7 Capital Expenditure (as-incurred) Budget by Driver – 2011/12 ix
Figure A-8 Complaints Management Framework x
Figure A-9 Energy and Water Ombudsman Enquiries (January to March 2011) xi
Figure A-10 Regulatory Building Block Approach to Revenue xii
Figure A-11 Building Block MAR for Water Services – 2010/11 to 2013/14 xiii
Figure A-12 Building Block MAR for Sewerage Services – 2010/11 to 2013/14 xiii
Figure 2-1 SEQ Water Reform Model (as at 1 July 2011)..... 6
Figure 2-2 Queensland Urban Utilities' Governance Structure..... 7
Figure 4-1 Responsibility Centre Hierarchy 17
Figure 4-2 2011/12 Capital Budget Process – Overview Schematic..... 19
Figure 4-3 2011/12 Efficiency Gains by Area..... 21
Figure 6-1 Resident Population Projections – Brisbane and Ipswich 29
Figure 6-2 Resident Population Projections – Lockyer Valley, Scenic Rim and Somerset 29
Figure 6-3 Process for Projecting Equivalent Populations Serviced 31
Figure 7-1 Gateway Review Process 44
Figure 8-1 Bulk Water Price Path ($/ML) 59
Figure 8-2 Forecast Recovery (by Activity) – 2010/11 .. 69
Figure 8-3 Forecast Recovery (by Activity) v MAR – 2010/11 71
Figure 8-4 Forecast Recovery (by Activity) v MAR – 2011/12 71

Our primary role is to deliver drinking water, recycled water and sewerage services to the cities and townships within the boundaries of the Brisbane and Ipswich City Councils and Lockyer Valley, Scenic Rim and Somerset Regional Councils.

PART A
VALUE FOR MONEY SERVICES



A Value for money services

A.1 Overview

Queensland Urban Utilities was created on 1 July 2010 as a result of changes to the way water is managed in South East Queensland (SEQ). Our primary role is to deliver drinking water, recycled water and sewerage services to the cities and townships within the boundaries of the Brisbane and Ipswich City Councils and Lockyer Valley, Scenic Rim and Somerset Regional Councils. Our service area is shown on *Figure A-1*.

Last year we supplied around 105,000 megalitres (ML) of tap water and 7,000 ML of recycled water to the residents and businesses within our service area. We also removed and treated the sewage and trade waste generated by 1.3 million residents and 4,700 trade waste customers.

We provide these services and related business functions according to our purpose, vision and objectives, which are shown on *Figure A-2*.

Our prices are currently monitored by the Queensland Competition Authority (QCA), on behalf of the State Government. At present this requires an annual return providing information relating to our business and setting out what it costs to provide our services.

This two-part document describes the services we provide, how we provide them and how prices are set and responds to the QCA's information requirements for 2011/12. **Part A** introduces our business, describing the urban water cycle and the work that goes on behind the scenes in delivering water and sewerage services to your home or business. **Part B** then goes into the detail necessary to allow the QCA to fulfil its price monitoring role.

Figure A-1 Our Service Area

Last year we supplied around 105,000 megalitres (ML) of tap water and 7,000 ML of recycled water to the residents and businesses within our service area.

Figure A-2 Queensland Urban Utilities' Purpose, Vision and Objectives

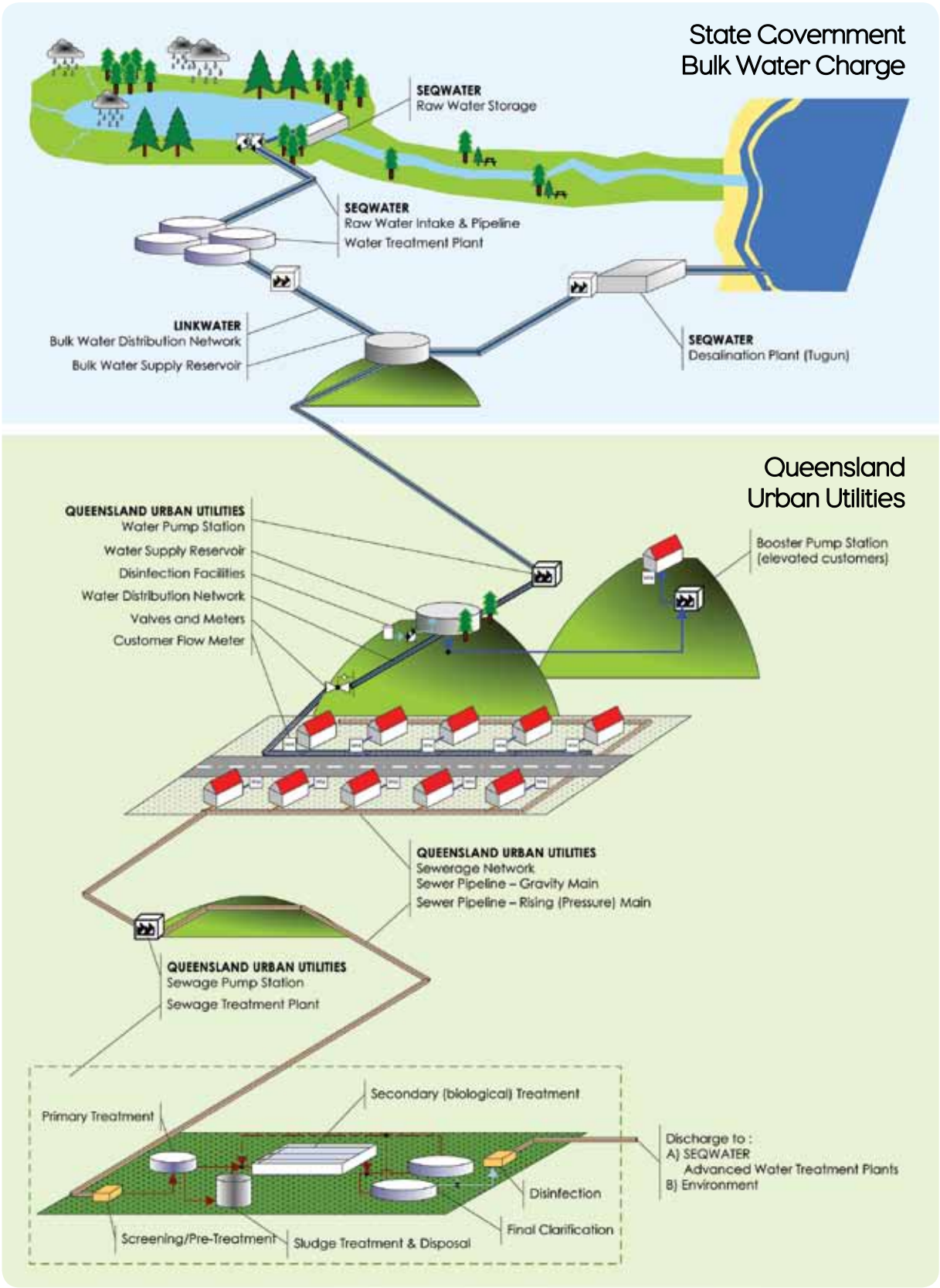
A.2 Your Urban Water Cycle

How have you used water today? Did you start the day with a shower or a bath, wash the breakfast dishes, clean your teeth and rinse your mouth, flush the toilet, or simply have a glass to drink? This small sample of possible answers to this simple question highlights only a fraction of the valuable roles water plays in our everyday lives.

Today, our urban water and sewerage services are provided at the turn of a tap and push of a button. The convenience of these on demand services sometimes masks the hard work that goes on behind the scenes to deliver the quality water and sewerage services that we now take for granted.

Figure A-3 illustrates the urban water cycle for SEQ, showing rainfall and runoff collecting in the catchments, raw water transport, treatment of raw water to drinking water standard, and delivery of drinking water to your tap (via reservoirs). The cycle continues with the collection, transportation and treatment of sewage so that our final discharges to the environment pose a minimal risk to human and environmental health.

Figure A-3 SEQ Urban Water Cycle



This overview shows the considerable work that goes on behind the scenes to provide the 'on-demand' service we enjoy today. Before a drop of water reaches the tap of a typical Queensland Urban Utilities customer, it will have been treated to drinking water quality and travelled a distance of about 40 kilometres (km) through pump stations, reservoirs and pipes – and it will have spent about four days in the system.

Bulk Water – the State Government's Role

Infrastructure Australia's *Review of Urban Water Security Strategies* published in May 2010 found the supply capacity in SEQ was 50% more than annual water demands, providing a water security buffer of 160,000 ML per annum. This gives SEQ a stronger water security buffer than any of Australia's other capital cities.

The water security benefits of the SEQ water grid were demonstrated in January this year when floodwaters affected one of Brisbane's main regional water treatment plants. By operating the Tugun desalination plant at up to 100% capacity customers continued to receive a high-quality water supply throughout the flood. The key stages and assets that contribute to the bulk water charge are described briefly below.

Raw Water Storage

Seqwater is responsible for physical assets worth $1.8 billion, comprising 24 dams and 49 weirs – including the Wivenhoe, Somerset and North Pine dams, Hinze Dam on the Gold Coast and Baroon Pocket Dam on the Sunshine Coast. Untreated water stored in dams is also referred to as *raw water*.

Raw Water Intake and Pipeline

Raw water intakes transfer the best quality water to water treatment plants, and use gates, screens, control valves and chemical feeders to exclude fish, floating debris, coarse sediment, and other suspended matter.

Raw Water Treatment

- Water Treatment Plant
- Desalination Plant

Almost all untreated water contains small particles of soil, dust, pollen and other matter. To virtually remove the risk of any harmful organisms in the water causing illness, the water is processed at a water treatment plant before it reaches our homes. Treatment steps typically include pre-treatment, flocculation, filtration and disinfection.

Seqwater currently operates 46 water treatment plant facilities, 14 groundwater bore fields and a desalination plant.

Bulk Water Distribution

- Pipeline Network
- Reservoirs

Using a combination of gravity and pumping stations, large diameter pipelines carry bulk water from the treatment plants (including the desalination plant) to the reservoirs.

LinkWater's assets include 535 km of bulk water pipelines, 28 reservoirs/balance tanks, 22 pump stations and six water quality facilities.

Distribution-Retail – Queensland Urban Utilities' Role

Water Supply

As shown on *Figure A-3* Queensland Urban Utilities receives bulk water from the SEQ Water Grid and distributes it to our customers via a network of reservoirs, pipelines, pumps, valves, meters and disinfection facilities.

Our 113 reservoirs help the water supply network cope with large changes in hourly water demand by temporarily storing water for later distribution to households while, at the same time, helping to manage water pressure so that water flows out of taps at the speed people expect.

Reservoirs are generally placed on high ground so that gravity will help provide enough pressure to push the water through the pipes. To get water into these elevated reservoirs, we maintain a total of 51 water supply pump stations, while an additional 106 water booster pump stations are used to push water to houses that are higher than the reservoirs.

At selected locations across our network we disinfect using chlorine to ensure that microorganism levels within the water remain within drinking water limits. This typically occurs where the network length means that it is likely to have been some days since the original disinfection at a water treatment plant. Disinfected water is then distributed between reservoirs and to our customers via an 8,700 km network of pipes that are comprised of a range of materials, diameters, depths and ages.

Sewerage

Most sewerage systems are made up of service branch lines from individual homes, which feed into larger reticulation mains. These mains, in turn, feed into pump stations and trunk sewers that ultimately lead to treatment plants. Sewerage systems are designed to use gravity (via downhill slopes where practicable) to save on pumping costs and minimise odour issues. Where gravity cannot be used, pump stations push the sewage through the pipes.

Our sewerage network uses 333 sewage pump stations and more than 8,900 km of pipeline to transfer the sewage and trade waste of nearly half a million customers to one of our 28 sewage treatment plants. Having reached this point, the raw sewage is treated to minimise potential impacts on public and environmental health. Our 28 plants range from advanced sewage treatment plants to small-scale package plants. Elements that are typical to most treatment facilities include pre-treatment – to remove large solid items that enter the sewerage network (e.g. rags, nappies, plastic bags) – followed by primary and secondary treatment stages before final clarification or settling and disinfection. Sludge generated as part of the treatment process is treated further prior to disposal. We also apply controls to minimise odours.

Operating the Network

Our operators maintain and operate these physical assets while providing key services such as fire hydrant testing, 24-hour response to incidents, and taking over 2 million meter readings each year.

Valves, sensors and flow meters placed throughout our networks assist our operators in maintaining the integrity of our assets. Key assets, such as reservoirs and sewage treatment plants, are supported by measuring and control devices that provide real-time volume and demand information. This information is then relayed to operators via an integrated telemetry system.

These valuable devices provide our operators with the necessary information and control to minimise our energy and chemical usage, detect and address potential issues before they arise and deliver our services effectively and efficiently.

A.3 Investing in Our Services

The assets that enable us to deliver high-quality water and sewerage services to your door, require considerable investment to operate and maintain. We also respond to changes in regulatory standards (e.g. higher quality environmental discharges from sewage treatment plants) and our customer base by ensuring our assets are able to meet quality and volume based demands. This response is delivered through our capital investment programme.

Operating Expenditure

Since our formation in 2010 we have worked hard to keep our costs down and wherever possible, to deliver our services more efficiently. Having already delivered $50 million in budget reductions in 2010/11 we have budgeted for a total of $12.9 million in efficiency gains in 'business-as-usual' costs in 2011/12.

Our operating costs over the four years to 2013/14 are shown on *Figure A-4* and cover key categories such as bulk water, chemicals, labour, sludge handling and electricity. This figure shows that the State Government's bulk water charge is the major contributor to operating cost increases over this period.

Our chemical and electricity usage is linked to volumes of water and sewage used/treated, which increase as our customer base grows. Chemicals such as coagulants, flocculants, lime, acids/caustics for pH correction, and chlorine for disinfection are vital parts of the sewage treatment and water supply processes. We use electricity to power pumps, which transfer water to homes and businesses and sewage to treatment plants, and blowers, which provide oxygen to key sewage treatment processes. Labour costs cover diverse functions such as operations and maintenance, asset planning, capital delivery, provision of billing and customer services and emergency response.

Figure A-5 shows the relative contributions of increases to key operating cost drivers over the four years to 2013/14.

Figure A-4 Operating Cost Breakdown – 2010/11 to 2013/14

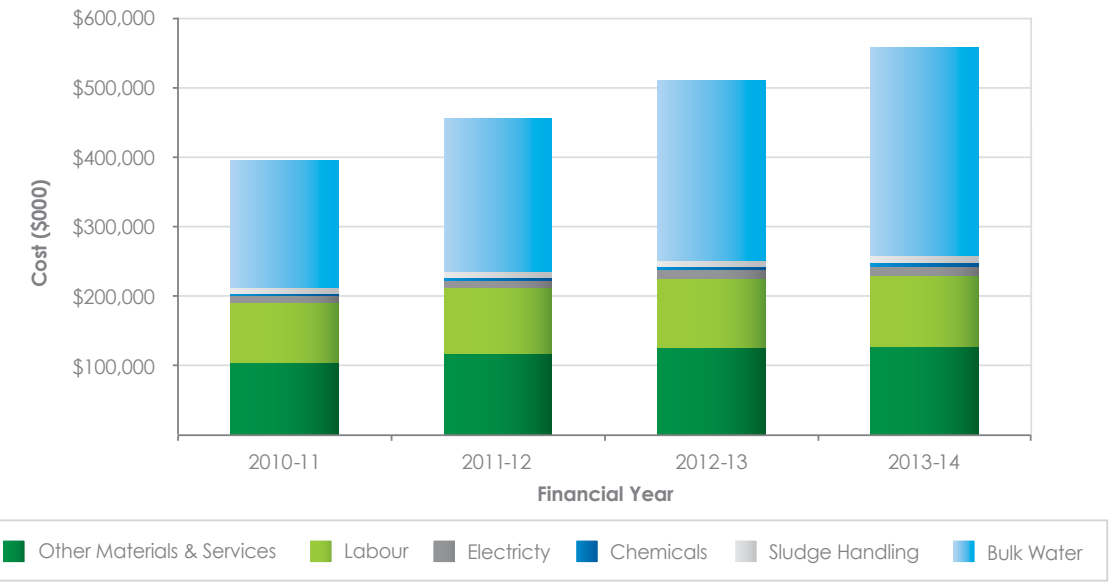
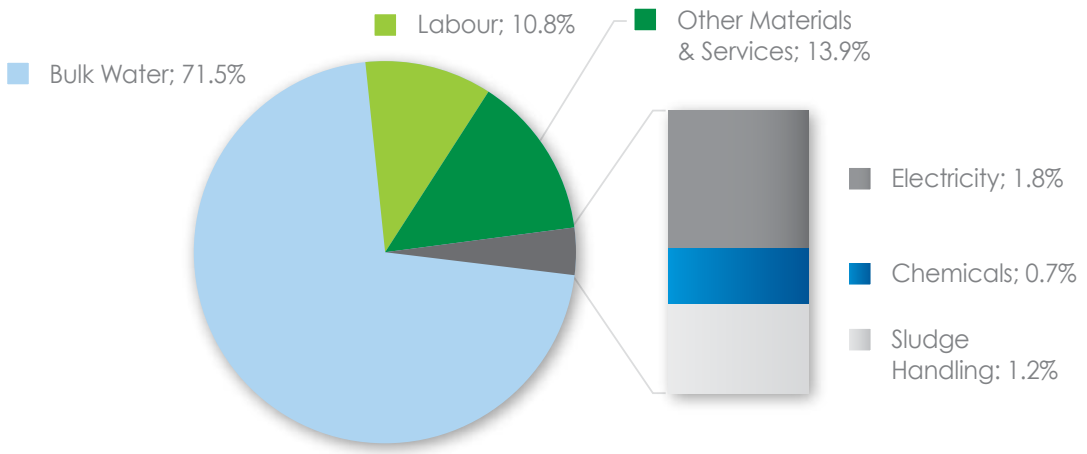


Figure A-5 Relative Contributions to Operating Cost Increases – 2010/11 to 2013/14



Capital Expenditure

Each year, in addition to the money we spend to operate our networks, we also invest in capital assets. Investing in pumps, pipes, reservoirs and other capital items enables us to maintain our high standards of service, even as our customer base continues to grow.

Through our capital investment programme we provide extra network capacity to supply services to new customers, while also ensuring that our existing assets remain fit for purpose through asset replacement and renewal works. We also respond and invest in infrastructure in order to meet changing regulatory standards (e.g. higher quality environmental discharges from sewage treatment plants) and changing customer preferences.

The primary drivers of our capital investment programme are typically population growth and asset renewal as shown on *Figure A-6*. In 2011/12 in particular the growth and asset renewals drivers reflect 89% of our capital expenditure programme (*Figure A-7*).

Figure A-6 Capital Expenditure (as-incurred) by Driver – 2010/11 to 2013/14

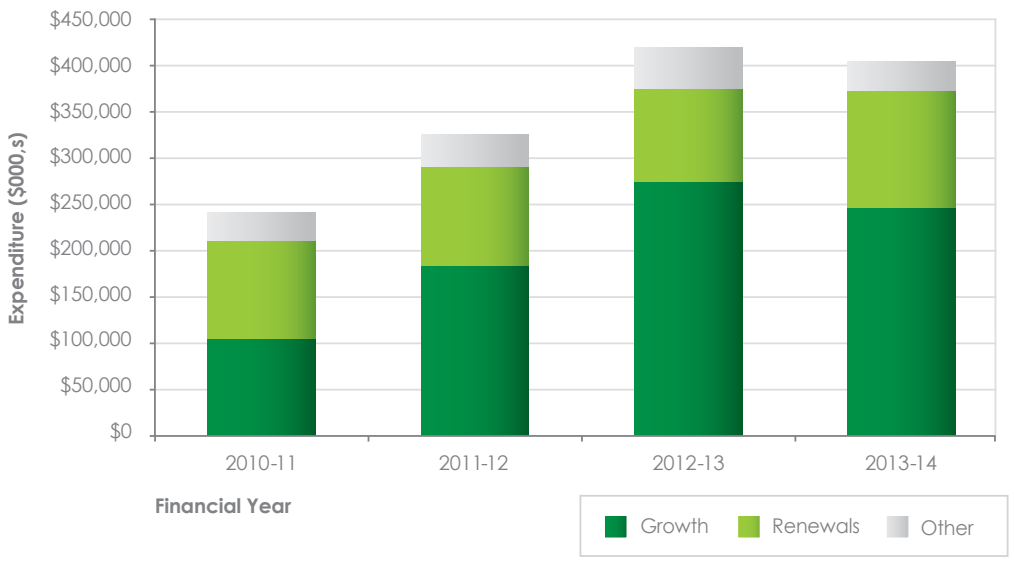
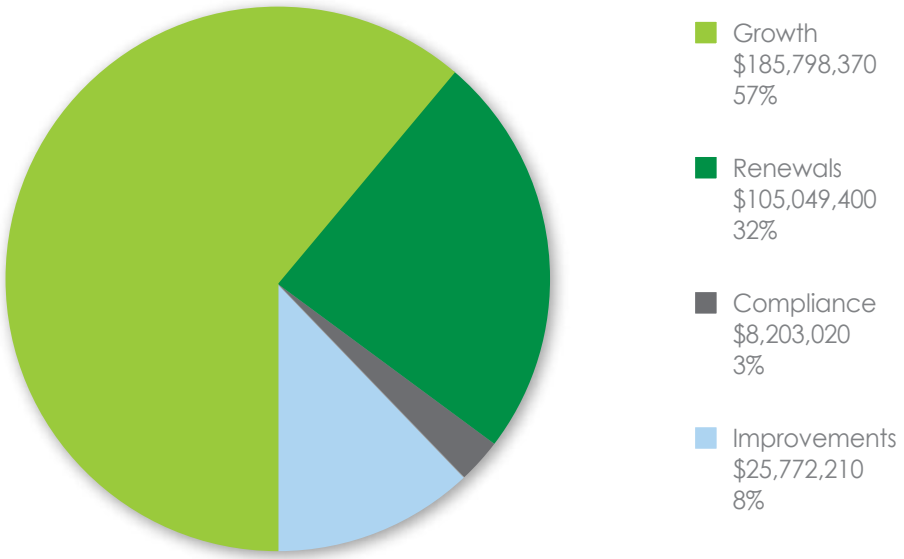


Figure A-7 Capital Expenditure (as-incurred) by Driver – 2011/12



Expenditure on the renewal of existing assets and provision of new capacity (i.e. growth) in 2011/12 (*Figure A-7*) respectively corresponds to 1.8% and 2.0% of the value of our $4.4 billion[1] asset base. Overall the growth category represents the largest component of our expenditure over the next few years as our regional population continues to expand. The asset replacement and rehabilitation work required to maintain desired levels of service for our existing customers (i.e. renewals) is also expected to drive a large proportion of capital expenditure over this period.

Compliance related expenditure relates, primarily, to our ongoing commitment to meeting minimum regulatory requirements for service provision. In recent years, advanced treatment processes have been added to our sewage treatment plants following the introduction of more stringent criteria by the Department of Environment and Resource Management for discharges from sewage treatment plants.

Investing in pumps, pipes, reservoirs and other capital items enables us to maintain our high standards of service, even as our customer base continues to grow.

[1] Expected value of Queensland Urban Utilities' Regulatory Asset Base at 1 July 2011.

A.4 Customer Consultation

Our Customer Services group is our primary customer contact area and is responsible for the delivery of the services our customers experience. Our customers' needs drive everything we do and it is our goal to consistently meet or exceed our customers' expectations.

Our call centre receives more than 325,000 customer initiated telephone calls annually and is the first point of contact for those who have general enquiries, requests for service or information, or who wish to report and log a fault or emergency via the telephone. Of these more than 300,000 interactions are resolved at first time contact.

While we strive to resolve issues and complaints to the customer's satisfaction, this is not always possible. In line with an approved Complaints Policy customers have the right to request that Queensland Urban Utilities management review a decision relating to their complaint. Our Complaints Management Framework (*Figure A-8*), within our Complaints Policy shows the path via which unresolved issues may be escalated.

In addition to the above, the Customer Management Team provides administration services to support 12,000 special meter reading requests to assist our customers with reconciliation at property settlement and 250 meter tests annually. The team also annually manages 18,000 pieces of written correspondence through various channels.

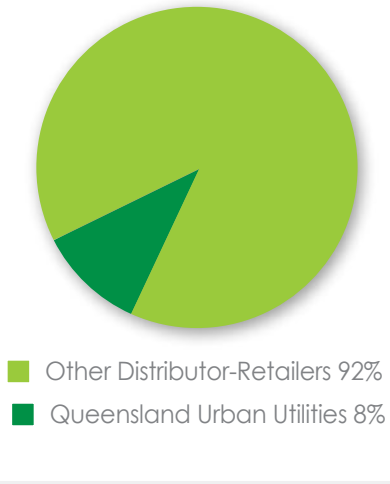
Figure A-8 Complaints Management Framework

Energy and Water Ombudsman

Queensland Urban Utilities' small customers (i.e. residential customers and non-residential customers using less than 100 kL per annum) also have the ability to take their complaints to the office of the Energy and Water Ombudsman Queensland (EWOQ) if they are not completely satisfied with an outcome.

Our commitment to providing high-quality services to our customers is demonstrated by the most recent statistics published by EWOQ. From 1 January 2011, customers who were dissatisfied with the outcome of their utilities-related complaint could seek assistance from EWOQ. Of the 400 water-related enquiries received by EWOQ between January and March 2011, only 30 (or 8 per cent as shown on *Figure A-9*) were Queensland Urban Utilities matters.

Figure A-9 Energy and Water Ombudsman Enquiries (January to March 2011)



Community and Customer Reference Group

We were the first distributor-retailer in SEQ to set up a Customer and Community Reference Group (CCRG), and this was formed in November 2010 as part of our focus on customer engagement. Membership of the group spans sectors including low-income consumer advocacy, urban development, local government, environment and sustainability, regional development, pensioners and retirees, community service, and residential and commercial customers. The CCRG meets quarterly to provide feedback on a range of issues from the delivery of services to pricing.

Customer Water and Wastewater Code

In January this year the Queensland Government gazetted a Customer Water and Wastewater Code to establish the rights and obligations of distributor-retailers and their customers relating to the availability of water and sewerage services. The Customer Water and Wastewater Code covers our customer service obligations, as well as the rights of all residential and small business customers.

Customer Service Standards and Charter

Our Customer Charter, key aspects of which were developed to incorporate customer feedback, sets out our commitment to deliver reliable water and sewerage services to our customers. The Queensland Urban Utilities Service Standards outline our responsibilities and the standards customers can expect in relation to the water and sewerage services we provide.

Customer service standards as well as environmental obligations and licence standards define the overall performance targets that Queensland Urban Utilities must deliver in managing its asset base. Ensuring all our customers receive the desired level of service is a key element of decision-making on future operating, maintenance and capital expenditure.

A.5 The January Flood

Disruption to Services

The January 2011 flood event affected a large proportion of our service area, with major flooding experienced through most of the Brisbane River catchment. The most severe effects were felt in the Lockyer Creek and Bremer River sub-catchments where many flood height records were set. Overall, thousands of properties were inundated by flood waters across our service area.

The flood resulted in inundation or other damage to more than one third of our infrastructure and assets. Despite this damage customers did not experience a disruption to sewerage services. Water supply disruptions were limited to some 15,000 customers in the Lockyer Valley region arising from disruption to bulk water supply.

Our Flood Response

Our response during the emergency management phase of the disaster ensured that services to customers were maintained, while, at the same time protecting the safety of our staff and communicating and working with key agencies and stakeholders.

We responded to the disruption of bulk water supply through initiatives such as the transfer of water by road tanker into targeted reservoirs and to affected customers, including an aged care facility and chicken farm. Bottled water was also delivered to schools in the Lockyer Valley, Somerset, Marburg, and beyond where water tanks had been damaged.

Through community announcements on television and radio, as well as information on the Queensland Urban Utilities website and community disaster sites, we kept the community up-to-date on the situation in relation to water supplies. This included communicating the collection points for bottled water supplies and boil water alert information for communities where the water supply had been restored.

While Queensland Urban Utilities' crews were repairing the extensive damage to our infrastructure and assets, we supported Queensland Health by running a press and radio campaign to remind residents of the need to avoid entering flood waters due to the risk of contamination.

Customer and Community Assistance

Appropriate and respectful relief was provided to customers impacted by the flooding events, including some 49,925 customers identified as being directly affected by the flood. Our responses included:

- provision of rebates for water used in the clean up, including up to 20 kilolitre (kL) for flood affected properties
- adjustment of the bill recovery cycle for flood affected properties, including the waiving of some accounts in the Lockyer Valley region for a period of nine months
- provision of tailored flood assistance to properties devastated by the flood.

Our Employees

Our employees performed admirably during and after the flood event and we supported them through initiatives such as an Employee Flood Relief Appeal for flood affected employees. Queensland Urban Utilities matched donations made by employees, raising $11,250 for the 15 members of the Queensland Urban Utilities family who had experienced significant damage to their homes.

Support for flood affected employees continues to be available through our Employee Assistance Programme, which is a confidential service providing support for the emotional and psychological wellbeing of our employees and their families.

Completing the Recovery

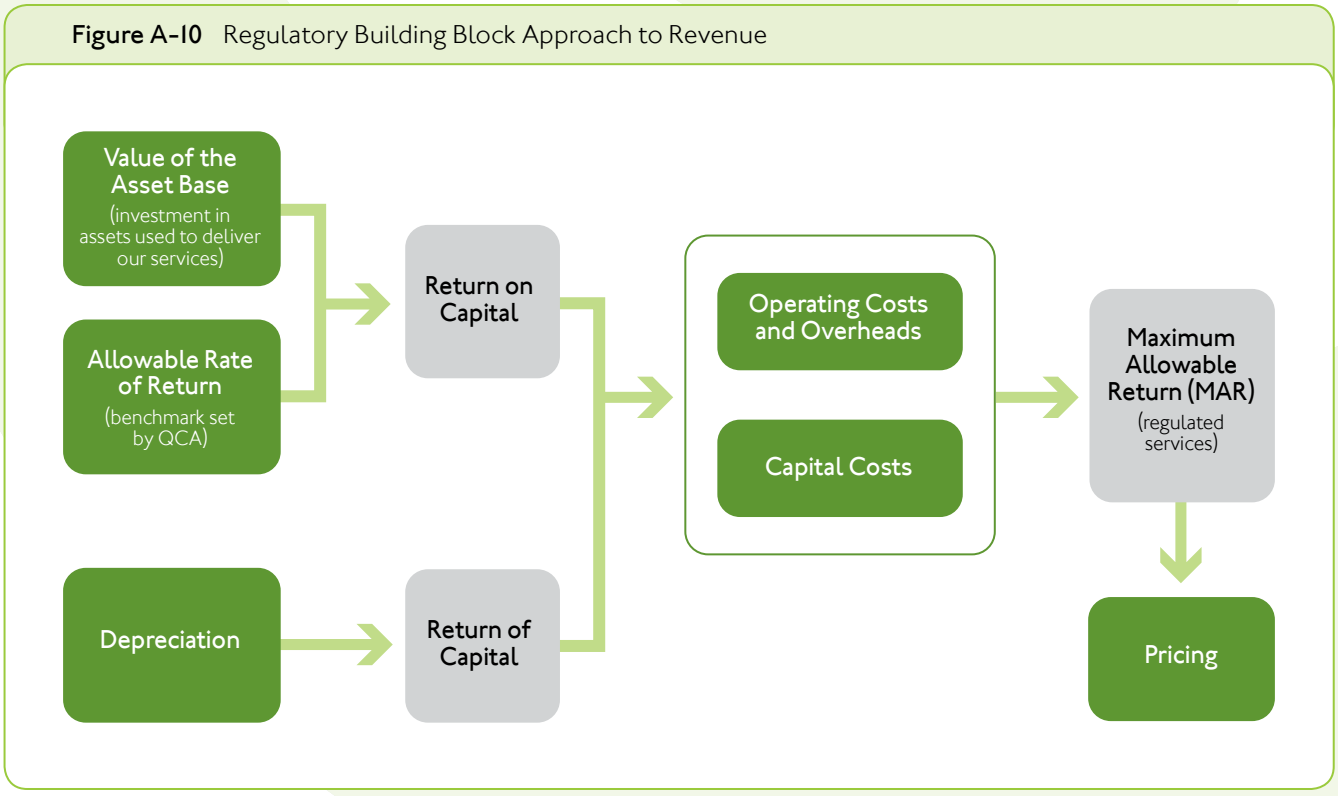
The recovery of damaged assets has been a priority for Queensland Urban Utilities with recovery works (to operational capacity) at our 122 damaged sewage pumping stations due to be completed in June 2011 (12 pump stations were outstanding as at 16 June 2011).

Works at the eleven damaged sewage treatment plants continue to progress well, with all plants now capable of handling wet-weather flows and draft Transitional Environmental Programmes in place. At 16 June 2011 eight of the eleven sewage treatment plants had been recovered to pre-flood condition, while laboratory results at the remaining three plants show compliance with respective discharge licence requirements.

A.6 Our Prices

Under the current regulatory framework Queensland Urban Utilities sets prices in order to recover a regulated return, known as the Maximum Allowable Revenue (MAR). The MAR represents the maximum return that a distributor-retailer is allowed to earn on its assets, and this is calculated using the regulatory building block approach outlined on *Figure A-10*.

Figure A-10 Regulatory Building Block Approach to Revenue



As shown opposite, the MAR is calculated using these building blocks:

- A return on capital, calculated as an allowed investment return (e.g. interest rate) earned on the regulatory asset base (regulatory asset base refers to the value of our assets) representing the minimum asset value necessary to deliver our required standards of service.
- A return of capital (depreciation).
- Operating costs (again only costs considered to be efficient, or representing the minimum cost required to achieve the required standard of service can contribute to the MAR).

Estimated MARs for water and sewerage services for the 2010/11 to 2013/14 period are shown on *Figure A-11* and *Figure A-12* below, showing forecast changes over this period.

Figure A-11 Building Block MAR for Water Services – 2010/11 to 2013/14

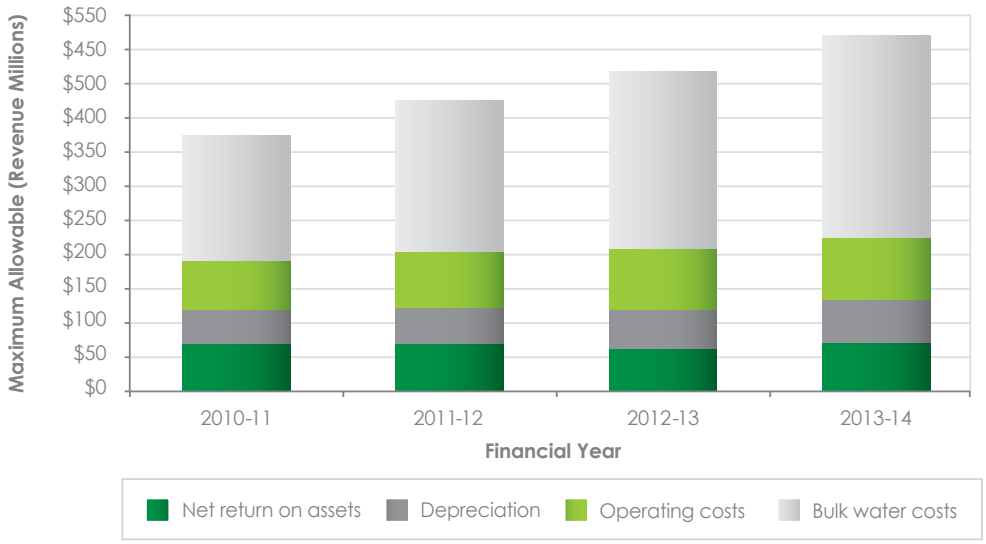
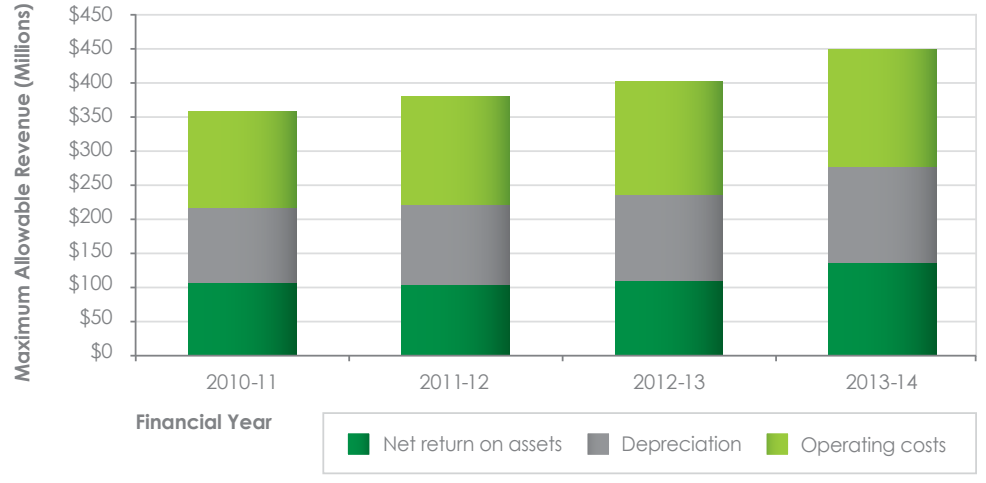


Figure A-12 Building Block MAR for Sewerage Services – 2010/11 to 2013/14



The MAR is then applied as an upper ceiling, or 'cap', in a revenue model that we use to determine the prices required to meet a desired, or 'budget' level of revenue. The budget level of revenue is set in order to balance the cost of providing high-quality and reliable water and sewerage services for the needs of our existing and growing customer base.

Our pricing structure for 2011/12 was published on 9 May 2011; it includes water bill reductions for residential customers within the Ipswich City, Lockyer Valley, Scenic Rim and Somerset local government areas.

A.7 Pricing Structure 2011/12

Our pricing structure for 2011/12 was published on 9 May 2011; it includes water bill reductions for residential customers within the Ipswich City, Lockyer Valley, Scenic Rim and Somerset local government areas.

Residential Prices

Total residential water charges, including consumption and water access charges, include decreases ranging from $101.83 to $6.51 for residents in Ipswich City, Lockyer Valley, Scenic Rim and Somerset. There will be an increase of $6.72 on annual water charges in 2011/12 for other Queensland Urban Utilities customers.

The effect of the 2011/12 pricing structure for water is that where increases have been necessary, they have been kept well below the current level of inflation, representing an increase one percentage point less than the published consumer price index (CPI) figure of 3.6%[2].

Water access charges in the Ipswich, Scenic Rim, Lockyer Valley and Somerset regions have been lowered with the annual residential fee for water access set at $280.

Changes to annual residential sewerage charges for 2011/12 range from a $33.52 decrease to a $14.76 increase across the five service regions.

The average annual Brisbane household water and sewerage bill ($1,008) remains the cheapest, not only across our service area, but also in SEQ (based on released pricing structures).

A summary of residential water and sewerage prices is presented in *Table A-1*. Usage charges typically follow an inclining block tariff structure in accordance with historical practice, with the exception of Scenic Rim which has a flat-rate usage charge. The levels at which tiered charges apply also vary from region to region as shown in *Table A-1*.

Non-Residential Prices

The 2011/12 pricing structure includes the following changes for business customers:

- An increase in water charges of 2.6%.
- An increase in sewerage charges of 3.2%.

As is the case for residential customers Queensland Urban Utilities has worked hard to minimise costs and necessary price increases such that these changes represent a price increase of less than the CPI.

[2] Means the figure from the Australian Bureau of Statistics (ABS) capital cities comparison for Brisbane relating to the annual period from one March quarter to the next March quarter as published by the ABS immediately before the start of the financial year.

Table A-1 Residential Water and Sewerage Prices 2011/12

Bill Component		Brisbane City	Ipswich City	Lockyer Valley	Scenic Rim Region	Somerset Region
Bulk Water	($/kL)	$1.787	$1.723	$1.980	$2.087	$2.356
Water Access	($/qtr)	$41.79	$70.00	$70.00	$70.00	$70.00
Water Usage Tier 1	($/kL)	$0.66690 (≤255 kL)	$0.81054 (≤320 kL)	$0.22572 (≤300 kL)	$0.83106 (>0 kL)	$0.23598 (≤300 kL)
Water Usage Tier 2	($/kL)	$0.70794 (256-310 kL)	$1.29276 (321-480 kL)	$1.08756 (>300 kL)	-	$0.54378 (>300 kL)
Water Usage Tier 3	($/kL)	$1.26198 (>310 kL)	$1.64160 (>480 kL)	-	-	-
Sewerage Access	($/qtr)	$118.98	$137.50	$105.21	$125.00	$125.00[A] $99.60[B]

Note A Sewerage access charge for the former Shire of Esk.
Note B Sewerage access charge for the former Shire of Kilcoy.

This document has been prepared to respond to the QCA's information requirements for 2011/12.

PART B
QUEENSLAND URBAN UTILITIES INFORMATION RETURN 2011/12

1 Introduction

Queensland Urban Utilities was created as a result of the Queensland Government's structural reforms of the South East Queensland (SEQ) water sector. These reforms affected all elements of the regional water supply chain and resulted in the separation of the water supply and distribution and retail functions that were previously performed by local government owned service providers.

As one of three distributor-retailers created to service the growing population of SEQ, Queensland Urban Utilities is responsible for delivering drinking water, recycled water and sewerage services to the cities and townships within the boundaries of the Brisbane and Ipswich City Councils, as well as the Lockyer Valley, Scenic Rim and Somerset Regional Councils.

For the period 2010-2013, the Queensland Competition Authority (QCA) is required to monitor the prices charged by the distributor-retailers. To fulfil this role the QCA prepares an annual set of information requirements, including a data template, which each distributor-retailer is required to provide.

A copy of the QCA's information requirements for 2011/12 is provided as **Annex A**.

This document has therefore been prepared to respond to the QCA's information requirements for 2011/12 and to outline the manner in which Queensland Urban Utilities fulfils its service obligations (and sets prices for those services).

To the extent that this document supports the price monitoring submission to the QCA (2011/12) it should be read in conjunction with the QCA data template (provided separately).

Every effort has been made to complete the QCA data template as required.

1.1 QCA Information Requirements 2011/12

Table 1-1 identifies the requirements set out in Section 5 of the QCA's Information Requirements for 2011/12, and details Queensland Urban Utilities' response to each of these.

Table 1-1 QCA Information Requirements

QCA Ref	Requirement	Response to Information Requirement
5.1	Statutory Accounts and Budget	Key financial and accounting policies are described in **Section 4.3** and the budget process is discussed in **Section 4.4**.
5.2	Revenue	Revenue requirements and forecasts are presented in **Section 8**.
5.3	Service Standards	Our relationship with our customers is described in **Section 3** and our service standards are discussed in greater detail in **Section 4.2**. Queensland Urban Utilities' Customer Charter and Customer Service Standards are presented in **Annex C**.
5.4	Demand	Demand is discussed in **Section 6**, including consideration of per capita demand assumptions and population growth.
5.5	Regulatory Asset Base	The regulatory asset base (RAB) is addressed in **Section 8.2**.
5.6	Capital Expenditure	Capital expenditure processes are outlined in **Section 7.3**, and the capital expenditure budgets and forecasts for the development of the RAB and maximum allowable revenue (MAR) forecasts are presented in **Section 8.6**.
5.7	Contributed, Donated and Gifted Assets	Contributed, donated and gifted assets are described in **Section 8.5**.
5.8	Depreciation	Our treatment of depreciation is described in **Section 8.2.3** and **Section 8.4.1**.
5.9	Indexation	Indexation is outlined in **Section 8.2** (RAB), **Section 8.3.1** (Operating Expenditure) and **Section 8.6** (MAR).
5.10	Return on Capital	**Section 8.4** addresses return on capital.
5.11	Operating Costs	**Section 7.2** describes our operating and maintenance approach while **Section 8.3** presents the operating costs relevant to the development of the MAR.
5.12	Third Party Transactions	Third and related party transactions are presented in the QCA's data template, while a brief discussion is presented in **Section 4.5**.
5.13	Related Party Transactions	
5.14	Non-regulated Services	Non-regulated services are addressed in **Section 4.1.3**.
5.15	Tax	Refer **Section 8.4.1**.
5.16	Maximum Allowable Revenue	Refer **Section 8.6**.

1.2 Document Structure

The remainder of this document is structured as follows:

Section 2 — About Queensland Urban Utilities

Provides an overview of Queensland Urban Utilities, including our relationship with the councils, how we came into being and what we do.

Section 3 — Our Customers

Outlines Queensland Urban Utilities' understanding of customer value and customer service standards.

Section 4 — Our Operating Environment

Describes the environment within which Queensland Urban Utilities operates, including the regulatory framework, key principles and policies that affect our operations, our approach to efficient service delivery, and the impacts of the January 2011 floods on our infrastructure and service delivery.

Section 5 — Our Prices

Outlines the process through which prices are set and presents the prices to be applied for the 2011/12 financial year.

Section 6 — Demand Forecasting

Describes the method by which Queensland Urban Utilities forecasts demand. This includes a description of the population and per capital estimates of demand and an outline of their use in operational, capital and financial planning.

Section 7 — Prudent and Efficient Expenditure

Addresses the practices and procedures that govern the management and maintenance of existing assets as well as planning for new capital assets.

Section 8 — Revenue Requirement

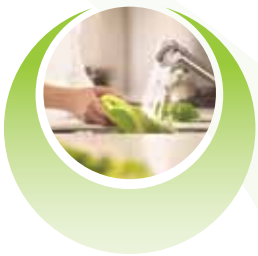
Deals with the key assumptions used in the development of a building block MAR, including RAB, operating expenditure, return on capital and taxation.

Section 9 — Conclusion

Summarises the key items addressed in this report and presents the key business details and Director's Statement certifying this information return and the accompanying QCA data template.

Section 10 — Abbreviations, Acronyms and Glossary

Lists abbreviations and acronyms used within this document and provides definitions of key terms.



2 About Queensland Urban Utilities

2.1 Who We Are

2.1.1 Water Sector Reform

The Queensland Government's water sector reform process commenced in 2007 and has reduced the number of organisations involved in managing and distributing water supplies within SEQ from 21 to six. The current institutional reform model for SEQ shown on *Figure 2-1* reflects the recent (1 July 2011) merger of Water Secure with Seqwater.

Queensland Urban Utilities was formally established as a distributor-retailer service provider on 1 July 2010, under the provisions of the *South East Queensland Water (Distribution and Retail Restructuring) Act 2009* (the DRR Act), and as a service provider under the provisions of the *Water Supply (Safety and Reliability) Act 2008* (the WSSR Act), on 1 July 2010. The DRR Act made important changes to other pieces of legislation relevant to the distributor-retailers, and set out requirements relating to the transition of assets, liabilities, employees, and instruments from local government to the distributor-retailers.

2.1.2 Queensland Urban Utilities

Queensland Urban Utilities is a statutory authority providing integrated distribution and retail water and sewerage services to customers within the Brisbane City, Ipswich City, Lockyer Valley, Scenic Rim and Somerset local government areas. We are owned by the Brisbane and Ipswich City Councils, as well as the Lockyer Valley, Scenic Rim and Somerset Regional Councils and governed by an independent board. Our shareholding councils are often also referred to as the 'Participating Councils'.

Our primary role is to deliver drinking water, recycled water and sewerage services to the cities and townships within the boundaries of these five councils. In 2010/11, we:

- supplied around 105,000 megalitres (ML) of tap water to the residents and businesses within our service area
- supplied around 7,000 ML of recycled water to businesses
- removed and treated the sewage and trade waste generated by 1.3 million residents and 4,700 trade waste customers.

2.2 Governance

2.2.1 Our Board

Queensland Urban Utilities is governed by an independent Board, which was appointed by the Participating Councils in accordance with Section (s)33 of the DRR Act. As the highest level of governance, the Board carries out its duties in accordance with:

i. governing legislation
ii. the Queensland Urban Utilities participation agreement
iii. the Queensland Urban Utilities Board Member Code of Conduct
iv. the highest standards of ethics and corporate governance.

The Board may delegate any of its functions to a committee of members of the Board (as per s53(3)(a) of the DRR Act) or Chief Executive Officer (CEO) (as per s53(3)(b) of the DRR Act).

Our governance structure is outlined on *Figure 2-2*, and our Board members are introduced in **Annex B**.

Figure 2-1 SEQ Water Reform Model (as at 1 July 2011)

Seqwater

Responsible for catchment, management, storage and treatment of bulk drinking water. Supplies water from Gold Coast Desalination Plant and Western Corridor Recycled Water Project to SEQ Water Grid Manager, power stations and Wivenhoe Dam.

LinkWater

Moves drinking water from treatment plants and reservoirs through bulk pipeline networks and into the distribution networks.

SEQ Water Grid Manager

Oversees the operation of grid functions and flow of water around the grid. Purchases bulk water and water transport services, and sells water to local government-owned distribution and retail businesses operating from July 2010.

State-owned authorities

Water businesses from July 2010

Queensland Urban Utilities
servicing customers in the Brisbane, Ipswich, Lockyer Valley, Scenic Rim and Somerset local authority areas.

Unitywater
servicing customers in the Sunshine Coast and Moreton Bay local authority areas.

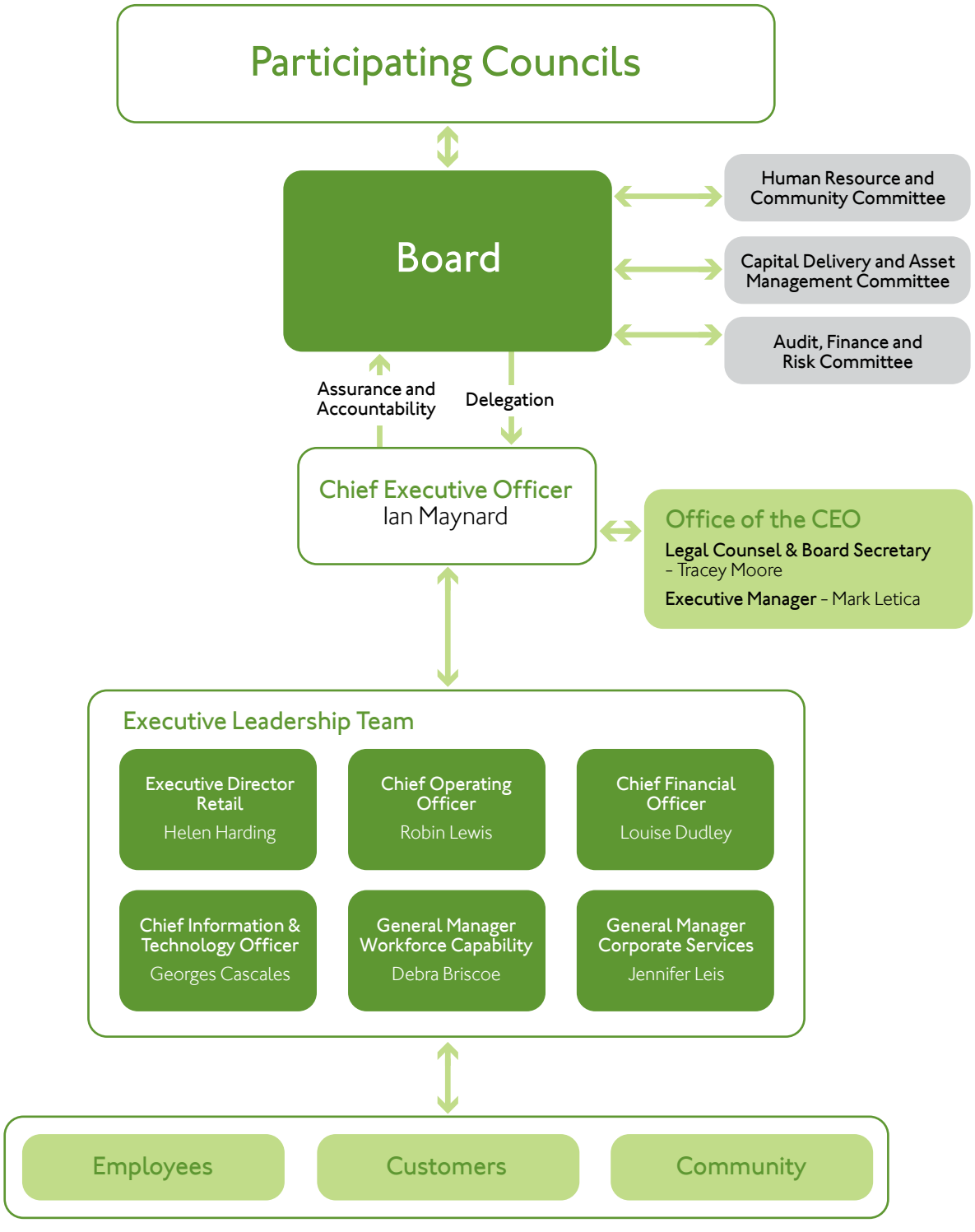
Allconnex Water
servicing customers in the Gold Coast, Logan and Redlands local authority areas.

The three new water businesses are responsible for delivering potable, recycled and other water to customers, collecting and treating wastewater, and charging for water and wastewater services.

Local government-owned authorities

Residential and business customers

Figure 2-2 Queensland Urban Utilities' Governance Structure



2.2.2 Board Committees

Queensland Urban Utilities' Board has established the following committees to endorse strategies and make recommendations to the Board:

- Human Resource and Community Committee
- Capital Delivery and Asset Management Committee
- Audit, Finance and Risk Committee.

The Board Secretary is responsible for maintaining the membership and terms of references for these committees.

Membership of the committees is defined by their respective terms of reference.

2.2.3 Executive Leadership Team

The CEO and the Executive Leadership Team (ELT) form the next level of decision-making and are accountable for the effective service delivery and performance of functions within their portfolios and for decisions made jointly within the ELT. The CEO and ELT are introduced on *Figure* 2-2.

Our CEO, Noel Faulkner, has been actively involved in SEQ's regional water reform since July 2007. Following Mr Faulkner's announcement of his decision to pursue personal interests at the end of the 2010/11 financial year the Board appointed Ian Maynard as CEO Designate. Mr Maynard commenced as CEO Designate on 28 March 2011 and assumed full responsibility as CEO on 1 July 2011.

2.3 Our Corporate Objectives

Section 15 of the DRR Act defines Queensland Urban Utilities as a statutory body for the purposes of the *Financial Accountability Act 2009* (FAA). Under s9 of the *Financial and Performance Management Standard 2009* Queensland Urban Utilities is required to have a corporate plan (also known as strategic plan). Sections 20 and 21 of the DDR Act also requires Queensland Urban Utilities to enter into a Participation Agreement with its Participating Councils covering matters such as its corporate planning requirements. Queensland Urban Utilities' Corporate Plan was adopted by the Board in June 2011. Queensland Urban Utilities' corporate objectives for 2010-2015 are to deliver:

- service valued and trusted by our customers and the community
- business efficiency and sustainability
- appropriate financial performance
- sustainable growth
- safe, capable and dedicated people.

With these very clear goals in mind, our Board, our CEO, and the ELT are focused on the continued journey to successfully finalise the amalgamation of five distinct council water divisions into one fully integrated and aligned business.

Beyond that focus, Queensland Urban Utilities is committed to an ongoing process of reviewing and embedding our strategic model to achieve long-term organisational success.

Queensland Urban Utilities aims to maintain strong relationships with its owners and ensure meaningful relationships with other key stakeholders, including regulators, with the aim of being a benchmark 'best-of-breed' provider. At the heart of the way Queensland Urban Utilities operates is a commitment to the community and to the provision of a safe and constructive culture for our people.

2.4 What We Do

2.4.1 Our Services

As described in **Part A** Queensland Urban Utilities provides drinking water, recycled water, sewage and trade waste services to residents and businesses within our service area. Trade waste services cover waste that is delivered to our sewage treatment plants via the sewerage network, but which has different characteristics to domestic sewage.

Supporting the delivery of these services, Queensland Urban Utilities' current functions can be divided into three key components:

1.	Provision for water distribution, sewage (and trade waste) transportation and treatment including:	• demand forecasting and management • asset planning • asset management and alterations • servicing, operating and maintaining.
2.	Customer interface and service provision relating to:	• water meter management and data • billing and customer management • direct supply to large customers including trade waste management • sewage transportation and treatment • development assessments.
3.	Enabling functions for sustainability including:	• strategy deployment • financial and human resource management • governance and risk management • environment management • community and stakeholder management • regulatory and legislative compliance • information and communication technology management, procurement and contract management.

2.4.2 Our Service Area

Queensland Urban Utilities' service area (*Figure A-1*) encompasses the 14,364 square kilometres contained by the local government boundaries of our Participating Councils. Our service area covers the Brisbane, Ipswich, Lockyer Valley, Scenic Rim, and Somerset local government areas. This area stretches from Cape Moreton in the east to the foot of the Toowoomba range in the west, and from the Yabba State Forest in the north to the New South Wales border in the south.

2.4.3 Our Infrastructure Network & Customer Base

Our water and sewerage infrastructure networks service the cities and townships shown in *Table 2-1*. Through our infrastructure network we provide services to a range of customer types, ranging from single-person dwellings to large industrial customers.

Table 2-2 provides an overview of both our existing asset and customer bases, as measured by numbers of connections, and shows that the majority of our non-residential customers are situated in the Brisbane and Ipswich City areas. Outside the metropolitan areas of Brisbane and Ipswich the proportion of sewerage to water connections reduces, reflecting the usage of allotment-based septic systems in smaller urban centres.

Table 2-1 Cities and Townships Serviced by Queensland Urban Utilities

Region	Water Supply Network	Sewerage Network
Brisbane City	Brisbane	Brisbane
Ipswich City	Ipswich, Rosewood, Amberley, Grandchester and Ripley	Ipswich, Rosewood
Lockyer Valley[1]	Forest Hill, Gatton, Grantham, Helidon, Laidley, Regency Downs, Kensington Grove and Withcott	Forest Hill, Gatton, Helidon and Laidley
Scenic Rim	Aratula, Beaudesert, Boonah, Canungra, Harrisville, Kalbar, Kooralbyn, Mt Alford, Peak Crossing, Rathdowney and Warill View	Aratula, Beaudesert, Boonah, Canungra, Kalbar, Kooralbyn
Somerset	Esk, Fernvale, Jimna, Kilcoy, Linville, Lowood/ Minden, Moore, Somerset Dam and Toogoolawah	Esk, Fernvale, Kilcoy, Lowood and Toogoolawah

Note 1 The township of Preston, which lies within Queensland Urban Utilities' service area, receives water and sewerage services from Toowoomba City Council.

Table 2-2 Our Customer Base and Assets

Bill Component	Units	Region					Total
		Brisbane City	Ipswich City	Lockyer Valley	Scenic Rim Region	Somerset Region	
Customers[1] (accounts billed) – Water							
Residential	No.	399,727	63,552	10,084	5,844	4,667	**483,874**
Non-residential	No.	30,261	1,970	543	1,354	654	**34,782**
Assets[2] – Water							
Supply Network	km	6,227	1,568	426	300	223	**8,744**
Reservoirs	No.	37	26	16	25	9	**113**
Pump Stations	No.	14	18	9	7	3	**51**
Boosters	No.	82	13	9	2	0	**106**
Customers[1] (accounts billed) – Sewerage and Trade Waste							
Residential	No.	392,646	57,216	4,129	4,056	2,796	**460,843**
Non-residential	No.	29,079	1,797	385	786	494	**32,541**
Trade Waste	No.	4,247	457				**4,704**
Assets[2] – Sewerage and Trade Waste							
Network	km	7,051	1,475	146	150	101	**8,923**
Pump Stations	No.	203	61	25	20	24	**333**
Sewage Treatment Plants	No.	9	4	4	6	5	**28**

Note 1 Accounts billed numbers taken from 2010/11 revenue reconciliations
Note 2 Source: Water Netserv Plan (Queensland Urban Utilities, May 2011)

2.5 Our Relationship with the Councils

As outlined in **Section 2.1** above, Queensland Urban Utilities is a merger of the water and sewerage businesses of our five Participating Councils. As required by the DDR Act and as determined by the Queensland Urban Utilities Board and in accordance with the Participation Agreement, our Participating Councils receive regular dividend payments. The Participation Agreement was signed by the responsible Minister on 25 June 2010, and this outlines and formalises our relationship with the councils.

While Queensland Urban Utilities functions under legislation and operates independently, we retain and embrace a number of the key philosophies of our Participating Councils including:

- maintaining an ongoing commitment to the continued provision of high-quality water supply and sewerage services
- recognising the need to build and maintain a skilled workforce to support our business
- maintaining the value of the existing water and sewerage businesses
- maintaining standards of service.

3 Our customers

As outlined in **Part A**, Customer Services manages a diverse programme of initiatives that are driven by our key focus areas, the needs of our customers and the regulatory framework within which we operate. Customer-driven initiatives are directly founded on customer feedback. Regulatory-driven initiatives are based on the legislation and regulations set by the state agencies that govern our operations. We work closely with these agencies to ensure those policies do not place unreasonable pressure on our business or on our customers.

The Customer and Community Reference Group (CCRG) introduced in **Part A** assists by providing valuable feedback on issues, initiatives and projects that affect our customers.

The following section expands on the information presented in **Part A** and covers customer rights and responsibilities as well as Queensland Urban Utilities' approach to the provision of support for vulnerable customers.

3.1 Customer Water and Wastewater Code

On 1 January 2011, the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade released a Customer Water and Wastewater Code to set out the rights and obligations of distributor-retailers and their customers relating to the availability of water and sewerage services. The Customer Water and Wastewater Code covers our customer service obligations, as well as the rights of all residential customers and those small business customers who are using less than 100 kilolitres (kL) of water per year. This equates to about 97% of our customer base.

The code requires distributor-retailers to have a customer service charter and customer service standards. The charter is to set out the rights and obligations of both service provider and customer, while the service standards present the minimum and guaranteed service standards. Queensland Urban Utilities' Customer Charter and Customer Service Standards are discussed below and presented in **Annex C**.

Many of the *Customer Water and Wastewater Code's* requirements are already embedded within current Queensland Urban Utilities' business processes and are being met. Any new requirements within the code are being rolled out into the business. Queensland Urban Utilities had very short notice to comply with the legislation, which was only passed by parliament seven business days before the date of effect.

A small number of the new code requirements will take time to implement as information systems changes are required (e.g. billing format changes).

3.2 Customer Service Standards and Charter

The *Queensland Urban Utilities Customer Charter* states our commitment to delivering reliable water and sewerage services to our customers. It also outlines the rights and responsibilities of our customers. Key aspects of the Charter were developed incorporating customer feedback.

Queensland Urban Utilities' *Service Standards* outline our responsibilities and the standards customers can expect in relation to the water and sewerage services we provide.

3.3 Vulnerable Customer Support

3.3.1 Financial Hardship Policy

Queensland Urban Utilities recognises that customers may experience financial hardship (often due to circumstances beyond their control) that could affect their ability to meet the payment terms for their water and sewerage bills. Therefore, Queensland Urban Utilities provides a policy for customers who are suffering from financial hardship or an inability to pay accounts.

Customers in financial hardship are residential customers who are identified either by themselves, Queensland Urban Utilities, or an independent accredited financial counsellor as having the intention but not the financial ability to meet the payment terms and timeframes set by Queensland Urban Utilities. The hardship policy applies where a customer requests lenience on payments, and falls within this definition. The financial hardship policy provides a framework to support customers who are experiencing financial hardship and difficulty in paying their water and sewerage bills.

For customers in hardship, the following services are offered, or are under development to be offered in the future:

- access to dedicated collections team from front line call centre
- a process to work with customers to develop tailored solutions
- referral to a network of community support organisations
- tailored payment plans that customers can reasonably afford to pay and that improves the customer's debt position
- written confirmation of terms of an agreed payment plan
- ability for customers to request modification of a plan when their circumstances change
- access to a payment card to assist in budgeting;
- protection from legal action and additional debt recovery costs while customer is meeting agreed payment plans
- the right is reserved to commence normal debt recovery actions where a customer defaults on an agreed payment plan three times.

3.3.2 Pensioner Rebates

Queensland Urban Utilities also facilitates rebate arrangements provided by Participating Councils and the State Government. This includes Brisbane City Council's remission to eligible pensioners, which for 2010/11 was provided on the following basis:

- Full Pensioner Remission – 40% of the net charges in the water and sewerage account to a maximum of $464 per annum ($116 per quarter).
- Part Pensioner Remission 20% of the net charges in the water and sewerage account to a maximum of $232 per annum ($58 per quarter).

3.3.3 Dialysis Patient Policy

Customers approved for support under Queensland Urban Utilities' *Dialysis Patient Policy* receive their first 50 kL of water usage free of charge each quarter.

4 Our operating environment

4.1 Our Regulatory Framework

4.1.1 The Queensland Competition Authority

The QCA was established following a series of Council of Australian Governments agreements that sought to create a national approach to the implementation of competition policy. The *Queensland Competition Authority Act 1997* gives the QCA a number of competition-related roles, including, but without limitation, the power related to price oversight of monopoly businesses. Monopoly prices oversight is a mechanism that seeks to ensure government monopolies, or near monopolies, do not charge excessive prices for their products or services.

The QCA performs these functions on a regulated entity following a request from the Premier or relevant Minister(s).

4.1.2 Interim Price Monitoring

In 2010, the Ministers referred the water and sewerage monopoly business activities of Queensland Urban Utilities, Allconnex and Unitywater to the QCA for price monitoring until 30 June 2013. The QCA commenced the process of monitoring the prices for water and sewerage services provided by Queensland Urban Utilities in September 2010.

The price monitoring process assesses the prudency and efficiency of capital expenditure and the reasonableness of operational expenditure to ensure that monopoly providers are not charging prices in excess of efficient costs.

In light of the fact that Queensland Urban Utilities has not previously been subject to economic regulation, the Ministers expressed a strong preference that the QCA adopt a light-handed approach to price monitoring during the interim period.

Queensland Urban Utilities is continuing to develop and improve its capacities, systems and processes to meet price monitoring information requirements.

4.1.3 Non-regulated services

Non-regulated services are generally those for which Queensland Urban Utilities must charge a competitive price to retain its current share of the market for that service.

The QCA's Interim Price Monitoring Framework describes a non-regulated service as:

> *"... a service provided by the business that is not required to satisfy any specified legal obligation or is also provided by other service providers in a competitive market in which the business has no power to influence a customer's selection of the business as the service provider."*

To support the classification of services as non-regulated Queensland Urban Utilities conducted a competitive analysis of several services we provide to assess the existence of, and potential for, competition in their supply.

The services found to be open to competition, and therefore non-regulated are described in *Table 4-1*.

Table 4-1 Non-Regulated Services

Service	Analysis Conclusions
Technical consultancies	Customers have the option to use Queensland Urban Utilities' services for technical consultancies and design work for minor connections into the Brisbane City network or employ a third party (e.g. engineering design firm). Minor connection designs are those for less than 80 metres for water and 90 metres for sewerage.
Connection design	
Private plumbing works	Private plumbing work is when a customer requires work done on privately owned property, generally clearing sewer chokes. This work may be performed by any licensed plumber.

4.1.4 Beyond 2013

From 1 July 2010 until the recent enactment of the *Fairer Water Prices for SEQ Amendment Act 2011* (FWP Act) the QCA's role was to shift from one of price monitoring to one of price determination from 1 July 2013. The FWP Act removed the price determination role of the QCA that was to apply from 1 July 2013 by amending the QCA Act. This removal of the price determination role gives Participating Councils responsibility and accountability for the water and sewerage services within their individual boundaries.

In addition to this amendment the FWP Act amended the DRR Act to provide for:

- annual increases in tariffs for water and wastewater for the next two years being capped at inflation, as measured by the consumer price index for Brisbane
- the requirement that Participating Councils prepare and adopt a price mitigation plan.

In conjunction with these legislative changes the State Government gazetted a change to the required date for submission of the QCA data template and information return from 1 July 2011 to 31 August 2011.

4.2 Service Standards

Queensland Urban Utilities' level of capital investment is directly related to the service standards we provide to our customers. Our standards reflect a range of factors that influence our business including both legislative requirements and customer preferences. Incorporation of customer preferences in our service standards occurs via the CCRG, as discussed in **Part A**. Key statutes outlining the requirements for asset management, planning, and service standards are discussed in the following sections.

4.2.1 Legislative Framework

Our service standards reflect a range of legislative requirements that govern the development, planning and delivery of our services. Key items of legislation and their requirements are presented in *Table 4-2*.

Table 4-2 Summary of Key Statutory Planning Requirements

Acts and Policies	Overview
Water Act 2000	Sets out provisions for the management of water resources in Queensland.
Water Supply (Safety and Reliability) Act 2008	Provides for a regulatory framework for providing water and sewerage services in Queensland, including the functions and powers of service providers. It requires service providers to have a *Strategic Asset Management Plan* (SAMP), *System Leakage Management Plan* (SLMP), *Drinking Water Quality Management Plan* (DWQMP) and Customer Service Standards.
Sustainable Planning Act 2009	Requires water authorities to develop master plans for their systems, capital works schedules for future infrastructure and equitable funding mechanisms in the form of infrastructure charges and to comply with relevant planning laws in developing service infrastructure.
Environmental Protection Act 1994	Regulates how water service providers and holders of environmentally relevant activity approvals conduct environmentally relevant activities and to protect the environment.
Environmental Protection (Water) Policy 2009	Specifically requires local governments to develop environmental plans on a range of issues including water conservation, trade waste and sewerage management.
South-East Queensland Water (Distribution and Retail Restructuring) Act 2009	Enabled the formation of distributor-retailers (of which Queensland Urban Utilities is one) and sets out their roles, responsibilities and powers. Amended several of the above-mentioned Acts (in conjunction with the *Other Legislation Amendment Act 2010*) to further clarify the roles, responsibilities and powers of distributor-retailers. In particular, the Act sets out transitional arrangements and requires distributor-retailers to have a 'plan' (*Water Netserv Plan*) in place by 1 July 2013.

4.2.2 Water Netserv Plan

The *Water Netserv Plan* described in *Table 4-2* must provide an overview of Queensland Urban Utilities' infrastructure planning and development over the next 20 years. It must support and reflect the *SEQ Regional Plan*, and the land use planning and assumptions of Queensland Urban Utilities' Participating Councils. Queensland Urban Utilities is required to have its Netserv Plan in place by 1 July 2013.

The *Water Netserv Plan* will be a key tool for future streamlined asset management and economic regulation, bringing together a number of asset and planning related activities, such as strategic asset management plans (SAMPs) and priority infrastructure plans (PIPs) undertaken in accordance with the *Sustainable Planning Act 2009* (SP Act).

Queensland Urban Utilities has made substantial progress towards completion of our *Water Netserv Plan*, which includes desired standards of service for water infrastructure (previously contained in the PIPs of Participating Councils). These desired standards of service are supported by more detailed network design standards, the sources of which are identified in **Annex D**.

Our draft *Water Netserv Plan* is being prepared in two distinct but related parts. **Part A** broadly deals with strategies, infrastructure, planning, standards, connections and charging, while **Part B** covers operational and technical plans. A draft of **Part A** was released to the public in May 2011 as part of our community engagement campaign, with comments sought, received and collated up to 24 June 2011. A draft of **Part B** will be presented to the Board in the third quarter of 2011.

Following consideration of the outcomes of the community engagement campaign, the finalised *Water Netserv Plan* will be presented to the Participating Councils and the Minister for the Department of Local Government and Planning for final endorsement.

4.2.3 Transitional Arrangements

As outlined in *Table 4-2* the Water Supply (*Safety and Reliability*) Act 2008 requires water service providers to have a SAMP, Drinking Water Quality Management Plan (DWQMP) and prepare customer service standards for the supply of its registered service.

Under transitional arrangements, the DRR Act provides that the Participating Councils' existing SAMPs, System Leakage Management Plans (SLMPs) and DWQMPs are taken to be Queensland Urban Utilities' approved plans, until such time as an endorsed *Water Netserv Plan* is in place.

SAMPs are required to *"identify standards of service for appropriate levels of service, including customer service, and performance indicators for the service"* as well as a minimum range of performance indicators. Within the SAMP the target performance levels are set by the service provider not the regulator (i.e. Department of Environment and Resource Management (DERM)) and this continues to be the process.

Queensland Urban Utilities' DWQMP must be prepared and approved by DERM before 1 July 2011. In the interim, Queensland Urban Utilities operates its drinking water services under a notice issued by DERM requiring, among other things, the lodgement of a drinking water monitoring programme, compliance with such programme, and notification of any incidents. Typical incidents requiring notification include drinking water samples where a contaminant is found to exceed the health guideline value as detailed in the Australian Drinking Water Guidelines (ADWG).

4.2.4 Customer Service Standards

Queensland Urban Utilities inherited a variety of customer service standards from our Participating Councils. As part of our planning and integration efforts, a revised set of customer service standards were prepared in late 2010 to ensure consistency and transparency throughout our operational area.

Our revised customer service standards (**Annex C**) were developed on the basis of continuing at a level equal to, or better than, those existing before the formation of Queensland Urban Utilities. These standards include the majority of the minimal performance indicators required in the SAMPs with the remainder, related to continuity of service in the long-term, as reported in the *National Performance Report*.

Customer service standards as well as environmental obligations and licence standards define the overall performance targets that Queensland Urban Utilities must deliver in managing its asset base. Ensuring all Queensland Urban Utilities customers receive the desired level of service is a key element of decision-making on future operating, maintenance and capital expenditure.

Our customer service standards are discussed further in **Section 3**, which outlines the relationship between our service standards and the recently enacted *Customer Water and Wastewater Code*.

4.3 Key Financial and Accounting Policies

4.3.1 Capitalisation Policy

Queensland Urban Utilities currently uses the capitalisation policy as summarised in *Table 4-3*. It is intended that this policy be formalised as part of the 2010/11 financial statements.

4.3.2 Taxation Policy

Queensland Urban Utilities is subject to a number of direct and indirect taxes. Our treatment of these taxes to ensure compliance with various regulatory and taxation obligations is addressed in a *Draft Taxation Policy* which was submitted to the Audit, Finance and Risk Committee on 21 March 2011 and will be referred to a future Board meeting for approval.

Direct taxation includes:

- Goods and Services Tax (GST) – the Business Activity Statement is prepared on a monthly basis and submitted to the Australian Tax Office.
- Fringe Benefits Tax – an annual return is prepared, and payment is made to the Australian Tax Office.
- Fuel Tax scheme – the amount of the rebate is included in the monthly Business Activity Statement.
- Payroll Tax – payroll tax is calculated and paid on a monthly basis to the Office of State Revenue.

Indirect taxation is paid to the Participating Councils under the Local Government Tax Equivalents Regime and includes income, land and duties tax. These payments are made in accordance with the rights percentages established in the participation agreement.

Table 4-3 Capitalisation Policy

Category	Policy Summary
Recognition	Items of property, plant and equipment with a total value of less than $10,000, except for network assets, are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised except where stated. All network assets, including those with a value of less than $10,000, are capitalised. The term 'network asset' is applied to an accumulation of individual items or components operating as a cohesive whole in the provision of a particular service. Computer equipment is not treated as a network asset. Interconnected infrastructure assets are treated as a network asset.
Expenditure *Capital & Operating*	Direct labour and materials expenditure incurred in the purchase or construction of assets is capital expenditure. Expenditure necessarily incurred in either maintaining the operational capacity of assets or ensuring that their original life estimates are achieved, is considered maintenance and is treated as an expense as-incurred.
Acquisition	**Acquisitions** of property, plant and equipment are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration (purchase price) plus costs incidental to the acquisition, including architects' fees, engineering design fees and all other establishment costs. **Donated items** of property, plant and equipment except reserve land are recognised as assets and revenue at fair value. Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Intangible Assets	Amounts paid for computer software over the $5,000 threshold are capitalised and then amortised on a straight-line basis over the expected period of benefit (5 years). Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Statement of Comprehensive Income as-incurred.

4.3.3 Financial System Cost Allocation

Queensland Urban Utilities' general ledger account number comprises 24 characters in the following segments:

- Entity
- Trading Unit
- Responsibility Centre
- Activity
- Analysis #1
- Analysis #2
- Natural Account
- Sub-account
- Source/Destination.

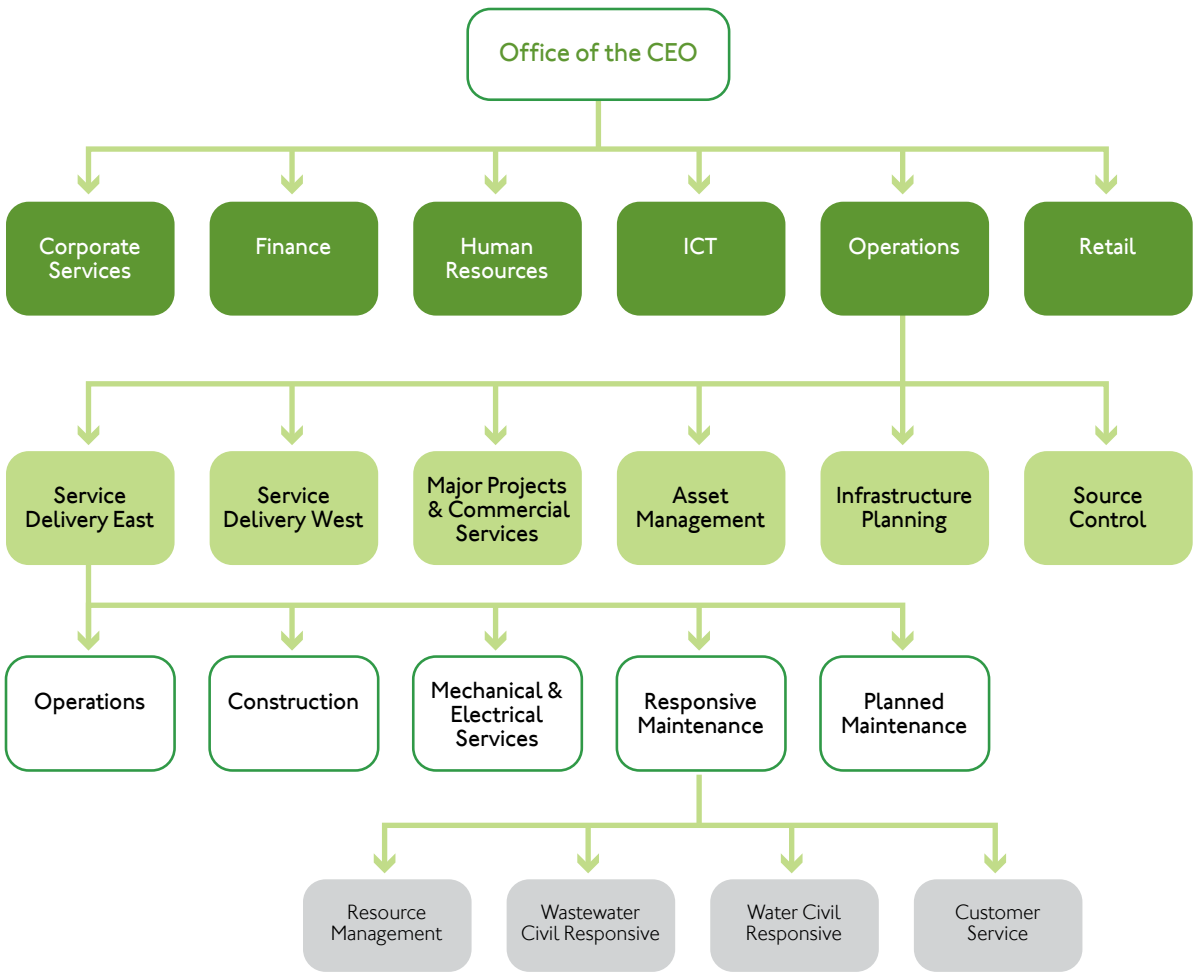
These nine segments provide flexibility and reduce the need to re-analyse costs. As Queensland Urban Utilities relies on the information processed in the general ledger accounts, it is critical that transactions are correctly coded and processed.

Accounting Cost Structure

Costs are captured in responsibility centres that reflect the organisation structure. The organisation structure shown on *Figure 2-2* covers the divisions of CEO's Office, Operations, Retail, Information Communications and Technology, Corporate Services, Human Resources and Finance. Each division contains up to three other levels. Work orders are also used to capture cost for specific activities or projects across the organisation. Accounting codes capture costs according to the nature of the expenditure.

The example presented as *Figure 4-1* shows the hierarchy down through the Operations, Service Delivery East, and Responsive Maintenance area to the four teams each with an individual responsibility centre established to track costs.

Figure 4-1 Responsibility Centre Hierarchy



Activity Codes (QUU Product Codes)

Activity codes are used to allocate direct and indirect costs across five products and five regions. Direct costs, where possible, are charged to water, sewerage, asset creation and non-regulated services. Remaining costs are captured in Support Services and then processed through a cost allocation process at the end of each month. The support cost allocation process is outlined in more detail below.

Support Cost Allocations

The overhead allocation process is used to allocate three groups of costs:

1. Direct labour on-costs recovery all on-costs (payroll tax, super, workers compensation, public holidays annual leave, long service leave and sick leave) all get coded in the system to support costs irrespective of whether the employee is direct or indirect.
2. Local support labour and material costs – all support staff employee and material costs that are costed to a direct area.
3. Corporate costs – support staff employee and material costs who work in corporate areas.

Through the job costing system (Ellipse) on-costs, local support costs and corporate costs are allocated to the direct areas. Direct labour on-costs are allocated on a percentage basis of direct labour dollars. Local support costs and corporate overheads are allocated based on a $/hour rate for local versus corporate costs against direct labour hours.

The allocation rates are reviewed on a monthly basis and changed if necessary for the following month. These costs are allocated through to each responsibility centre in the chart of accounts via offset accounts called 'Burden Applied' and 'Burden Recovered'.

4.3.4 Statement of Accounting Principles and Policy

Queensland Urban Utilities must comply with the requirements of the DRR Act, *Financial Accountability Act 2009*, *Financial and Performance Management Standard 2009*, *Statutory Bodies Financial Arrangements Act* 1982 and the Australian Accounting Standards and Interpretations.

Additionally when preparing the annual financial statements, regard must be given to the Financial Reporting Requirements for Queensland Government agencies issued by the Queensland Treasury.

Both the *Financial and Performance Management Standard 2009* and the Queensland Urban Utilities participation agreement require that a Financial Management Practice Manual (FMPM) be prepared.

The draft FMPM was presented to the Audit, Finance and Risk Committee on 6 December 2010 and approved by the Board on 17 January 2011. The first review of the FMPM occurred in late June 2011. Any significant changes to the FMPM will be submitted to the Board for approval.

The 'summary of significant accounting policies' disclosure note to be included with the annual financial statements was presented to the Audit, Finance and Risk Committee on 21 March 2011 and has been reviewed by the Queensland Audit Office (QAO). This note incorporates the implications previously identified (i.e. capitalisation of water meters, expensing of pre-design costs (where a project is unlikely to commence within twelve months), capitalisation of borrowing costs directly attributable to qualifying assets and thresholds). The Audit, Finance and Risk Committee reviewed the final version of these in May 2011. The Board approved the structure and content in June 2011, subject to clarification of minor outstanding items.

Valuation of assets for accounting purposes continues to be discussed with the QAO; these will be finalised for the 2010/2011 annual financial statements.

4.4 Budget Process – Expenditure

The Budget Framework for 2011/12 was approved by the Chief Financial Officer (CFO) in November 2010 and detailed *Queensland Urban Utilities Budget Guideline – 2011/2012* (the Budget Guideline) were provided to the ELT and Business Unit Managers. Each manager has confirmed that the 'business-as-usual' budget was developed in accordance with those guidelines. Significant review and refinement of the budget was undertaken by the ELT. This involved a functional and account level review, including comparison against the historical trends and forecasts for the 2010/11 year, consideration of the requirements of the Corporate Plan (new initiatives), previously announced efficiency targets and the SEQ Interim Price Monitoring for 2010/11 Final Report (IPM Report 2010/11) (QCA, March 2011).

The process for developing the 2011/12 operational budget is established in the Budget Guideline, which promotes responsible planning and budget consistency within Queensland Urban Utilities and includes:

- a timetable from budget development to approval
- the parameters to be used in the development of the budget
- the process for communication of the budget and the implications of dividend, tax and interest payments to our shareholders.

Key assumptions relating to the 2011/12 budget are presented in *Table 4-4*.

Table 4-4 Key 2011/12 Budget Parameters

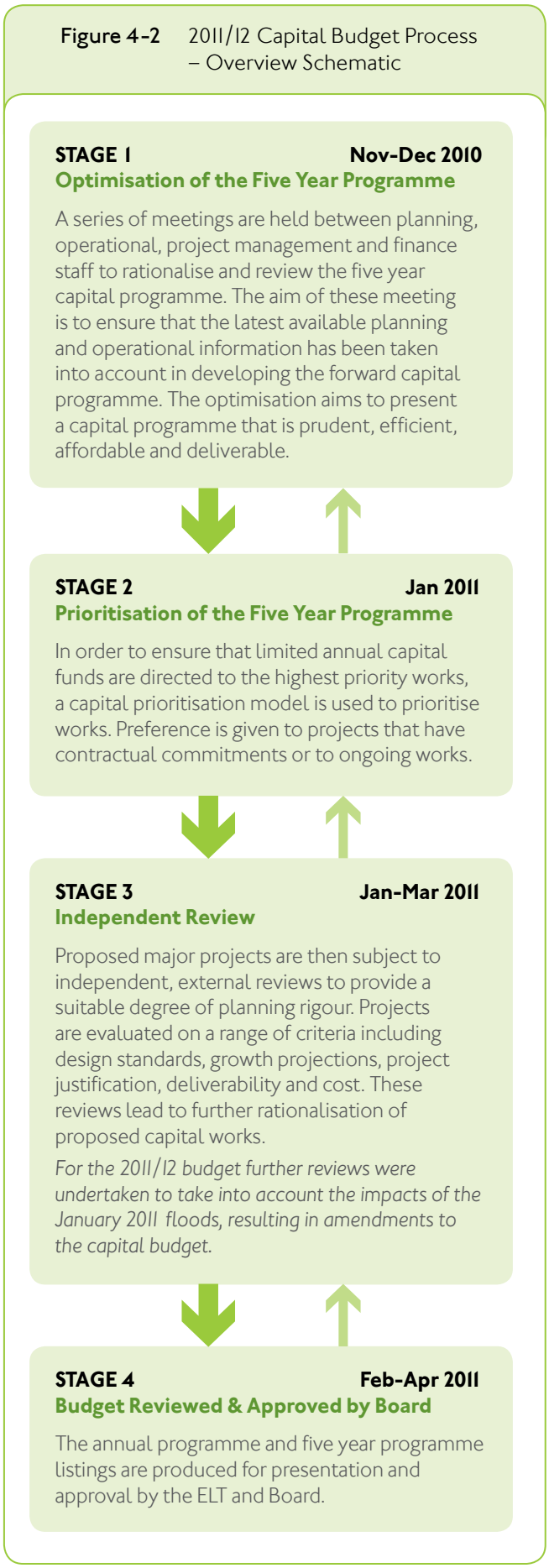
Key Parameter	Assumption	Basis
Economic Indices		
Inflation Forecast	2.5%	Mid-point of Reserve Bank of Australia target
Wages Growth	4.5%	Based on Brisbane City Council enterprise bargaining agreement
Long-term interest rates	6.79%	Current rate, monthly payments
Weighted Average Cost of Capital	9.35%	QCA benchmark published in IPM Report 2010/11
Tax Expense	30% of profits	Tax depreciation excludes donated asset revenues
Transition Services Agreements	Increases based on individual contracts	

Major milestones in the 2011/12 operational budget development and approval process included:

- Preparation of 'business-as-usual' budgets by service area (Dec 2010)
- Presentation of budgets to ELT (Jan 2011)
- CEO/CFO sign off (Mar 2011)
- Presentation of budget to Board (Mar 2011)
- Budget approval by the Board (May 2011)

An overview of the key milestones in the capital budget development and approval process is presented as *Figure 4-2*. Each of these stages represents a continuing review and improvement process with the potential to feed back into earlier stages and result in further review and refinement of the programme.

Figure 4-2 2011/12 Capital Budget Process – Overview Schematic



4.5 Efficient Service Delivery

4.5.1 Achievements to Date

We share our owners' determination to deliver services to our customers with the greatest level of efficiency, and to help reduce those pricing pressures that are within our control. Accordingly, in the 2010/11 budget, we undertook significant review and refinement of the regional water business budgets, and the additional costs in operating a separate stand-alone business. Through this process, Queensland Urban Utilities identified a $50 million budget reduction for 2010/11.

The efficiencies achieved in 2010, as outlined in *Table 4-5* enabled Queensland Urban Utilities to constrain price increases to one half or less of those applied by the other regional distributor-retailers. To 2013 and beyond, we will continue to deliver services that are valued and trusted by our customers and the community, while limiting water price increases through the identification and extraction of ongoing efficiencies.

The achievement of efficiencies is constrained by the Queensland Government's SEQ Distribution and Retail Water Reform Workforce Framework 2009, which mandates current employment and associated conditions continue until 30 June 2013. Within this Framework, we will continue to seek opportunities to deliver further efficiencies.

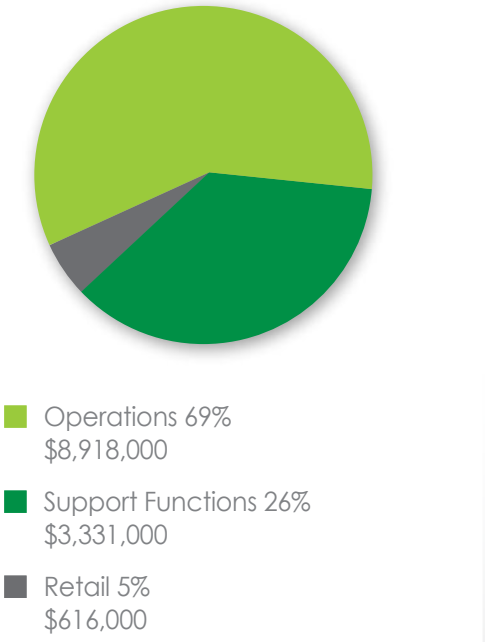
4.5.2 Budgeted Efficiencies (2011/12)

Having delivered $50 million in budget reductions Queensland Urban Utilities is targeting further efficiencies in 2011/12 and beyond. The 2011/12 budget identifies a total of $12.9 million (or 5.1% of non-bulk 'business-as-usual' costs) in efficiency gains in 'business-as-usual' costs with approximately 26% of this figure arising from reductions associated with support functions, such as corporate services, information and communications technology, human resources and finance (*Figure 4-3*). Operations' $8.9 million contribution to the overall efficiency gain constitutes 69% of the total with the remaining 5% arising from the retail division.

Table 4-5 Efficiency Achievements 2010/11

Service	Analysis Conclusions
Labour	• Vacancy rate applied/increased. • 2010 Enterprise Bargaining Agreement increases absorbed. • Overtime reduced through improved management.
Return to Assets	• Reduction in the cost-of-service level agreements through consolidation into one financial, payroll and retail billing system, and building in-house capability. • Negotiated price reductions in the transitional service level agreements. • Reduction in sub-contractor services.
Other financial costs	• Claims for the additional cost of construction of infrastructure absorbed in the capital programme.
Costs for new staff and resources to build corporate capability	• Reductions in requested additional resourcing. • Managed position vacancy up to 30 June 2010 absorbed indirect transferring from councils in vacant roles, or in newly required roles to minimise the staff increase across the business. • Reductions in requested services funding budgets.
Return to Assets	• Capital programme reviewed independently and prioritised from the originally requested capital of $454 million to the current programme of $341 million. This had the follow-on impact of reducing return on asset and depreciation.

Figure 4-3 2011/12 Efficiency Gains by Area



Single item reductions of greater than $500,000 include:

- Accommodation and rent reductions $1,159,000
- Overtime management improvements (operations) $526,000
- Reductions in chemical usage (including polyelectrolyte) $607,000
- Reduction in external consultancies (operations) $923,000
- Plant, equipment and fleet hire reductions $1,463,000

New Initiatives in 2011/12

The budget development for 2011/12 identified a number of specific new initiatives in order for the business to deliver on Queensland Urban Utilities' corporate objectives (**Section 2.3**). The new initiatives were split out from the business-as-usual and efficiencies budgets to allow true year-on-year comparisons of budget cost drivers.

The total cost to deliver these new initiatives in 2011/2012 is $19.41 million, with the major individual items over $500,000 being:

1. ICT Investment Programme $6.0 million
2. Sewerage Overflow Management $3.3 million
3. QCA Pricing Proposal Submission $3.0 million
4. Accommodation Relocation Projects $0.95 million
5. Safety Policies and Management System $0.84 million
6. Improved Customer Communications $0.75 million
7. Sewer Condition Testing $0.67 million

4.5.3 Cumulative Efficiency Targets

In addition to the gains outlined above for 2011/12, Queensland Urban Utilities has targeted minimum additional savings in the order of $1.3 million for 2012/13. We are currently working to identify and define additional efficiencies for 2012/13 and beyond through the commissioning of an independent review, which is discussed further in **Section 4.5.6**. Our minimum $14.2 million efficiency gain over the 2011/12 to 2012/13 period meets the QCA's target figure (IPM Report 2010/11); it reflects our determination to reduce costs to the benefit of our shareholders and customers.

Savings for the 2011/12 and 2012/13 financial years are reflected in the QCA data template. A detailed description of savings for 2012/13 will be available following the conclusion of the independent business improvement and efficiency review, as discussed in **Section 4.5.6** below.

4.5.4 Operating and Capital Expenditure

The restructure of the water industry has reinforced the need for water service providers to maximise the use of their existing infrastructure, refine planning for new infrastructure and ensure that customers receive value for money in making investment decisions.

Queensland Urban Utilities continues to explore opportunities to achieve efficiencies through streamlining and standardising asset management, capital planning and capital delivery functions across its service area. Examples of such efficiencies that have either been delivered, or are underway, include:

- Development and adoption of a standard specification document that is now used for all standard design contracts.
- Completion and adoption of a fully structured operational model to cover design, procurement and delivery of the capital programme.
- Establishment of a centralised 'Operations' resource allocation and logistics area, and supported by:
  - an internal model to take full control of full time equivalents and optimise staff costs
  - a new supervisor recruitment guide and capability assessment template to improve organisational capability.
- Upgrade of supervisory control and data acquisition (SCADA). used on sewage pump stations to improve telemetry and remote access. to reduce labour costs over the medium to long-term.

In addition to these cost saving initiatives, desktop benchmarking reviews (against performance of other Australian water utilities) have led to a continuing assessment of opportunities for improvement in discussions with two better-practice utilities.

From a capital planning and delivery perspective, the removal of local government boundaries from network planning considerations means that regional approaches to the delivery of water and sewerage services are now an essential part of the planning process. This provides greater scope for the realisation of benefits from optimisation of the water supply and sewerage catchments across local government boundaries.

Queensland Urban Utilities has used this new opportunity to develop a regional planning approach to the servicing of both the Ipswich City eastern growth areas and the Brisbane City western areas of Wacol and Oxley.

This approach has already delivered savings in the order of $21 million, following the decision to replace previously planned upgrades (scheduled for 2014 and 2023) at the Goodna sewage treatment plant, with more cost-effective upgrades at the now regionalised Wacol sewage treatment plant.

An additional benefit of this regional approach has been the optimisation of services in the original Brisbane City catchments of Wacol and Oxley with significant deferral of planned capital works in the short to medium term.

4.5.5 Efficiency in Procurement

Queensland Urban Utilities' planning for water supply and sewage transport and treatment infrastructure is subject to regular adjustment and rationalisation. A capital prioritisation model is used to ensure that limited annual capital funds are directed to the highest priority works, thus providing the most benefit to our customers.

Our capital investment and asset management programmes are delivered efficiently through effective strategic procurement processes and a 'just-in-time' delivery approach. These processes are discussed further in **Section 7**.

Policy direction and procedures for procurement, contracting and tendering are outlined in the *Queensland Urban Utilities Procurement Manual* (January 2011). This document covers the procurement of goods, services and works and establishes minimum requirements for the procurement of goods with various set thresholds to take into account project size, scale and complexity.

Third Party Transactions

To ensure the seamless provision of goods and services, a number of different third party contractual arrangements are in place. Third party contracts are executed through:

- Participation in Council supply arrangements.
- Participation in Local Government Association supply arrangements.
- Participation in State Government supply arrangements.
- Directly engaging with the market to establish Queensland Urban Utilities-only supply arrangements.

Third party transactions are imperative to ensure that Queensland Urban Utilities can continue to deliver a high-quality service to our customers. They include operational contracts such as electricity, printing, banking and labour hire. These contracts have been awarded through open tender processes through the Participating Councils and are measured and monitored by Queensland Urban Utilities to ensure on-going value for money.

Queensland Urban Utilities is bound by the *State Procurement Policy* and has a detailed *Procurement Manual* that outlines the policy framework and procedures for procurement, contracting and tendering. Queensland Urban Utilities has a forward procurement planning process that identifies and plans for future procurement activity. This will be further refined in the coming year.

Queensland Urban Utilities directly manages its 'water only' procurement for goods and services such as water meters, chemicals, biosolid removal and capital works, and is able to participate in State Government supply arrangements.

We will continue to independently manage the procurement for 'water only' goods, services and capital works projects, as well as manage, monitor and develop the performance of all our supply arrangements, regardless of source.

Related Party Transactions

Participating Councils also provide a number of goods/services to Queensland Urban Utilities and vice versa. Significant current agreements include the provision of the call centre, financial management system and payroll processing. These agreements have been developed collaboratively and in good faith, and are based on the following principles and objectives:

- achieve best value for money
- deliver procurement services efficiently
- effectively balance key users' needs with efficient, cost-effective procurement
- establish effective working relationships with key customers
- establish a culture of collaboration
- ethical behaviour and fair dealing.

To ensure mutually beneficial outcomes these transactions are undertaken against a set of clear 'pricing principles' including:

- open book approach
- full cost pricing provided
- allocation of shared costs on a commercial basis
- the pricing approach may be different to the past
- reasonable margin
- benchmarking and market comparison (where possible).

The performance of these agreements is reviewed via the same process as the third party transactions.

In relation to the capital programme Queensland Urban Utilities currently maintains a relationship with Brisbane City Works (BCW). BCW submits an offer under a specification for the works to be conducted under Australian Standard (AS) 4000/AS4902 contracts. The specification is comparable to any that would be released to the open market.

The quotation received from BCW is tested against an independent assessment of the value of the specific works. Parameters have been set to allow acceptance or rejection of the BCW response. In 2010/11 the BCW response must be within +10% of that provided by the external independent estimation. This parameter will reduce to +7.5% in 2011/12 and +5% in 2012/13. Quotations that fail to meet this parameter result in the release of the tender to the market.

4.5.6 Identifying New Efficiencies

To continue to identify and develop opportunities for business improvement and efficiency Queensland Urban Utilities commissioned an independent review by international consultancy Third Horizon, which includes the development of a recommended organisational 'day two' business model. Third Horizon is experienced in the water utility sector having conducted reviews of Sydney Water in Australia, as well as Thames Water, South East Water and Southern Water in the United Kingdom.

Third Horizon's efficiency review is being undertaken in two stages, with stage one focusing on a review of existing practices, identification of preliminary improvement opportunities and prioritisation of stage two works.

An interim report presented to Queensland Urban Utilities' in May 2011 identified, developed and prioritised a broad set of preliminary opportunities for improvement. The review targeted elements within the controllable cost base, with a focus on the divisions with the largest costs. In total 26 opportunities were identified across the business, 14 of which are relevant to the operations division.

Stage 2 of the review will include a rigorous validation of prioritised opportunities, the development of high level business cases, and implementation recommendations.

A final report is currently due in the second half of 2011, with reporting to include validated and defined opportunities, high level business cases for improvements, an implementation roadmap, and a delivery framework.

4.6 January 2011 Flood

As outlined in **Section 2.1** Queensland Urban Utilities provides essential water and sewerage services to approximately 1.3 million residents in SEQ including to those townships such as Grantham and Helidon in the Lockyer Valley, that were devastated by flood waters in early January 2011.

4.6.1 Customer and Community Assistance

Queensland Urban Utilities performed well during the emergency management phase of the disaster ensuring services to customers were maintained, protecting the safety of our staff, and communicating and working with other agencies and key stakeholders. Appropriate and respectful relief was also provided for customers impacted by the flooding events. These initiatives were well received by our customers.

Queensland Urban Utilities identified 49,925 customers directly affected by the flood, and administered a recovery strategy in response including:

- rebates for water used in the clean up – providing a rebate of up to 20 kL for flood affected properties
- modified recovery – adjusting the recovery cycle for flood affected properties to ensure affected customers are treated with sensitivity
- special consideration for devastated properties, including:
  - case-by-case review of flood assistance for devastated properties (covering a small number of our customers)
  - waiving of accounts for devastated properties in the Lockyer Valley region for a period of nine months.

Service disruptions caused by the flood related to disruptions to bulk water supply, which affected in the order of 15,000 of our customers in the Lockyer Valley region. Queensland Urban Utilities responded to community water supply needs through initiatives such as:

- Transfer of water by road tanker to:
  - targeted reservoirs
  - an aged care facility
  - poultry farmers in Grantham and Forest Hill (this included one instance where the disruption to water supply was caused by a pipe break on private property; however, a state-controlled exclusion zone prevented immediate repair)
  - the Glamorgan Vale Water Board for livestock watering purposes.
- Delivery of bottled water to schools in the Lockyer Valley, Somerset and Marburg, (including schools beyond the Queensland Urban Utilities network where water tanks had been damaged).

Through community announcements on television and radio, as well as information on the Queensland Urban Utilities website and community disaster sites, we kept the community up-to-date on the situation in relation to water supplies. This included communicating the collection points for bottled water supplies and boil water alert information for communities where water supply had been restored.

Employee Support

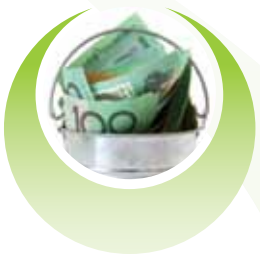
As part of our support for flood affected employees an Employee Flood Relief Appeal was organised in which Queensland Urban Utilities matched donations made by employees. This appeal raised $11,250 for the 15 members of the Queensland Urban Utilities family who experienced significant damage to their homes.

Support for flood affected employees and their families continues to be available through our Employee Assistance Programme, which is a confidential service that provides support for the emotional and psychological wellbeing of our employees and their families. The availability of support via this permanent programme was highlighted during and immediately after the flood.

4.6.2 Completing the Recovery

More than one third of our infrastructure and assets were inundated by water or otherwise damaged. In particular extensive damage was caused to sewage pumping stations and treatment plants situated in and along the Lockyer Creek, and the Bremer and Brisbane rivers, with 122 sewage pumping stations damaged or destroyed. By 16 June 2011, a total of 110 had been recovered to pre-flood operational status, with the balance operating at average dry-weather conditions. The outstanding works for the remaining 12, which, in general relate to switch boards and telemetry, were due to be completed by 30 June 2011.

Eleven of 28 sewage treatment plants were initially impacted, with seven severely damaged. At 16 June 2011 eight of the eleven sewage treatment plants had been recovered to pre-flood operational condition and Transitional Environmental Programmes have been submitted to the DERM. Queensland Urban Utilities is continuing to progress the remaining three plants toward pre-flood condition, with laboratory results showing compliance with the respective discharge licence requirements.



5 Our prices

5.1 Changes to the DRR Act

On 12 May 2011, the Minister for Energy and Water Utilities introduced the *Fairer Water Prices for SEQ Amendment Bill 2011* (the Amendment Bill) to the legislative assembly. Among other changes, the Amendment Bill changed the DRR Act by restricting a distributor-retailers ability to set prices. Specifically, the amended DRR Act:

- imposes a ceiling on retail and small business prices for a two year period
- requires that each Participating Council prepare a price mitigation plan for the five year period commencing 2013/14
- requires that each Participating Council adopt by resolution a written final price path for the five year period commencing 2013/14.

These new requirements and their impact on Queensland Urban Utilities' price setting process are discussed in the following sections.

5.1.1 Interim Price Cap

In relation to prices for the 2011/12 and 2012/13 financial years the amended DRR Act places a ceiling on prices (excluding the State Government's bulk water charge) that can be charged to retail and small business customers. The ceiling limits potential price rises as follows:

- For 2011/12, to not more than 3.6% above the base charge for 2010/11 (net of any rebate or subsidy provided).
- For 2012/13, to not more than the percentage represented by the CPI[3]. above the base charge for 2011/12 (net of any rebate or subsidy provided).

Queensland Urban Utilities' prices for 2011/12 were published on 9 May 2011 and are discussed in **Part A** of this information return.

5.1.2 Development of a Price Mitigation Plan

As outlined above, the amended DRR Act requires that each Participating Council prepare, adopt and publish a price mitigation plan, addressing issues such as:

- an initial price path for price increases
- policies to help particular customer groups, such as pensioners
- how the community will be kept informed.

The Participating Councils of Brisbane and Ipswich City Councils, as well as the Lockyer Valley, Scenic Rim and Somerset Regional Councils have prepared a joint *Price Mitigation Plan*.

5.1.3 Development of a Final Price Path

Before 1 March 2013, Queensland Urban Utilities will prepare a path for charges within its service area that relate to the period 1 July 2013 to 30 June 2019.

Currently, Queensland Urban Utilities' prices reflect the price structures it inherited from the five Participating Councils. This includes a variety of sub-district prices that existed prior to the council amalgamations in March 2008.

As part of an agreement to a final price path, the Participating Councils and Queensland Urban Utilities intend to review this historical structure to produce a simplified set of prices.

5.2 Pricing Principles

Prior to the establishment of Queensland Urban Utilities the Participating Councils agreed to a set of pricing principles as outlined in *Table 5-1* below. Queensland Urban Utilities then applied these principles in determining prices for the 2010/11 and 2011/12 years.

[3] Means the figure from the Australian Bureau of Statistics (ABS) capital cities comparison for Brisbane relating to the annual period from one March quarter to the next March quarter as published by the ABS immediately before the start of the 2012/13 financial year.

Table 5-1 Pricing Principles

Principle	Consideration
Efficient pricing	Prices are cost-reflective, forward looking and provide signals to customers as to the costs associated with future investment in infrastructure to meet changes in demand for services. Prices perform a broader signalling role so as to direct resources into supplying those services most wanted by customers.
Revenue adequacy	Prices recover the costs of producing and delivering the services including providing an appropriate return on the capital invested (reflecting the risk taken by the business). This allows the business to undertake efficient, necessary and timely investment in the maintenance and expansion of its infrastructure as required and provide adequate returns to shareholders. Marginal costs of production provide a guide to setting efficient variable prices however in a water business where fixed costs of production are high, they are rarely sufficient to ensure revenue adequacy. To ensure financial sustainability a fixed charge is applied to recover adequate revenue.
Equity and social welfare	Consider equity over a number of dimensions, including: • horizontal equity – consistency with similar users • vertical equity – recognising income differentials or 'ability to pay' • inter-temporal equity or fairness – between different users over time. As equity is an inherently subjective concept, the drivers behind the setting of prices need to be made as clear as possible to the different stakeholders.
Environmental and resource impact	Consider the influence price has on customer behaviour, the flow on impacts on the environment, and the use of scarce resources.
Administrative practicality	Set prices to be administratively feasible, and not impose undue information, management, or systems-costs.
Easily understood	Endeavour to apply simpler rather than complex price structures to maximise awareness by consumers.

5.3 Price Setting Process

Under the current regulatory framework for the interim price monitoring period the QCA has established a notional revenue cap on the distributor-retailers, known as the maximum allowable revenue (MAR). Taking into account the pricing principles outlined in **Section 5.2**, Queensland Urban Utilities' prices are set within the boundaries of this regulatory framework using a process that includes consideration of the MAR, forecast demand, and potential customer impacts.

As a preliminary step in the price setting process, the MAR is calculated using the building blocks of:

- return on the regulatory asset base (RAB)
- return of capital (depreciation)
- efficient operating costs.

A brief overview of these building blocks is provided in **Part A**, while a detailed discussion of the development of the MAR, including key assumptions/decisions is presented in **Section 8**.

The MAR is then separated into two separate components.

1.	capital revenue	the revenue expected to be received from developers, which can take the form of cash contributions and/or donation of physical assets, and state and federal capital subsidies (if any). Capital revenues are discussed in **Section 8.5**.
2.	utility charges revenue	the revenue expected to be received from utility charges (i.e. water, sewerage, trade waste and other charges levied on customers).

Prices are then set based on the utility charges revenue component, taking into account demand and customer impacts.

Demand forecast for pricing purposes takes into account current demand, as evidenced in the revenue being generated for the current (i.e. 2010/11) year, expectations of growth in connections and water usage, and the demand used for setting prices at the start of the current year. Consideration of the demand used for previous price setting is important to avoid unwanted fluctuations in prices due to short term variations in water usage.

A customer impact analysis is then undertaken, before finalising prices, to assess potential changes in the cost of services to the customer.

Prices for 2011/12 are presented in **Part A**.

5.4 Carbon Pricing

On 24 February 2011, the Federal Government announced the climate change framework outlining the broad architecture for a carbon price mechanism that is being considered by a Multi-Party Climate Change Committee.

The Committee has discussed a number of different ways in which a carbon price could be introduced into the economy and the advantages and disadvantages of each. Further detailed discussions are yet to be concluded in relation to a starting price for the carbon price mechanism, assistance arrangements for households, communities and industry, and support for low-emissions technology and innovation.

While the mechanism could commence as early as 1 July 2012, the impact of the mechanism on Queensland Urban Utilities is currently unknown.

In the absence of detailed price mechanism information, Queensland Urban Utilities has not included a carbon price in its forecasts. Estimated operating and capital expenditure and pricing will be revised once the detailed carbon pricing mechanism is released and its impacts can be assessed.

6 Demand forecasting

6.1 Overview

Decision-making in relation to expenditure, on water, recycled water and sewerage services (both capital and operating), and price setting is influenced by actual and forecast demand which, in turn, is affected by:

- existing residential and non-residential connections
- new residential and non-residential connections (i.e. growth in connections)
- changes in water use behaviour by customers, including through:
  - the setting and enforcement of water restrictions
  - the level of water efficiency implemented on customer premises
- background leakage levels, both within the network and on customer premises.

Demand is essentially made up of a rate of usage component, typically referred to in per capita terms (such as litres per person per day), and an absolute component representing the population or number of connections.

6.2 Resident Population

Demand forecasts relating to the size of our resident population are correlated with projections developed for the Queensland Government by the Queensland Water Commission (QWC), primarily through its *SEQ Water Strategy*. The population projections used by Queensland Urban Utilities are drawn from a variety of sources and updated periodically in response to:

- updates to high level strategic directions and principles provided in the SEQ Regional Plan prepared every five years by the Queensland Government
- regular detailed projections of population dynamics, residential dwelling activity and urban land supply provided by the Demography and Planning facet within Queensland Treasury's Office of Economic and Statistical Research (OESR) (this unit was formerly known as the Planning and Information Forecasting Unit)
- town planning decisions made by Participating Councils.

The population projections presented on *Figure 6-1* and *Figure 6-2* demonstrate the substantial population growth forecast for the region and illustrate that over the next 20 years, the population within Queensland Urban Utilities' service area is forecast to increase by approximately 38%. The values shown in these figures draw upon the latest estimated resident population figures from the Australian Bureau of Statistics, the *SEQ Regional Plan 2009-2031* population targets and Demography and Planning projections.

This growth will vary geographically, with the strongest growth, in both percentage and absolute terms, expected to occur in Ipswich. *Table 6-1* shows the estimated number of additional dwellings that will be required between 2011 and 2031 to accommodate expected population growth.

Figure 6-1 Resident Population Projections – Brisbane and Ipswich

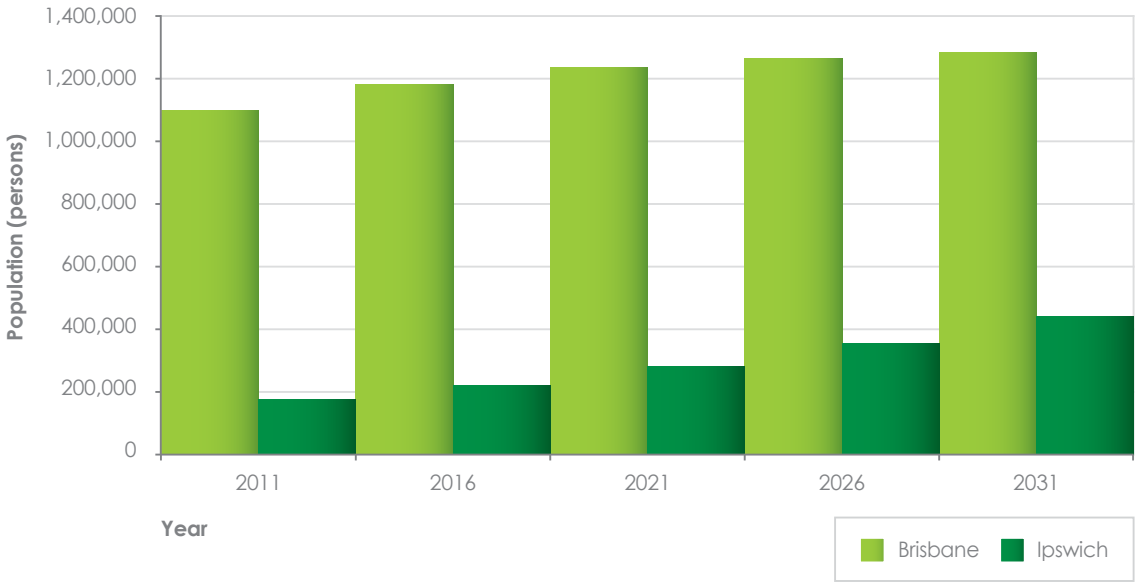


Figure 6-2 Resident Population Projections – Lockyer Valley, Scenic Rim and Somerset

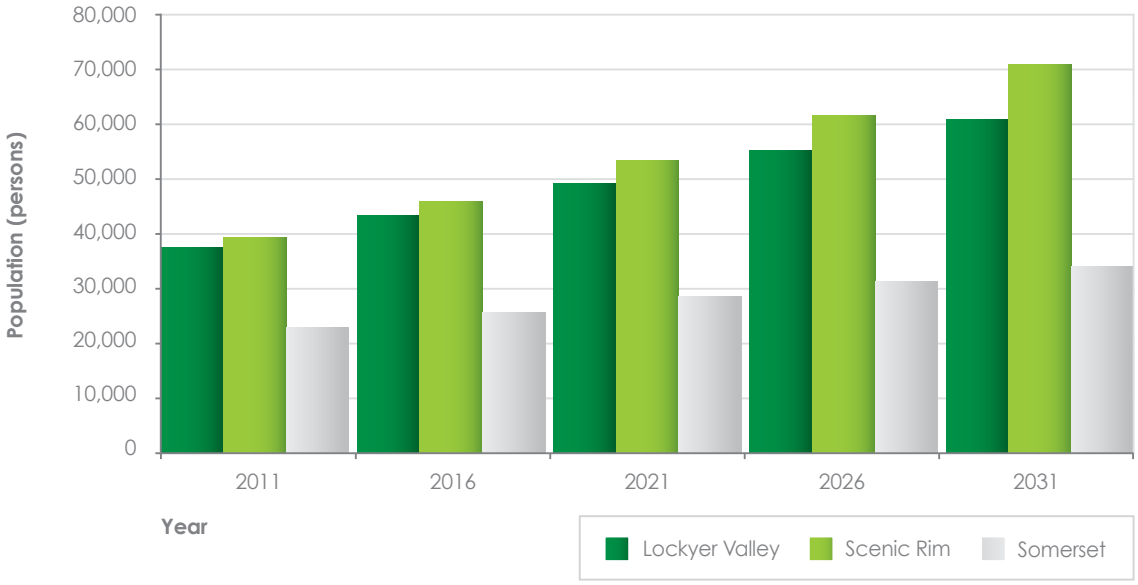


Table 6-1 Projected New Dwellings Required Between 2011 and 2031

	Brisbane City	Ipswich City	Lockyer Valley	Scenic Rim Region	Somerset Region	Total
New Dwellings	103,000	106,000	9,300	13,100	5,000	**236,400**

Typically, resident population forecasts then are refined further before they are used for planning purposes. These refinements result in the development of:

- serviced population estimates (representing persons served by the reticulated water supply and sewerage networks) for capital planning purposes
- property growth (i.e. connections) forecasts for financial planning purposes.

6.2.1 Developing Serviced Population Forecasts

The estimated resident population projections presented above provide a useful indication of the expected growth across Queensland Urban Utilities' service area. Refinements to ensure that these forecasts are suitable for use in capital infrastructure planning typically include:

1. Exclusion of properties that are not, and will not be, serviced by reticulated water supply and sewerage. For instance, approximately 70% of people living within the Scenic Rim region live in rural areas that have neither reticulated water nor a sewerage service.
2. Incorporation of information relating to non-residential equivalent person demands, which are not considered by the base population projections.

   Industrial and commercial demands are a large component of the volumes of water and sewage transported. In the Brisbane and Ipswich City regions these constituted approximately 41% of the 2008/09 total customer demand. Generally, industrial and commercial demand follows population growth, and a similar percentage of the total customer demand is anticipated in the short term.

   While residential population only includes people living in private dwellings (houses, units, flats), estimated resident populations include people living in other types of accommodation (retirement villages, nursing homes, boarding houses, colleges, caravan parks etc). These people are taken into account via the non-residential population component.
3. Development of projections appropriate to the distribution network planning level. Street level water reticulation planning and sewerage catchment planning typically require the population distribution to be estimated at an individual property level.
4. Consideration of population projections across an appropriate asset service life. Current population projections extend only as far as 2031. Water and sewerage pipeline infrastructure with a service life in excess of 80 years requires consideration of growth beyond 2031.

   The ultimate population for a network or catchment governs the capacity that must be provided by future infrastructure. While capacity for assets such as treatment plants and pump stations can often be staged in an economically beneficial manner, the most cost-effective approach for pipeline assets requires that they be sized for the ultimate population.

   Intermediate year populations determine the timeframe at which additional capacity is required (e.g. treatment plants and pump stations) and which particular infrastructure needs to be provided.

Serviced equivalent population (EP) projections combined with the adopted planning and design standards define the future capacity requirements of the system. Further processes adopted to determine the network serviced EPs are illustrated in Figure 6-3.

Figure 6-3 Process for Projecting Equivalent Populations Serviced

6.2.2 Developing Property Growth Forecasts

While population level forecasts are used in capital planning, growth in properties is used as a basis for financial forecasting.

Queensland Urban Utilities moderates the State Government's long-term population forecasts using information on property growth reflected in the billing system. At the time of setting the 2011/12 budget and forecasts this information was limited.

For the period 2011 to 2016, adopted residential property growth rates are generally lower than the annualised compound growth rate for the population. Population growth rates were interpolated from the SEQ Regional Plan (2006 and 2031) using interim year data from the OESR's Demography and Planning facet, and are shown in *Table* 6-2. The lower growth rates in non-residential properties are based on Brisbane's experience, where non-residential growth has historically been lower than residential growth.

The growth rates are applied to the properties in the billing system.

6.3 Per Capita Demand

The underlying rate of demand has experienced significant fluctuations over the past decade, largely as a result of the millennium drought. The long-term impact of this drought on water consumption patterns is not yet clear, however some changes such as increased usage of alternative water sources (e.g. rainwater tanks) and improved water efficiency (through mandated internal fixtures such as taps, showers and toilets) are already apparent.

Measuring and forecasting the rate of demand is an integral component of Queensland Urban Utilities' financial forecasting and infrastructure planning process. The rate of demand is heavily influenced by a range of short, medium and long-term factors that include:

- Day-to-day changes in temperature and rainfall (e.g. long periods of rainfall reduces the demand on the water supply as outdoor water usage drops)
- Medium term climatic effects, such as drought and associated restrictions
- Long-term changes to usage patterns arising from factors such as technological (e.g. increasingly water efficient appliances), legislative (Permanent Water Conservation Measures) or other drivers.

6.3.1 Water Restrictions and Water Efficiency

In recent years, due to the reduction in available water supply during the millennium drought, water restrictions have been used across SEQ by the State Government to significantly reduce consumption. With the ending of the drought, the State Government recognised the benefit of moving towards Permanent Water Conservation Measures (established in December 2009) to maintain the cultural change in the community's use of water, smooth the increase in demand coming out of high-level water restrictions, and reduce ongoing demand.

This cultural change in consumption has also seen a steady increase in customer water use efficiency. This is due both to the mandating of water efficient fixtures in new development and, to a lesser extent, from customers retrofitting water efficient fixtures and appliances to existing premises.

Table 6-2 Financial Forecast Annual Growth Rates – 2011/12 to 2013/14

Growth Parameters	Region				
	Brisbane City	Ipswich City	Lockyer Valley	Scenic Rim Region	Somerset Region
Population growth[1]	1.5%	4.9%	3.0%	3.1%	2.6%
Residential property growth[2]	1.6%	3.6%	3.3%	1.6%	1.6%
Non-residential property growth	1.0%	1.0%	1.4%	1.0%	1.0%

Note 1 Cumulative average growth rate for 2011-16 from SEQ Regional Plan and Demography and Planning data
Note 2 2011/12 residential property growth is based on previously adopted expected rate of property additions to the billing system

6.3.2 Demand Management Planning

The Participating Council water businesses that are now integrated into Queensland Urban Utilities were required to have Demand Management Plans in operation. Water demand management generally incorporates several complementary strategies to reduce residential and commercial water consumption, including water conservation programmes, educational campaigns, pricing, water restrictions, and water loss management.

These plans will be merged and updated as part of the introduction of Queensland Urban Utilities' Water Netserv Plan.

6.3.3 Per Capita Demand Forecasting

It is anticipated that the current historically low levels of per capita demand will continue in the short-term, with potentially some upwards creep over the longer term as a response to relaxed water restrictions, and as the community develops a growing sense of water security and availability.

Queensland Urban Utilities forecasts that demand will plateau at the regional planning values published by the QWC of between 200-230 litres per person per day (L/p/d). This target reflects measured and agreed long-term reductions in per capita demand, down from the previous design value of 310 L/p/d. The new targets reflects the culmination of a long-term State Government process to reduce per capita water demand, which commenced with the draft SEQ Regional Plan in 2003 and concluded with the *SEQ Water Strategy 2009*. Queensland Urban Utilities' infrastructure design standards are discussed in **Section 6.4** below and reflect this change.

Two distinct forms of the per capita demand measure are used in the planning and financial forecasting of our water, recycled water and sewerage services:

- Short-term or current per capita demand

  This measure reflects current levels of per capita demand (typically averaged to take into account seasonal fluctuations in demand) and may be used for:

  - preparation of usage dependent operational expenditure budgets (e.g. electricity and chemical usage)
  - setting of prices to recover costs
  - analysis of current network capacity for use in the prioritisation of the five year capital investment programme.

  Long-term usage targets are not appropriate for forecasting short term financial metrics.

- Long-term average per capita demand
  - This measure is essentially a long-term design parameter, which reflects the long life of our pipeline and other infrastructure assets. Assets with high capital costs and long lives are, therefore, planned around an underlying long-term average per capita demand. Other key design parameters are discussed in **Section 6.4**.
  - As outlined above, 200-230 L/p/d has been incorporated into infrastructure design standards.

Per Capita Demand – Key Financial Assumptions

Consumption in 2010/11 has been influenced by high rainfall and there is a reasonable likelihood that 2011/12 will be a drier year with higher consumption. Recovery of revenue above our MAR may result if actual consumption exceeds forecast consumption. To reduce this risk Queensland Urban Utilities has applied a slightly higher forecast per capita demand to 2011/12 than current recorded levels of demand (*Table* 6-3). This has ensured prices were set on a conservative (low) basis. A similarly conservative approach was used for non-residential demand, with a one percent increase in current demand applied.

This conservative approach is maintained for the forecast years of 2012/13 and 2013/14 by applying a 0.5% increase on the previous year for residential demand, and a 0.25% increase for non-residential properties.

6.4 Design Standards

Water Supply

The water distribution network is planned and designed to perform the following primary functions:

- to maintain sufficient customer water pressures when the system is subjected to peak load conditions
- to provide fire-fighting capacity for the relevant fire authorities (e.g. Queensland Fire and Rescue Service)
- to provide enough network connectivity that customers continue to receive an adequate level of service during planned or unplanned network events
- to be highly reliable over their 80-100 year planned lifespan, as underground water mains are typically expensive to build and repair.

In 2009 Queensland Urban Utilities reviewed its per capita peak loads in light of the changes in per capita customer usage patterns as outlined in **Section 6.3** above. This review resulted in a subsequent reduction in projected long-term per capita ***peak loads*** by 26%. The reviewed per capita peak loads are typically 3 to 5 times higher than the average daily demand, depending on the size and make-up of the water supply scheme.

Additionally, the local street mains that service customers (comprising approximately 80% of the water distribution network) are primarily sized to provide a minimum fire-flow rate of between 7 litres per second (L/s) and 60 L/s, depending on the fire risk. This is the dominant design criterion for these mains, as the peak load from customers within a street rarely exceeds 6 L/s.

Network component design is governed by the Queensland Urban Utilities Design Standards, which set minimum material and construction standards to be met to ensure reliable asset performance. These are developed through benchmarking and consultation within the Australian water industry.

Sewerage

Sewerage systems are only intended to carry sewage, the discharge from toilets, showers, bathtubs, sinks, and trade waste. However, surface water runoff (i.e. stormwater) and groundwater enter the system as either inflow or infiltration via illegal connections, low-lying disconnector traps on private drainage, and defects such as cracked pipes and damaged maintenance structure lids.

Importantly, inflow and infiltration have a significant influence on asset design and maintenance and therefore cost. It is not possible to eliminate inflow/infiltration from a traditional sewerage system and the extent of actions to reduce it must strike a sensible balance between costs and benefits.

Table 6-3 Per Capita Demand – Key Financial Assumptions

Expense Group	Region				
	Brisbane City	Ipswich City	Lockyer Valley	Scenic Rim Region	Somerset Region
Residential demand 2010/11 (L/p/d)[1]	169	166	146	142	136
Residential demand 2011/12 (L/p/d)	175	175	158	158	158
Non-residential demand	1.0% increase on 2010/11 consumption				

Note 1 Based on recorded 2010/11 demand to the end of March 2011.

Inflow into the sewerage system during wet weather is significant, so to avoid unacceptable overflows, sewers must be designed with the capacity to accept sudden and significantly larger flows than would be necessary to transport only the sewage generated by customers.

Various actions are undertaken by Queensland Urban Utilities to reduce inflow and infiltration. These include flow monitoring, hydraulic modelling and inspections to identify and then rectify defects, replacement or relining of sewers in poor condition, and identification of illegal connections using techniques, such as smoke testing, to reveal roof water systems that are connected to the sewerage network. Approximately half of the inflow/infiltration entering the sewerage network occurs via private drainage and customers may be issued with a notice requiring them to undertake necessary repairs.

All new reticulation sewers installed within Queensland Urban Utilities' service area are required to be welded polyethylene pipe systems (NuSewers). This is essentially a sealed system that will experience dramatically reduced levels of inflow/infiltration compared to traditional systems.

The load on a sewerage network comprises sewage load, dry weather infiltration and wet weather inflow and infiltration as described in *Table* 6-4.

Table 6-4 Key Sewerage Design Parameters

Parameter	Description
Sewage Load	With the increasing water efficiency of SEQ households in recent years, sewage loads have reduced with decreasing household internal water use. Non-residential sewage loads have also decreased due to the implementation of water efficiency management plans. Based on the analysis of flow data collected, Queensland Urban Utilities has established a design sewage load of 150 L/p/d.
Continuous Base Groundwater Infiltration	A continuous base groundwater infiltration occurs during dry weather, which typically makes up around 25-30% of the total dry weather flow in the network. This is dry weather infiltration and Queensland Urban Utilities allows 60 L/p/d for this component based on flow monitoring data. This component temporarily decreased during the drought when the ground was drier than normal.
Average Dry Weather Flow	The sewage load and dry weather infiltration together add up to the average dry weather flow in the sewer. Queensland Urban Utilities' design average dry weather flow is 210 L/p/d.
Peak Wet Weather Flow	During rain events, direct stormwater inflow occurs and infiltration increases resulting in peak wet weather flows that are several times greater than the average dry weather flow. The magnitude of wet weather flows is dependent on the condition of the pipe network, the prevalence of illegal connections and the intensity, duration and extent of the rainfall. It is these wet weather flows that govern the capacity requirements for the sewerage network and sewage treatment plants. Queensland Urban Utilities' sewerage systems are designed to carry five times the average dry weather flow, in accordance with DERM Planning Guidelines. Sewage treatment plants are designed to provide full treatment at three times average dry weather flow and primary treatment for flows in excess of three times average dry weather flow and up to five times average dry weather flow.

6.5 Non-Revenue Water

Non-revenue water (NRW) is the difference between water purchased by Queensland Urban Utilities and the water billed to customers. There are a number of factors that contribute to NRW. These include background leakage, legal and illegal unmetered consumption, unbilled metered consumption and meter inaccuracies.

While the total volume of non-revenue water is quantifiable, the quantity attributable to various sources of NRW requires a degree of estimation. The key components of NRW are described in *Table* 6-5.

Table 6-5 Non-Revenue Water – Major Components

Component	Description
Background leakage	This major component of NRW relates to the nature and history of the infrastructure and technology used in water supply networks. The ability to reduce NRW is limited by rising costs against declining benefits. Leakage reduction efforts eventually reach a point where the costs associated with reducing leakage by 1 ML are greater than the revenue to be gained by selling the volume saved. Background leakage that is currently undetectable is referred to as 'unavoidable background leakage'. Recent sustained efforts into leakage reduction by the Australian industry has indicated that, even with the latest leakage management techniques, unavoidable *daily* background leakage is currently in the order of 50–80 L/connection. **Management/Reduction Measures** In 2006, the State Government mandated the implementation of the SEQ Pressure and Leakage Management Programme. At the end of 2009/10, the programme had seen reductions in NRW for Queensland Urban Utilities of approximately 29 ML/day, or 22 L/p/d. The programme, having principally met its objectives, is due to end between 2010 and 2012.
Water for fire fighting and other community purposes	Water that is legally used but is not paid for by customers, such as water provided to fire fighting systems and used in fire fighting. Under s 144 of the *Water Supply Act*, water service providers must provide this water for free. Water used in fire fighting systems may be used for testing the system. Also includes water used by Queensland Urban Utilities itself, primarily during construction of assets and for clearing and cleaning its networks.
Illegal unpaid for water	Water that is illegally taken from the network in the form of illegal connections and/or direct theft. Improved focus on NRW reductions as a result of drought and other improvements to network services has resulted in a decline in the number of illegal connections. Anecdotally, direct theft of water mostly occurs in the form of water carriers (tankers) removing water from the network from fire hydrants, rather than travelling to Queensland Urban Utilities' supply points, as the time and fuel costs of such travel are sometimes perceived as substantial. The quantities of stolen water are estimated to increase significantly during periods of high restrictions on water usage when use of carried water increases.
Customer meters	Meter limitations also add to the total of non-revenue water. Studies have shown that under very low flows, meters may under-report or not report at all, as the flow is unable to overcome the natural friction in the meter. Such low flows often occur as a result of a minor leak within a property's plumbing system. Queensland Urban Utilities has an extensive meter maintenance and replacement programme which seeks to minimise the quantity of consumption that goes unrecorded.

7 Prudent and efficient expenditure

7.1 Infrastructure Planning

In developing its infrastructure strategies, Queensland Urban Utilities considers a variety of statutory, industry, customer, regional and other influences.

7.1.1 Statutory Requirement

The *Water Netserv Plan*, as described in **Section 4.2.2**, is the key statutory tool for future streamlined asset management and economic regulation, bringing together a number of asset and planning related activities.

Transitional asset management and planning tools, such as SAMPs and the DWQMP are discussed in **Section 4.2.3**.

7.1.2 Industry Trends

As new technologies emerge in the construction, operation and rehabilitation of network assets and sewage treatment plants, opportunities to provide better value in the delivery of water services can be realised.

Queensland Urban Utilities continues to support and participate in industry peak bodies to monitor industry trends and to ensure the integration of new technologies is incorporated into infrastructure plans on value-for-money criteria.

7.1.3 Community Considerations

As outlined in **Part A** and **Section 3** Queensland Urban Utilities places great importance on engaging with stakeholders who rely on our services and contribute to the way we do business. Queensland Urban Utilities continues to strengthen current relationships with the community, industry and government bodies to improve outcomes. Relationships with developers, suppliers, and the CCRG allow collaboration at a local level to work towards common goals.

Engaging directly with the community provides Queensland Urban Utilities with immediate feedback on whether we are meeting our customers needs. This feedback is an essential element in evaluating service levels and planning for new infrastructure.

Customer Service Standards

Customer Service Standards including environmental obligations and licence standards define the overall performance targets that Queensland Urban Utilities must deliver in managing its asset base.

The operational, maintenance, and asset rehabilitation requirements together with the prudent acquisition of new assets needed to meet these targets defines the overall asset management strategy for the organisation.

7.1.4 Regional Considerations

The population in the central area serviced by Queensland Urban Utilities is expected to increase from 1.31 million in 2009 to 1.82 million in 2031, requiring approximately 270,000 additional dwellings. As a key provider of water services within the region, Queensland Urban Utilities needs to ensure that its planning processes are sufficient to ensure the timely provision of infrastructure to support this rapid growth.

In the regional context, Queensland Urban Utilities ensures:

- its planning is consistent with the *SEQ Regional Water Supply Strategy*, identifying supply constraints and demand horizons for regional water resource and per capita demand targets
- due consideration is given to the *Healthy Waterways Strategy* a Queensland Government and SEQ councils initiative to protect and enhance waterways, and deliver the *SEQ Regional Water Quality Management Strategy*
- an ongoing liaison with the Grid Manager, as well as drinking water and recycled water groups
- a coordinated response to water quality issues through ongoing participation in regional forums.

7.1.5 Population Growth

Population growth projections as highlighted in **Section 6** are a significant driver to the organisation. When combined with the service and design standards, they define the future capacity requirements of the system.

Queensland Urban Utilities seeks to effectively service anticipated growth by:

- constructing water and sewerage infrastructure for new areas
- increasing the capacity of existing networks to maintain service standards in established areas undergoing further growth – this will be achieved through:
  - upgrading and replacing existing assets
  - constructing links between existing assets
  - constructing new infrastructure
  - optimising system performance by means other than building new infrastructure.

Areas of major growth over the next five years include:

- Brisbane — Rochedale, Oxley, and UDA's at Fitzgibbon, Hamilton, and Bowen Hills.
- Ipswich — Springfield, Ebenezer, Deebing Creek and the UDA at Ripley Valley.
- Lockyer — Laidley, Plainland and Gatton.
- Somerset — Fernvale and Lowood.
- Scenic Rim — Beaudesert, Bromelton, Canungra, and Boonah.

As a result of the January 2011 flood event, there will be significant reconstruction and relocation works in the Grantham area.

7.2 Operating & Maintaining Our Assets

In developing an organisation-wide approach to asset management, Queensland Urban Utilities has integrated key asset management components into the way its assets are operated, maintained, renewed and enhanced. This integration ensures:

- The applicable operate and maintain strategy is applied, ensuring the required levels of service are met and the asset operates for its intended life.
- Asset rehabilitation/renewal requirements are identified, justified and then applied at the required point in the asset life cycle.
- Cross-referencing between the renewal and the growth drivers is undertaken to optimise the level of investment required for future system demands.

Queensland Urban Utilities approach for managing the maintenance and renewals of its existing asset base is adopted from the four basic / fundamental strategies of asset management:

1.	Periodic Maintenance	Recurrent preventative works carried out to a predetermined time frame, be it calendar and/or equipment run time.
2.	Condition Based	Where the degradation in the state of the asset is monitored/ measured and when/if it reaches a critical point, pro-active corrective work is identified and implemented to prevent failure. This is applied at a periodic frequency or in real time.
3.	Run to Fail	Where the consequence of asset failure is considered to have negligible impact upon customer service levels, process, environment, safety and/or financial considerations when compared to the other three strategies. Asset redundancy is often applied as a management strategy for this approach.
4.	Design out/Renew	Where the asset is no longer providing the required level of service, and/or has come to the end of its functional life, it is identified to be 'renewed' or 'rehabilitated'.

A combination of these four strategies is applied to Queensland Urban Utilities' asset base taking into consideration the standards of service, consequence, likelihood, legislation and expected life.

Our asset base ranges from civil infrastructure with an expected life of 100+ years through to mechanical and electrical equipment with a design life in some cases of less than eight years. This includes tanks, wet wells, pipe work, pumps, variable speed drives, and instrumentation and control systems.

As different standards of service, consequence, likelihood, legislation and predicted life are applied to different groupings of assets, the asset base is classified into 'asset classes'. This ensures that a common strategic application of the four fundamental strategies above is achieved for similar assets.

The delivery and implementation of the asset management strategy is achieved through the operational maintenance, and capital renewal funding streams, and their associated programmes.

7.2.1 Operational Maintenance

The operational maintenance programme has two main priorities:

- To maintain the existing asset base to meet safety, service standards, performance and legislative requirements.
- To inspect and assess the asset base to understand its condition profile and to identify required preventative and/or corrective works.

Appropriate maintenance expenditure will preserve the service standard of the assets in the short term and will ensure that the identification of capital renewal works is achieved at the right time in the asset life cycle. Appropriate preventative maintenance expenditure reduces reactive expenditure and overall life-cycle costs.

The operational maintenance budget was developed following the zero-base budget approach. This bottom-up approach was applied to the following four key components:

1.	Planned Schedule Maintenance	Develop the planned maintenance schedule of works for each maintainable asset. Forecast the planned maintenance schedule over the financial year. Against each programme of works apply material, services and resource requirements and associated costs.
2.	Corrective Maintenance	The historical corrective maintenance expenditure trend for each asset class is analysed. This historical trend is cross-referenced with the inspection work as per the maintenance schedule. Costing is adjusted for the following financial year.
3.	Responsive Maintenance	The historical responsive maintenance expenditure trend for each asset class and work type is analysed. Costing is adjusted for the following financial year with consideration to asset condition.
4.	Special Project Maintenance	The special projects to be undertaken in the financial year are listed, justified and budgeted as separate non-capitalised projects. This includes items such as safety improvements, minor modification, blasting and painting.

Since 1 July 2010 Queensland Urban Utilities has been working to align the operational maintenance approach, methodology and programmes across our service area.

There has been a significant amount of effort in this area and as a result the following has been achieved:

- The active asset base and all available information have been captured into the works management system complete with a standardised maintenance strategy applied, forecasted and costed. This has been based upon previous proven maintenance methodologies applied in the five service areas.
- The zero base budgeting approach has been applied across the five service areas with a first generation budget in place for the outer western areas.
- The geographical information systems (GIS) / Works Management interface programme is underway to capture the passive assets in detail into the works management system. This is essential to correctly account for works being undertaken in the field and identifies asset information in the works management system.

A sewerage closed-circuit television (CCTV) and GIS Reconciliation programme has been initiated in the Western Service Area to improve the existing GIS information and provide a condition profile of the buried sewerage asset base. This work will provide Queensland Urban Utilities with the ability to better forecast the renewal requirements of the asset base in the coming years.

7.2.2 Capital Renewal/Rehabilitation

Queensland Urban Utilities' capital asset renewal/rehabilitation programme focuses on assets that are in poor condition, unable to be maintained and/or are under-performing. These assets include those approaching the end of their lives, as well as those showing signs of early failure.

Appropriate asset renewal/rehabilitation capital expenditure will maintain and, in some cases, improve the performance of Queensland Urban Utilities' asset base. This, in turn, reduces the number of failures requiring escalation of corrective and responsive maintenance and so improves whole-of-life costing, reliability, customer levels of service and public safety.

The capital asset renewal/rehabilitation programme is supported by feasibilities, minor capital submissions, and individual asset class rolling programmes governed by the rules stipulated in the associated business cases. The rules governing the inclusion of works are classified and briefly detailed into the two sections below.

Performance

This type of capital expenditure relates to an asset that is no longer fit-for-purpose due to poor performance. This method is primarily applied to assets where access and/or other constraints prohibit the implementation of a suitable condition assessment programme. This includes retail water mains, bio-reactor diffuser membranes, advanced water treatment membranes and pumps.

Works are identified through operational monitoring and historical failure analysis of the asset base.

Obsolescence/Condition Base

This type of expenditure relates to an asset's life cycle. It seeks to avoid the escalation of corrective and responsive maintenance expenditure by providing for the equipment to be replaced and refurbished when the asset is no longer fit for purpose due to:

- defects being identified that have or will result in a failure of the asset
- the asset being beyond its intended life and no longer supported in the context of operations and maintenance activities.

This expenditure is identified and driven through various condition inspection programmes such as operational reporting, inspections (including CCTV), structural audits and facility condition assessments.

Queensland Urban Utilities employs a condition rating or similar for all of its assets. This rating identifies works required as part of this programme. The drivers for the condition rating are failure rates, characteristics, risk (such as safety, environment, customer levels of service, financial), unserviceability, obsolescence, replacement of whole assets rather than component parts, bulk replacement strategies, unavailability of spare parts, premature aging and performance.

Since 1 July 2010, Queensland Urban Utilities has been working to align the capital renewals approach, methodology and programmes across our service area. This was partially achieved for the 2010/11 financial year. A significant effort has been undertaken in this area and, as a result, the capital renewal framework has been implemented, and this aligns capital renewal works across Queensland Urban Utilities' service area into common programmes complete with standardised justification rules, documentation, and first-generation business cases.

7.3 Capital Planning and Delivery

7.3.1 Capital Planning Approach

Planning for water supply and sewerage transport and treatment infrastructure is generally approached on the following levels:

- strategic planning
- master planning
- local government priority infrastructure planning
- pre-feasibility and detailed feasibility planning
- integrated water management planning.

Strategic Planning

Strategic planning develops the overall high-level strategy applying to the entire service area. It adopts a holistic approach to the planning and delivery of integrated water and sewerage services. At this level, opportunities are assessed for improvements in system configuration.

Master Planning

Master planning involves strategy development and investigation of individual supply area schemes in accordance with the broader strategic plan. This level of planning identifies the need for, timing, and costs of the new infrastructure required to provide adequate system capacity to maintain service standards under projected growth in demands.

Integrated Water Management Planning

Integrated water management planning is an extension of the traditional strategic and master planning process taking a broader view of managing the urban water cycle. It considers the linkages between the water supply, sewerage and stormwater systems and examines alternative servicing strategies that provide more efficient use of resources and reduced impacts on the environment. Examples of elements that might be considered in an integrated water management plan include demand management initiatives, rainwater harvesting, stormwater harvesting, sewage recycling, sewer mining, groundwater use, smart sewer technology and water sensitive urban design.

Queensland Urban Utilities undertakes integrated water management planning on three fronts:

- Specific integrated water management plans – these are detailed studies that consider integrated water management options for specific areas. Integrated water management plans have been completed for:

- Rochedale Urban Community
- Lower Oxley Creek
- Australia Trade Coast.

- Broad scale integrated water management planning – this involves incorporating integrated water management options into network master plans on a broad scale to assess impacts on infrastructure requirements.
- Assessment of alternative water management options – this involves carrying out studies that examine specific, non-traditional servicing approaches, and which report on their costs, benefits, risks, appropriateness for various types of development, possible management regimes, funding options, legislative implications, and barriers to implementation. Considerable work has been carried out on rainwater harvesting (at the household scale), centralised recycled water systems, smart sewer systems, and low-pressure sewer systems.

Local Government Infrastructure Plans

Infrastructure plans are key tools for integrating land use and infrastructure planning which:

- assist in planning infrastructure in a coordinated, efficient and orderly way that encourages urban growth in areas where adequate infrastructure exists or can be efficiently provided
- ensure all new development is supplied with essential water and sewerage infrastructure
- enable the assessment of a proposed development for trunk infrastructure requirements.

Under the SP Act, local governments are required to prepare PIPs for inclusion within planning schemes by 31 December 2011, as nominated by a Ministerial gazette notice on 1 April 2011.

The SP Act requires that PIPs incorporate:

- Plans for Trunk Infrastructure, which outline the necessary sequence of trunk network augmentation required to maintain the nominated service standard as new development occurs.
- Infrastructure Charges Schedules (ICS), which detail the developer contributions to be paid towards the provision of trunk infrastructure, and is based on fair apportionment principles according to asset usage.

Note that in some cases Queensland Urban Utilities may bear the obligation to extend the network to the development site.

Individual PIPs, which include the water supply and sewerage networks that are being developed by Participating Councils using water supply and sewerage network planning information provided by Queensland Urban Utilities. It is expected that the plans will be adopted and implemented in 2011.

However, in April 2011, the Queensland Government announced its intention to:

- Introduce legislation by mid-2011 to amend the SP Act, which would remove the requirement and ability for PIPs to incorporate an ICS.
- Introduce a State Planning Regulatory Provision to give effect to standard charges to apply from 1 July 2011 to 30 June 2014, but with water and sewerage charges removed from 1 July 2013.

Developer Constructed Assets

Developers are required to construct the necessary infrastructure for their development to be connected to the water supply and/or sewerage networks. This includes infrastructure that is:

- required to extend the existing network to the development site
- within the development site and required to service the development
- reasonable and relevant to augment the existing network and required to ensure the network has sufficient capacity to cater for the development.

Infrastructure constructed by developers that forms part of Queensland Urban Utilities' networks is donated following acceptance that it has been constructed in accordance with Queensland Urban Utilities' standards.

The value of any donated trunk infrastructure may be offset against infrastructure charges that are payable for the development in accordance with the Participating Council's infrastructure charging policy. Queensland Urban Utilities retains the right to negotiate all water and sewerage infrastructure agreements for trunk infrastructure. For example, if trunk infrastructure is supplied in lieu of the payment of a charge (e.g. an offset) or exceeds the value of infrastructure charges payable for the development, an infrastructure agreement may be entered into with the developer, that sets out the terms for reimbursement from Queensland Urban Utilities to the developer.

7.3.2 Making the Investment Decision

The outcomes of the master planning and asset management process are contained in the development of a 30-year capital investment plan, which details the proposed investment in infrastructure on a year-by-year basis. The programme includes infrastructure items identified in the master plans, as well as items identified through the asset evaluation and renewal activities and operational issues that require asset solutions.

Items in the master plans that developers are expected to provide through infrastructure agreements (known as donations of trunk infrastructure) are retained in the capital investment plan for information but do not form part of Queensland Urban Utilities' budget provision (since they are funded by developers with offsets against infrastructure contributions). The remaining items to be provided by Queensland Urban Utilities are prioritised and timings are adjusted to achieve a more balanced expenditure profile.

Adjustment and rationalisation of the 30-year investment profile is conducted on a regular basis to ensure that it remains an accurate current reflection of required future capital investment. A five-year 'slice' of the 30-year capital investment plan is taken forward for detailed budget deliberations on an annual basis.

Feasibility, Business Case and Preliminary Design

The pre-feasibility process involves a high level review of the planning assumptions adopted at the master planning stage. This process checks the requirement for proposed infrastructure prior to completing a full feasibility investigation.

Detailed feasibility planning further investigates the infrastructure identified in master plans for construction in the next three to five years. Detailed studies are undertaken to examine the options available for the best solution to address the identified issue. This includes alternative solutions that may enable deferment of capital expenditure (e.g. non-asset solutions). The detailed planning provides high definition of infrastructure requirements and accurate cost estimates.

The criteria and rankings used to assist in decision-making may vary according to particular circumstances surrounding the need, such as urgency, technical complexity or community sentiment. However, consideration is always given to a broad range of matters, including the potential environmental, social, financial and economic impacts. A Multi-Criteria Options Evaluation (MCOE) technique is used to ensure a triple bottom line approach in determining recommended solutions.

The preliminary design of the preferred option is an integral part of the feasibility report. This means that project designers have input into the feasibility process to ensure that the preferred option can be constructed and that any issues that may affect delivery such as survey, environmental studies, land and/or traffic issues are addressed. Incorporating the preliminary design into the feasibility process, ensures a seamless transition between the planning and project delivery processes.

Standard templates are used for cost estimates at the feasibility stage of planning. These contain standard approaches for estimating contingency, preliminaries, design, and project and contract management costs. These approaches are only varied by exception, based on the complexity of the project.

Table 7-1 summarises the increasing accuracy of cost estimates as the project progresses through the various stages of development.

Project cost estimates are refined throughout the project planning process. Before the feasibility process commences, project estimates in the capital programme are based on master planning estimates constructed through the use of agreed unit rates. During the feasibility report process various options are costed for comparative purposes using project cost estimation software. For options analysis an estimate accuracy of +35% / -25% is typical.

Annual Prioritisation

To ensure that limited annual capital funds are directed to the highest priority works, a capital prioritisation model is used. A copy of the capital prioritisation model is included as **Annex E**. The current process uses interviews with the project documentation authors. For the 2011/12 budget cycle the process occurred in January 2011.

The risks associated with non-funding of individual line items are calculated and the associated potential adverse impacts identified. In sorting the list of projects, preference is given to those already contractually committed or ongoing. Where possible, potential fallback funding positions are identified, along with the associated impacts of adopting them.

Table 7-1 Project Development and Cost Accuracy

Project Development Stage	Process	Estimate/Cost Accuracy	
Define the problem or opportunity Propose concept solution	Master Plan or Operations	(+/-) 40-50%	
Validate	Pre-TOR.	(+/-) 35-50%	
Consider a broad range of potential option solutions Rigorous comparison of selected potential solutions	Feasibility Study	+35%, -25% +15%, -10%	Civil Projects Predominately mechanical or off the shelf items
Preliminary design of the preferred solution	Often part of Feasibility Study. More detail than the options comparison.	+20%, -15% +/-10%	Civil Projects Predominately mechanical or off the shelf items
Detailed engineering solution *(typical level required for projects in the budget year)*	Project Design – max detail of project elements are known. Lowest contingency allowance.	(+/-) 10-15% or less for clearly defined items	
New facility in service	Construction and project implementation	Actual Cost	

The proposed 2011/12 capital programme was prioritised, and this resulted in the limited capital funding being directed to the projects that will provide the most benefit for our customers.

During 2010/11, Queensland Urban Utilities participated in a Water Services Association of Australia (WSAA) project to review capital prioritisation practices, principles, and guidelines across the Australian water industry. Queensland Urban Utilities intends to review the model and implement a formal process incorporating outcomes from the WSAA project (when finalised) for the 2012/13 budget cycle.

7.3.3 Independent Review

To ensure that proposed major projects for 2011/12 were subject to a suitable amount of planning rigour, independent reviews of these projects were undertaken by a third party. The review evaluated projects on a range of criteria, including design standards, growth projections, project justification, project deliverability, and cost. A regulatory assessment was also carried out for some of the projects. These reviews have led to further rationalisation of future capital works.

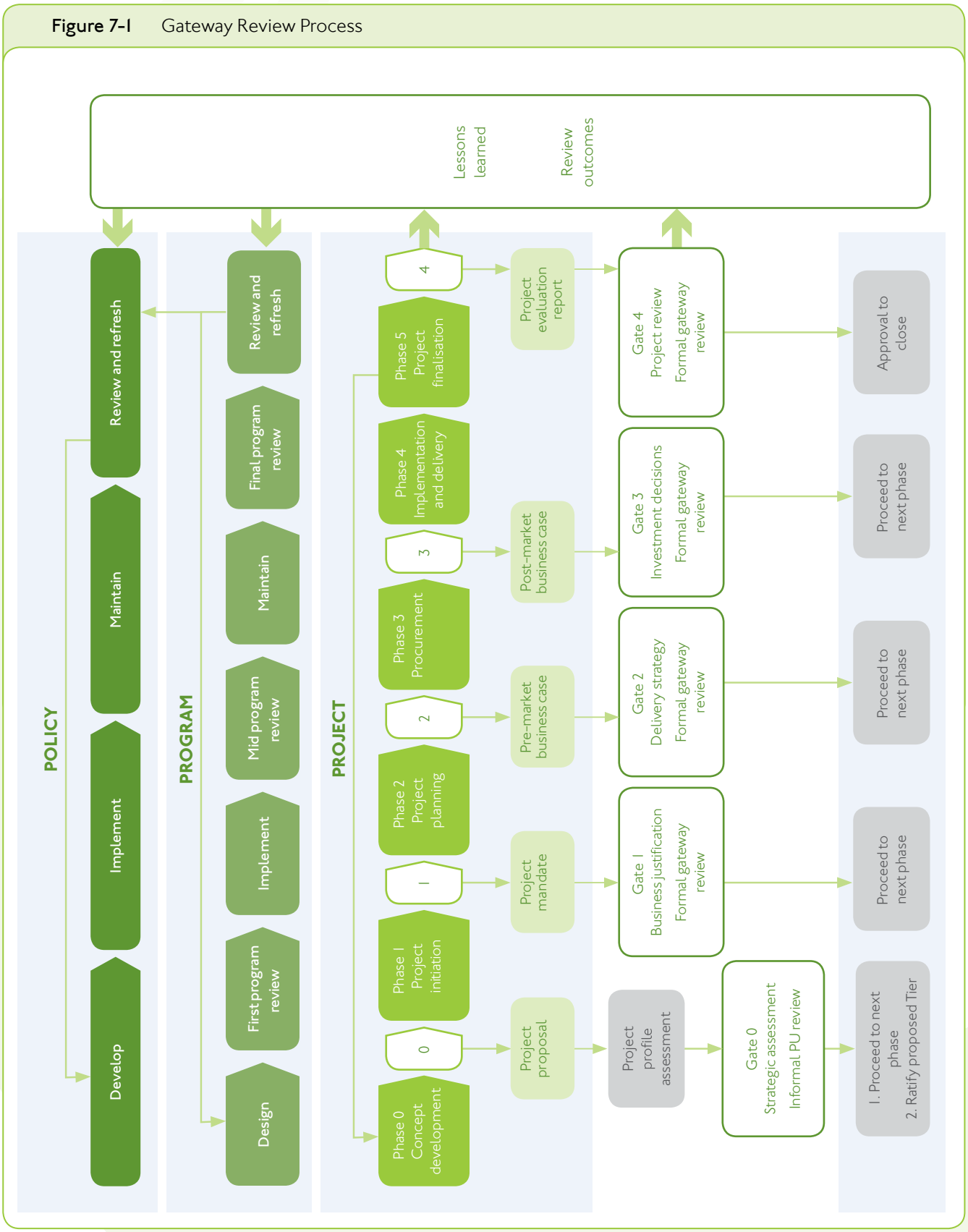
Queensland Urban Utilities has implemented a gateway review process for major projects to ensure that we continue to achieve efficiencies in the delivery of our capital programme.

Gateway review programme

Queensland Urban Utilities then uses the Gateway Review Programme, shown in *Figure 7-1*, to provide independent support to projects by having peers examine them at critical moments in their lifecycle.

The Gateway Review Programme is applied at the policy, programme and project levels. At the project level, this involves a series of 'gates' through which a project must pass. The Gateway Review Programme is designed to ensure that a project (through its supporting documentation) has been considered against each 'gate' relevant to the project lifecycle. The initial gateway review stage addresses a project's justification and considers the strength of its business case.

Figure 7-1 Gateway Review Process



To achieve Queensland Urban Utilities' business aims, the Gateway Review Programme supports project owners by helping them to ensure that:

- the best available skills and experience are used on the project
- all stakeholders completely understand the project status and issues involved
- they achieve realistic time and cost targets for the project
- they provide guidance and advice to project teams from independent fellow practitioners
- assurance that effective project governance and project management arrangements are in place
- effective risk management practices are being used
- project objectives are aligned to the strategic deliverables
- skills and knowledge are improved across the organisation through staff participation in reviews
- the lessons learned are effectively captured and used to improve the success of other projects.

The Gateway Review Programme is an important tool for Queensland Urban Utilities to ensure that its projects are delivered in a timely and cost-effective manner.

7.3.4 Capital Investment by Driver

Growth (New Demand)

Capital expenditure under the growth driver is derived from the capital planning and investment decision processes outlined in **Sections 7.3.1** and **7.3.2** above. Before taking the decision to invest in new infrastructure, existing capacities are assessed to confirm whether or not shortfalls exist to the extent that design and service standards may be compromised. This process is used to confirm investment is necessary to ensure service standards are maintained as populations grow within a sewerage network catchment or water supply zone. Major growth projects for 2011/12 are shown in *Table* 7-2. The majority of these works relate to sewage transportation and treatment assets.

Renewals

As detailed in **Section 7.2.2**, Queensland Urban Utilities' capital asset replacement/rehabilitation programme focuses on assets that are in poor condition, unable to be maintained and/or are under performing. These are assets approaching the end of their lives, but also include assets that show sign of early failure.

The capital asset replacement/rehabilitation programme is supported by feasibilities, minor capital submissions and individual asset class rolling programmes, and it is governed by rules as stipulated in the associated business cases.

A rolling programme is a programme of works to efficiently deliver a finite number of similar minor capital projects, usually grouped by asset type. The governance for this function is located in the individual rolling programme business rules. Queensland Urban Utilities' Major Projects unit delivers these works.

The capital works programme for 2011/12 includes the major renewals projects / programmes shown in *Table* 7-3.

The Gateway Review Programme is an important tool for Queensland Urban Utilities to ensure that its projects are delivered in a timely and cost-effective manner.

Table 7-2 Key Projects 2011/12 – Growth

Project (By Region)	Proposed Investment	Total Project Cost
Brisbane City		
Bulimba Creek Trunk Sewer Upgrade - Padstow Road to Coora St	$22.3 million	$51.7 million
Woolloongabba Sewer Catchment Augmentation	$5.5 million	$51.8 million
Auchenflower Branch Sewer Upgrade	$5.5 million	$8.7 million
Toowong Sewers Upgrade	$5.0 million	$5.4 million
Gibson Island WRP - Sludge Dewatering Enhance	$3.5 million	$3.8 million
Fairfield Branch & Yeronga Sewer Branch Line No. 2 Augmentation	$1.9 million	$3.6 million
Beams Rd No. 1 Pump Station Bypass	$1.7 million	$1.8 million
Ipswich City		
Goodna WRP Upgrade Stage 4A - Regional Sewerage Scheme for Goodna and Wacol Catchments Phase 1	$68.4 million	$131.0 million
Woogaroo Creek (Goodna) Trunk Sewer Augment	$52.0 million	$83.9 million
Bundamba Creek Trunk Gravity Main Implementation - Stage 1a and 1b	$9.8 million	$22.3 million
Deebing Creek Sewer Trunk Main Augmentation - Stage 1	$2.9 million	$3.8 million
Rosewood WRP Upgrade - Stage 2a	$2.7 million	$6.8 million
Bundamba WRP Upgrade - Stage 5a	$2.1 million	$154.7 million
Lockyer Valley		
Lockyer Valley Eastern Regional WRP Upgrade	$0.8 million	$26.4 million
Scenic Rim		
Canungra WRP Upgrade	$3.3 million	$8.0 million
Hopkins Street Sewage Pump Station Upgrade	$0.8 million	$0.9 million
Somerset		
Fernvale WRP Implementation	$2.7 million	$39.8 million

Table 7-3 Key Projects 2011/12 – Renewals

Project (By Region)	Proposed Investment	Total Project Cost[1]
Brisbane City		
Sewer Trunk System Renewals Programme	$14.2 million	Rolling
Water Reticulation System Renewals Programme	$7.8 million	Rolling
Wastewater Treatment Flood Recovery	$6.7 million	Rolling
Fleet	$6.0 million	Rolling
Water Reclamation Plant Renewals Programme	$4.3 million	Rolling
Water Meters Renewals Programme	$4.1 million	Rolling
Sewer Reticulation System Renewals Programme	$3.6 million	Rolling
Sewer Rising Mains Renewals Programme	$2.9 million	Rolling
Water Trunk System Renewals Programme	$2.5 million	Rolling
Water Fire Hydrants Renewals Programme	$2.4 million	Rolling
Sewer Creek and Waterway Crossings Renewals Programme	$2.0 million	Rolling
Wastewater Transport Flood Recovery	$1.8 million	
Luggage Point WRP Wet Weather Relief Overflow	$1.7 million	$4.5 million
Wacol WRP Inlet Screens Replacement	$1.5 million	$2.9 million
Ipswich City		
Wastewater Treatment Flood Recovery	$4.1 million	
Old Toowoomba Road Sewage Pump Station Upgrade (SP01)	$2.4 million	$3.9 million
Six Mile Creek Sewage Pump Station Upgrade (SP34)	$2.2 million	$3.4 million
Wastewater Transport Flood Recovery	$2.0 million	
Water Reticulation System Renewals Programme	$1.7 million	Rolling
McAuliffe Street Sewage Pump Station Upgrade (SP33)	$1.7 million	$3.1 million
Lockyer Valley		
Sewer Pump Stations Renewals Programme	$0.4 million	Rolling
Scenic Rim		
Water Reticulation System Renewals Programme	$0.8 million	Rolling
Sewer Pump Stations Renewals Programme	$0.6 million	Rolling
Somerset		
Sewer Pump Stations Renewals Programme	$0.3 million	Rolling

Note 1 A rolling programme is a schedule of works to efficiently deliver a finite number of similar minor capital projects, usually grouped by asset class.

Compliance

The capital works programme for 2011/12 includes the major compliance projects / programmes shown in *Table 7-4*.

Queensland Urban Utilities applies a continual improvement process to operating procedures and asset capability in order to minimise the risk of non-compliance and facilitate the achievement of new targets or legislation. Recent examples of this are changes to the requirements for drinking water and recycled water testing and monitoring as a result of new state legislation.

Sewage treatment plant upgrades are driven both by growth and regulatory requirements (typically compliance with lower nitrogen and phosphorous discharge targets to protect waterway health).

As treatment plant capacity is reached, the regulator aligns development applications for increased capacity to more stringent nutrient discharge resource condition targets. Specific conditions are negotiated with DERM for individual plant upgrades. Proposed upgrades include sewage treatment plants at Goodna, Bundamba, Fernvale, Canungra, and Gatton.

Maintaining a high reliability sewerage reticulation network is also fundamental to protecting waterways and public health. Queensland Urban Utilities is continuing the delivery of a $19 million five-year programme to upgrade 200 sewage pump stations. This programme initially involved a detailed reliability centred maintenance study to identify the potential for equipment failure at pump stations.

High reliability pump station control equipment and switchboards continue to be rolled out to pump stations across the networks to minimise the risk of dry weather overflows.

Improvements

The capital works programme for 2011/12 includes the major improvements projects / programmes as shown in *Table 7-5*.

Table 7-4 Key Projects 2011/12 – Compliance

Project (By Region)	Proposed Investment	Total Project Cost[1]
Brisbane City		
Leakage Management and Pressure Reduction Programme	$2.1 million	Rolling
Sewage Pump Station Reliability Improvement Programme	$2.0 million	Rolling
Ipswich City		
Bulk Water Meters Implementation Programme	$0.3 million	$2.5 million
Lockyer Valley		
Lagoons Enhancements	$2.5 million	$2.5 million
Scenic Rim		
Lagoons Enhancements	$2.1 million	$2.1 million
Somerset		
Nil		

Note 1 A rolling programme is a schedule of works to efficiently deliver a finite number of similar minor capital projects, usually grouped by asset class.

Table 7-5 Key Projects 2011/12 – Improvements

Project (By Region)	Proposed Investment	Total Project Cost
Brisbane City		
ICT Strategy	$15.0 million	Rolling
Water Supply System Service Capacity Improvement Programme	$3.5 million	Rolling
Tools of Trade	$3.0 million	Rolling
Sewer Overflow Management Works	$2.3 million	Rolling
Oxley Creek WRP - Primary Digesters Environmental Improvements	$1.5 million	$2.8 million
Ipswich City		
Carole Park WWC Pump Station Upgrade	$0.9 million	$1.1 million
Lockyer Valley		
Western Regional Councils - Tools of Trade	$0.3 million	Rolling
Scenic Rim		
Western Regional Councils - Tools of Trade	$0.3 million	Rolling
Somerset		
Western Regional Councils - Tools of Trade	$0.3 million	Rolling

Note 1 A rolling programme is a schedule of works to efficiently deliver a finite number of similar minor capital projects, usually grouped by asset class.

8 Revenue Requirement

8.1 Relevant Expenditure/Revenue Assumptions

8.1.1 Level of disaggregation

The 2011/12 interim price monitoring requirements consider services under the overarching activities of water and sewerage.

Table 8-1 allocates Queensland Urban Utilities' services to the relevant activity and details the level of disaggregation of information that is available. For example, revenue information is available at the service level for trade waste. However, information on operating expenses and assets is available only at the activity level, with the exception of Brisbane trade waste.

Table 8-1 Current Separability of Data by Service Categories

Activity	Service	Revenue	Expenditure (Operating & Capital)
Water			
Drinking Water	Potable water supplies to all customer classes. Sundry services, such as special meter reads and flow and pressure testing	Yes	Yes
Other Core Water	Queensland Urban Utilities has no other core water services	n/a	n/a
Sewerage			
Sewage via sewer	Domestic grade sewage from residential and non-residential customers, as well as trade waste and recycled water where they are not currently separable Sundry services, such as discharge of septic tanks, sewer connections and garbage grinders	Yes	Yes
Trade Waste	Trade waste where currently separable from sewage via sewer	Yes	Brisbane – Yes Other regions – No (with sewage via sewer)
Other core sewerage	Recycled water where currently separable from sewage via sewer	Yes	No – All regions with sewage via sewer
Non-regulated			
Non-regulated	Non-regulated	Yes	Yes[1]

Note 1 Non-regulated asset/capital expenditure is not material.

As shown in *Table 8-1*, the delivery of drinking water and removal and treatment of sewage (Queensland Urban Utilities' major services) are identified as core services. Other core services include:

- one-off services such as special meter reads and flow and pressure testing (these are incorporated within the core drinking water service)
- trade waste
- recycled water.

Queensland Urban Utilities has made progress towards separating the costs of trade waste from the domestic sewage portion using a sewage costing model. However at this point key information required in support of this model is only available for the Brisbane City region.

8.1.2 Allocation Principles

Operating costs are allocated to activities and regions within the financial accounting system, and these are used within this submission. **Section 4.3.3** provides the background on the financial cost allocation principles.

Infrastructure, land assets, and capital expenditure are allocated directly to activities and regions.

Sundry property, plant and equipment, and buildings other than infrastructure housing are allocated directly to regions. Where there is a direct link to the activity they are assigned directly, with the remainder assigned using the 1 July 2008 infrastructure RAB activity percentage. The majority of these assets are used in support of the infrastructure assets either to operate or maintain them. Therefore this is considered a reasonable causal basis for allocation.

Establishment costs, corporate systems and billing systems assets are allocated across regions using regional percentages of total water and sewerage properties as at 1 July 2010 and then to activities within regions using water and sewerage properties split. Properties serviced represent a reasonable causal connection to the use of the systems.

The value of the sewage via sewer activity in the Brisbane City region is further allocated between domestic grade sewage (including recycled water) and trade waste using a causal basis underpinned by a sewage cost model. This model assigns costs between domestic sewage and trade waste based on flows and loads contributed by each customer group. Domestic grade sewage includes sewage from non-residential properties where they have similar quality and quantity characteristics as sewage from residential properties.

8.1.3 Treatment of Capital Revenues

The basic principle in setting the allowable revenue for prices is that those prices should seek to only recover costs that have been incurred by the entity. Assets funded through contributions by developers, or the State and Federal Governments (through subsidies), should therefore not be included in costs to be recovered.

These contributions can be excluded through one of two methods:

- Revenue Offset (Gross Assets with MAR offset) – All assets including those funded by developers and through subsidies are added to the RAB. The MAR is then reduced by an amount equivalent to the capital revenues forecast for that year. The remaining MAR is then recoverable through utility charges.
- Asset Offset (Net Assets with no MAR adjustment) – The RAB is reduced by the value of cash contributions, donated assets and subsidies. The MAR determined on the reduced RAB is then fully recoverable through utility charges.

Consistent with the approach taken in 2010/11, Queensland Urban Utilities has applied the Revenue Offset approach for the 2011/12 Information Return.

8.1.4 Treatment of Flood Related Expenditure

Section 4.6 outlined the impact of the January 2011 floods on Queensland Urban Utilities assets. Queensland Urban Utilities continues to re-examine business priorities, maintaining tight controls on ongoing recovery costs and reviewing of the capital works programme. *Table 8-2* shows the current forecasts of expenditure that has and will result from the January floods.

Table 8-2 Forecast Flood-Related Expenditure

Description	Expenditure ($'000s)	
	2010/11 [A]	2011/12 [A]
Operating	$12,944	
Capital	$29,972 [B]	$15,585
Disposals	$20,717	

Note A Expenses presented here are contained within the QCA data template.

Note B Excludes expensed portion which is under operating.

The current estimated cost of recovery and repairs is summarised in *Table 8-2* with claims being collated and submitted through insurance. Further financial assistance has been sought from Natural Disaster Relief and Recovery Arrangements (NDRRA) for expenses that will not be covered by the existing insurance policies.

An initial insurance claim was submitted in May 2011 and a partial progress payment of $10 million was received at the end of June 2011.

Queensland Urban Utilities is continuing to collate operating expenses and asset disposals as a consequence of the flood. Our current expectation is that the value of the 2010/11 operating expenses and asset disposals will be covered by the insurance payout. These costs are shown as non-recurrent expenses within the QCA data template. The actual insurance payments received will be included under non-recurrent revenue in Queensland Urban Utilities' 2012/13 information return.

In relation to the QCA data template and submission requirements, Queensland Urban Utilities does not currently expect to recover these costs in subsequent QCA submissions. This approach may change once the insurance payout is confirmed and any material difference between these costs and the payout is known.

The capital replacement costs that have resulted from the floods are assigned to the renewals category in the QCA data template.

The requirement to replace flood affected assets has been reviewed in light of other capital projects occurring over the next few years that replace these assets. Where projects were already planned they have been brought forward and delivered as part of the flood recovery programme.

Queensland Urban Utilities has maintained comprehensive records of the flood costs and has explicitly excluded 'business-as-usual' costs.

8.2 Regulatory Asset Base

The value of Queensland Urban Utilities asset base, as advised by the then Minister for Natural Resources, Energy and the Minister for Trade for the RAB as at 1 July 2008 has been assigned on a regional basis. Each Participating Council's value, as advised, has been allocated to the written down value (WDV) at the asset level in the fixed asset registers as provided by the Participating Councils. Esk Gatton Laidley Water Board's RAB has been allocated 80% to Lockyer Valley and 20% to Somerset. The assets have been assigned to Lockyer Valley as separation on use was not material or practical.

In arriving at the 1 July 2008 WDV for each region all assets owned at that time and transferring to Queensland Urban Utilities were included. Where the assets were reported separately for water and sewerage within the financial statements they were checked against the register values. Cross checks were also conducted against the Transfer Schemes' supporting documentation as not all assets (e.g. land, plant and equipment and buildings) are identified specifically as water and sewerage assets in the financial statements.

In finalising the transferring assets as at 1 July 2010, several changes had occurred to the activity level and asset class splits from the August 2010 submission. The major contributor to changes was from land transfers, for which final information was not available at the time of the last submission. This resulted in the RAB value for water reducing relative to sewerage (*Table 8-3*).

Indexation for 2008/09 and 2009/10 is based on the Australian Bureau of Statistics (ABS) Brisbane all groups CPI June to June of 2.0% and 3.2% respectively.

For the price monitoring period, the indexation rate used is consistent with the implied inflation in the benchmark WACC. The QCA has in recent investigations (e.g. Gladstone Area Water Board (GAWB), Queensland Rail Network and Grid Service Providers) applied a 2.5% indexation factor on the basis that this represents the mid-point of the Reserve Bank of Australia's (RBA's) target inflation band and that there is a reasonable expectation that the RBA will be able to maintain inflation within this band over time.

Accordingly, Queensland Urban Utilities has used the mid-point of the target inflation rate as a surrogate for the forward looking inflation rate at the time of setting the benchmark WACC.

Table 8-3 Regulatory Asset Base (1 July 2008)

Asset	1 July 2008 RAB Value ($,000s)	
	As forecast in 2010	Final
Water		
Reservoirs	$81,306	$82,082
Pump stations	$28,444	$28,785
Treatment	$1,797	$0
Associated telemetry and control systems	$2,338	$2,369
Meters	$4,266	$4,260
Billing systems	$143	$146
Corporate systems	$1,956	$1,987
Sundry property, plant and equipment	$1,327	$1,354
Land	$73,166	$8,340
Building other than infrastructure housing	$779	$795
Mains	$1,410,518	$1,430,209
Sub Total	**$1,606,040**	**$1,560,327**
Wastewater		
Reservoirs	$1,505	$1,506
Pump stations	$116,946	$128,548
Treatment	$485,132	$483,703
Associated telemetry and control systems	$2,581	$2,614
Meters	$0	$0
Billing systems	$131	$133
Corporate systems	$1,792	$1,821
Sundry property, plant and equipment	$1,258	$1,296
Land	$40,616	$52,587
Building other than infrastructure housing	$5,190	$5,290
Mains	$1,683,858	$1,707,226
Sub Total	**$2,339,010**	**$2,384,723**
Total	**$3,945,050**	**$3,945,050**

Regulatory Asset Base Forecasts

The RAB roll forward is presented in *Table 8-4*. The following sections describe the calculation and development of the key factors affecting the RAB roll forward, including establishment costs (**Section 8.2.1**), capital expenditure (**Section 8.2.2**) and return of capital (**Section 8.2.3**).

8.2.1 Establishment Costs

In May 2007, the QWC released the *Urban Water Supply Arrangements* report. Following this report it was proposed that a single distribution and three retail entities would be established to manage the distribution and retail supply of water and sewerage services. The Council of Mayors (SEQ) Water Reform Programme and an Interim Distribution Entity were set up to manage the establishment under the initial reform model. Consequently, costs were incurred, primarily in the areas of due diligence, consulting, programme management expenses, and establishing of a head office and executive management team.

Subsequent to this initial reform model, the Deputy Premier announced the new (current) model which resulted in the three distributor-retailers. The costs incurred by Council of Mayor's SEQ Water Reform Programme, the Interim Distribution Entity, councils and by the new water entities in establishing the distributor-retailers under the water reform models (initial and current) can be carried forward as part of the RAB, provided they meet eligible purpose criteria and verification requirements.

The cost of establishing Queensland Urban Utilities consists of the following four categories of cost:

1. Share of cost of Council of Mayor's SEQ Water Reform Programme and Interim Distribution Entity
2. Cost of establishing the Retail Entities under the initial reform model
3. Cost of establishing the Central SEQ Distribution-Retailer Authority under the revised model
4. Council Transaction Costs.

The QWC commissioned Ernst and Young to review the claims. This review was completed in August 2010 and a draft released to the QWC. The QWC subsequently made a recommendation to the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade resulting in the Minister's advice of approved amounts on 17 February 2011.

In its 2010/11 submission, Queensland Urban Utilities estimated its establishment costs at $43 million. Subsequently, on 17 February 2011, the Minister advised the QCA of the approved establishment costs for the distributor-retailers. For Queensland Urban Utilities, these costs totalled $39.11 million up to 30 June 2010 and comprising $27.58 million in directly incurred costs, and $11.54 million in Council of Mayors SEQ costs.

The Ministerial Direction requires that allowable establishment costs be accepted as prudent and efficient, and to be rolled into the RAB at 1 July 2010 and recovered over an appropriate period.

Table 8-4 Regulatory Asset Base Roll Forward ($'000s)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Opening RAB	$3,945,050	$4,050,500	$4,278,932	$4,387,670	$4,568,997	$4,794,062
Net Additions[1]	$162,394	$183,847	$161,313	$240,096	$291,132	$703,111
Indexation	$80,603	$132,589	$108,992	$112,693	$117,864	$128,640
Depreciation	-$137,546	-$142,677	-$161,568	-$171,461	-$183,931	-$204,245
Establishment Costs		$39,116				
Balance sheet adjustment		$15,557				
Closing RAB	$4,050,500	$4,278,932	$4,387,670	$4,568,997	$4,794,062	$5,421,569

Note 1 Net additions include capital expenditure 'as-commissioned' and disposals

8.2.2 Capital Expenditure

Queensland Urban Utilities' capital expenditure is applied to the RAB on an 'as-commissioned' basis as required by the QCA's directive. To forecast capital expenditure on this basis, 'as-incurred' estimates of capital expenditure are first produced. The following sections outline the development of the capital expenditure 'as-commissioned' for inclusion in the RAB.

Capital Expenditure 'As-Incurred' (Excluding donated assets)

Table 8-5 presents the actual, budgeted and forecast capital expenditure 'as-incurred' for the period 2008/09 through 2013/14.

Participating Councils provided information on actual capital expenditure and capitalisations for 2008/09 and 2009/10 at the asset class level. This information was checked against the financial statements for infrastructure assets and a range of sources, such as the general ledger and asset register for the remaining assets (buildings, plant and land). The difference between opening and closing capital work in progress (CWIP) was used to check capital expenditure amounts in total. The information was then audited by the QAO at a Participating Council level.

Capital expenditure 'as-incurred' for the interim years (2008/09 and 2009/10) is used as per the Ministers' direction and referral. From 2010/11 onwards Queensland Urban Utilities has included capital expenditure on an 'as-commissioned' basis in rolling forward the RAB and calculating the MAR for pricing purposes. This approach is consistent with the guidance contained within the QCA's 2011/12 information requirements.

Capital expenditure that is not commissioned in the year of expenditure has, in the year of expenditure, six months of interest capitalised (at the regulatory WACC). For each subsequent year, prior to project commissioning, a full year of interest is capitalised on the previous expenditure. In the year the project is commissioned, and the project CWIP is added to the RAB, the carried forward amount from the previous year's CWIP has six months of interest capitalised.

In 2010/11, Queensland Urban Utilities purchased leased fleet from both Brisbane and Ipswich City Councils. This was not included in the August 2010 submission. The reasons for the other key changes between the capital expenditure 'as-incurred' programme of 2010/11 and 2011/12 in the August 2010 submission and this submission are outlined in **Annex F**.

Capital Expenditure 'As-Commissioned' (Excluding donated assets)

The 'as-incurred' expenditure described above, is used as a basis for the development of budget and forecast estimates of 'as-commissioned' capital expenditure for the period 2010/11 through 2013/14 as shown in *Table 8-6*.

The noticeable increase in the value of commissioned projects in 2013/14 (compared with 2011/12 and 2012/13) results from the scheduled commissioning of a number of large capital value, multi-year projects (in particular sewage treatment projects).

Table 8-5 Capital Expenditure 'as-incurred' - excluding donated assets

Region	Capital Expenditure ($'000s)						
	2008/09[a]	2009/10[a]	2010/11[b]	2010/11[f]	2011/12[b]	2012/13[f]	2013/14[f]
Brisbane City[1]	$81,549	$103,579	$125,204	$137,434	$145,658	$188,140	$274,689
Ipswich City	$33,253	$37,312	$115,491	$88,060	$158,379	$171,341	$73,917
Lockyer Valley	$1,614	$899	$4,393	$2,851	$5,198	$12,934	$18,877
Scenic Rim	$1,031	$2,360	$9,271	$9,038	$10,951	$14,409	$14,463
Somerset	$334	$564	$6,230	$3,342	$4,636	$31,461	$21,934
Total	**$117,781**	**$144,714**	**$260,590**	**$240,725**	**$324,823**	**$418,285**	**$403,880**

Notes a = actual (2009/10 excludes establishment costs and balance sheet adjustments); b = budget; f = forecast
Note 1 Brisbane contains small amounts of billing and corporate systems that is partially allocated to the other regions under 'as-commissioned' in the QCA template

Table 8-6 Capital Expenditure 'as-commissioned' - excluding donated assets

Driver	Capital Expenditure ($'000s)				
	2010/11 [b]	2010/11 [f]	2011/12 [b]	2012/13 [f]	2013/14 [f]
Growth	$21,009	$13,014	$48,723	$90,765	$491,028
Renewals	$71,770	$90,363	$108,376	$89,237	$119,494
Compliance	$8,300	$11,846	$7,903	$5,162	$4,550
Improvements	$13,844	$16,209	$22,230	$41,655	$26,130
Total	**$114,922**	**$131,432**	**$187,231**	**$226,819**	**$641,202**

Notes b = budget; f = forecast

Indexation of Capital Expenditure

The capital programme was indexed to nominal dollars by applying a specific capital index. The Construction Forecasting Council produces a publically available index for engineering construction in Australia. The November 2010 update is presented in *Table 8-7* and was used as the most recently available at the time of setting the budget.

However, Queensland Urban Utilities believes that this represents the low point of the likely range, particularly following the recent floods and expects the index applied in the 2012/13 submission to show an increase over the forecast period.

Table 8-7 Engineering Construction Price Index for Australia

	2011/12	2012/13	2013/14
Engineering Construction Index	2.22%	-0.39%	0.89%

Source: Construction Forecasting Council, November 2010

8.2.3 Depreciation and Disposals (Return of Capital)

Regulatory Depreciation

Depreciation for regulatory purposes is based on RAB values. Depreciation calculated from the fixed asset registers is used to provide an average remaining life by asset class as at 1 July 2008.

This average life is then used to calculate depreciation on the opening value of the asset class. In addition 50% of each year's 'as-commissioned' capital expenditure ('as-incurred' for 2008/09 and 2009/10) is depreciated at the nominal life assigned to the each asset class. Given the additional flexibility of the QCA data template this year, several asset classes have been assigned different nominal lives between water and sewerage. This allows for increased accuracy in the depreciation profile.

Regulatory Tax Depreciation

Opening tax values from the financial accounts were used for regulatory purposes. The average tax lives of assets as at 1 July 2008 were estimated using depreciation as for regulatory depreciation. Nominal tax lives were assigned to assets based on the Australian Master Tax Guide, 2011. Where multiple lives apply to an asset class, such as pump stations, the Brisbane asset register was used to calculate an average for the asset class.

Regulatory Disposals

Disposals for 2008/09 and 2009/10 were taken from Participating Council information and totals where possible (infrastructure assets) checked against the council's Financial Statements. Disposals were then adjusted from a WDV to a RAB value.

Forecast disposals due to the January 2011 flood have been included in 2010/11 at the financial asset register WDV (which is based on RAB). The flood is discussed further under **Section 8.1.4**. No other disposals have been forecast as per Queensland Urban Utilities' discussions with the QCA that unless disposals are considered to be of material value they may be left to depreciate to the end of their nominal life within the RAB.

Tax Disposals

Tax disposals are only included for Brisbane in 2008/09 and 2009/10 as tax values for the other regions were based on the tax register for 1 July 2010 and, therefore, do not hold these assets. As Brisbane had the tax value calculated as at 1 July 2008 (using the 1 July 2008 register), disposals were included. To arrive at a 1 July 2008 value for the other regions, assets capitalised over the two-year interim period were excluded and two years depreciation added back in.

8.3 Operating Expenditure

8.3.1 Indexation

Table 8-8 and *Table 8-9* present the growth and inflation related factors used to develop the budget and forecasts for operating expenditure.

Table 8-8 Assumed Annual Growth Factors

Expense Group[1]	Region				
	Brisbane City	Ipswich City	Lockyer Valley	Scenic Rim Region	Somerset Region
Bulk water	As per revenue forecasts + non-revenue water allowance				
Non-revenue water allowance	11.5%	6.0%	15%	15%	15%
Electricity; Chemicals; Sludge Handling	Based on bulk water volumes				
Labour (forecast only)	1.0%	1.5%	1.5%	1.5%	1.5%
Other costs[2]	0.25%	0.4%	0.4%	0.4%	0.4%

Note 1 Demand factors are presented in Table 6-3.
Note 2 The growth applied to other costs allows for some operational growth to be absorbed within existing resources.

Table 8-9 Assumed Annual Cost Indexation Factors (Budget and Forecast)

Expense group	Cost index		
	2011/12[b]	2012/13	2013/14
Labour (Direct & Indirect)	4.5%	4.25%	3.7%
Electricity	5.8%	6.2%	6.2%
Chemicals	4.0%	2.75%	3.0%
Sludge handling	4.0%	2.75%	3.0%
Other costs	2.5%	3.0%	2.5%
Bulk water	As per bulk water price path (**Section 8.3.2**)		
Non-revenue water	As per bulk water price path (**Section 8.3.2**)		

Note b = budget year.

8.3.2 Bulk Water

Queensland Urban Utilities acts in accordance with the government policy that prices charged by the SEQ Water Grid Manager for bulk water storage, treatment and delivery are to be passed through to customers in full.

The ten-year bulk water price path established by the QWC in 2008 is presented in *Figure 8-1*. A minor downward adjustment (to occur from 2011/12) was announced by the state, as a result of the amalgamation of Seqwater and Water Secure and putting the desalination plant and two of the advanced sewage treatment plants on standby.

8.3.3 Operating Costs

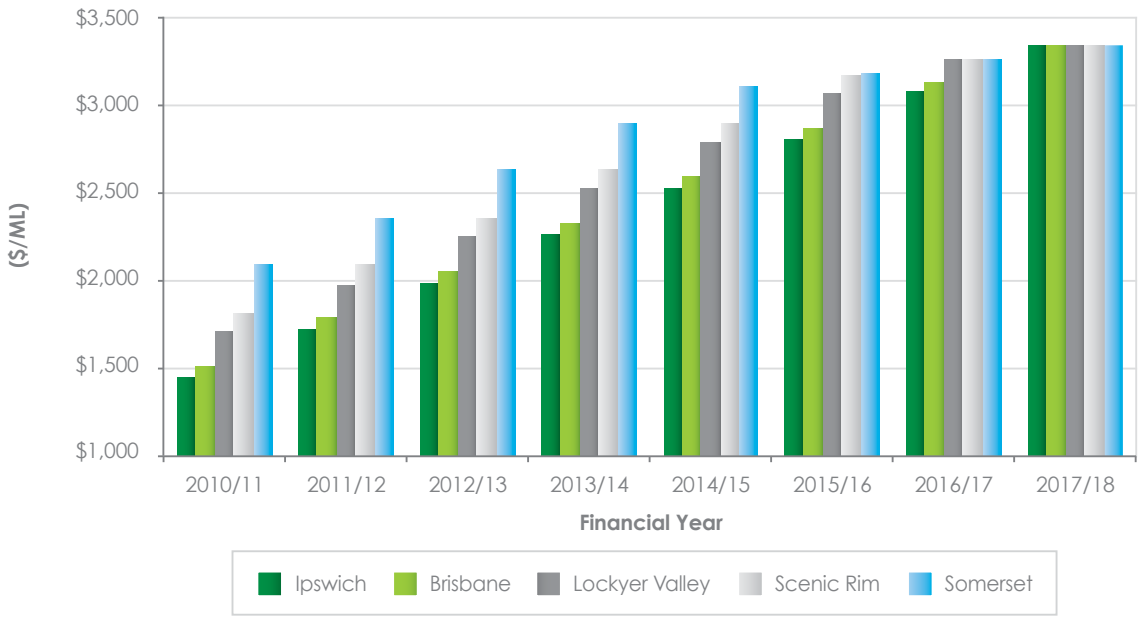
Queensland Urban Utilities has already implemented changes that have led to savings and continues to seek out future opportunities to deliver operating cost efficiencies. These savings are outlined in **Section 4.5** and are reflected in the following discussion and the data template.

Queensland Urban Utilities' operating costs are shown in *Table 8-10*.

Significant changes in regulated operating costs between the values submitted in 2010/11 and the latest 2010/11 forecast (*Table 8-10*) include:

- a reduction of $6.9 million in bulk water costs due to lower water usage
- a reduction in chemical costs of $1.4 million
- an increase in the expensed portion of the capital programme from $8.4 million in the budget to the forecast of $17.3 million (an additional $8.9 million)
- a reduction of $8.2 million in the remaining cost categories (excluding flood costs).

Figure 8-1 Bulk Water Price Path ($/ML)



Note *Values adjusted for inflation using the RBA midpoint of 2.5% per annum.*

Table 8-10 Operating Costs

Cost Category	Operating Costs ($'000)					
	2008/09[a]	2009/10[a]	2010/11[f]	2011/12[b]	2012/13[f]	2013/14[f]
Queensland Urban Utilities Costs						
Recurrent Costs	$162,878	$195,238	$213,122	$237,079	$252,222	$259,642
Non Recurrent Costs[1]	$0	$0	$12,944	$0	$0	$0
State Government Costs						
Bulk water	$106,580	$150,120	$182,791	$219,049	$259,757	$299,657
Total Regulated Costs	$269,457	$345,358	$408,857	$456,128	$511,980	$559,299
Non-regulated Costs	$13,782	$14,031	$11,968	$1,613	$1,687	$1,755
Total Costs	**$283,240**	**$359,389**	**$420,825**	**$457,741**	**$513,666**	**$561,054**

Notes *a = actual; b = budget; f = forecast*
Note 1 *Non-recurrent costs for 2010/11 relate to January 2011 flood*

The 2010/11 forecast is based on the third quarter review held in April 2011. Actual expenses are likely to vary from these forecasts and the comparison between the budget submitted in 2010 and this forecast provided above should be viewed with this understanding. In particular the effect of the flood on expenses may lead to greater variances than usual, with a corresponding effect on MAR.

The overall movement in regulated costs, excluding the non recurrent flood costs, is a reduction of $8 million moving from the budget of $403.5 million to the forecast of $395.5 million.

There is no material difference between the 2011/12 forecast submitted last year and this year's 2011/12 budget.

Table 8-11 shows the operating cost movements from the 2010/11 forecast to the 2011/12 budget for distribution and retail activities only. The one-off costs represent ongoing transition costs as a result of the Program Connect project, which was responsible for the establishment of Queensland Urban Utilities.

Table 8-11 Distributor-retailer Operating Cost Movements 2010/11 to 2011/12

	$'000
2010/11 Forecast	$238,034
Flood	-$12,944
One-off costs	-$4,348
Base forecast	$220,742
BAU[1] Increase	$11,403
Efficiencies	-$12,865
2011/12 Base budget	$219,280
New Initiatives	$19,412
2011/12 Budget	$238,692

Note 1 Indexation, for example enterprise bargaining agreement (EBA) on labour
Source: Budget document (6 May 2011)

Corporate costs

Queensland Urban Utilities has separated operating costs into the categories required under the QCA Information Requirements for 2011/12 where they represent a consistent approach. However, as 'Corporate Costs' is not a mutually exclusive cost category this has not been included in the data template.

Corporate costs can be collated under a separate method that Queensland Urban Utilities uses to report cost both internally and within the QCA data template. These costs are closely aligned to the QCA definition of Corporate Costs with the following exceptions:

- it excludes environmental management costs (as these are held within an operations responsibility code)
- it includes accounts payable for sundry charges (as these are held within a corporate services responsibility code).

The Corporate Costs forecast for 2010/11 are $43.8 million, and $52.0 million for 2011/12. One-off set-up costs of $4.3 million are included in 2010/11. The costs in 2011/12 include the following initiatives over $500,000:

ICT Investment Programme	$6.0 million
QCA Pricing Proposal Submission, and development of required price mitigation plan	$3.0 million
Accommodation Relocation Projects	$0.95 million
Safety Policies and Management System	$0.84 million
Improved Customer Communications	$0.75 million

8.4 Return on Capital

Queensland Urban Utilities has chosen this year to calculate the return on capital component of the MAR at the benchmark WACC advised by the QCA in March 2011. A summary of the parameters relevant to the benchmark WACC, and the values stipulated for use by the QCA, are presented in *Table 8-12* opposite.

While Queensland Urban Utilities has adopted the QCA benchmark values (and WACC) for the 2011/12 price monitoring period, we believe that the basis for estimation of a number of these parameters lacks sufficient justification. Queensland Urban Utilities' response to the QCA's Draft Report on Interim Price Monitoring 2010/11 highlighted these concerns and is supported by an independent expert's report. Queensland Urban Utilities looks forward to resolving these outstanding issues in consultation with the QCA as part of the QCA-wide review of WACC which is scheduled for completion within the next twelve months.

Table 8-12 Regulatory WACC Parameters

Parameter	Benchmark Value (QCA)
Nominal risk-free rate	4.91%
Capital structure (% debt)	60%
Debt margin	4.78%
Market risk premium	6.0%
Gamma	0.5
Tax rate	30%
Asset beta	0.35
Debt beta	0.11
Equity beta	0.66
Cost of equity	8.85%
Cost of debt	9.69%
Nominal (post-tax) vanilla WACC	9.35%

The use of a nominal post-tax WACC requires two additional adjustments to the MAR calculation:

1. To avoid double counting of the indexation of the asset base a negative indexation adjustment is included in the building blocks. This adjustment is equal to the indexation of the RAB for the respective year.

2. An add-on to the MAR for the notional tax expense derived as follows:
   - notional taxable revenues being the MAR before the tax adjustment and excluding the capital revenue from donated assets
   - less the operating costs included in the MAR
   - less depreciation on the tax (unindexed) value of the RAB excluding donated assets
   - less notional interest expense determined on the RAB using the capital structure and the cost of debt as per the WACC calculation
   - less an adjustment for the notional use of franking credits as set in the WACC calculation (gamma variable); plus
   - a grossing adjustment for the tax that is payable on the tax adjustment[4].

8.4.1 Tax Depreciation

In the previous submission Queensland Urban Utilities did not have access to the tax values for the Councils' assets and used the RAB values as a substitute. The tax value information has since either been received from Participating Councils or tax values calculated. These values from the financial accounts are now used for regulatory purposes.

8.5 Capital Revenues

8.5.1 Donated Assets

The Participating Councils provided information on donations by asset class for 2008/09 and 2009/10. The total of these values were checked against Participating Councils' financial statements, as published in their respective annual reports. Somerset Regional Council water donations for 2008/09 were adjusted down as described in Queensland Urban Utilities 2010/11 interim price monitoring submission.

[4] 1/(1-tax rate x (1- imputation rate))

The donations in *Table 8-13* were budgeted and forecast off a base year adjusting for cost inflation and expected growth.

Table 8-13 Donated Assets - Basis for Forecasts

Region	Base Budget Year	Adjustments for 2011/12 Budget & Forecast Years
Brisbane City	2010/11	Downward adjustment to account for: • lower than budgeted donations for water connections; and • removal of trunk infrastructure donations which are budgeted separately The growth index was adjusted downward by 5% due to short term flood effects.
Ipswich City	2010/11	The growth index was adjusted downward by 15% due to a reduction in current year receipts and short term flood effects.
Lockyer Valley	Average of 2008/09 and 2009/10	Average value adjusted to 2011/12 dollars. The growth index was adjusted down by 20% due to short term flood effects.
Scenic Rim	Average of 2008/09 and 2009/10	Average value adjusted to 2011/12 dollars. The growth index was adjusted downward by 5% due to a reduction in current year receipts.
Somerset	Average of 2008/09 and 2009/10	Average value adjusted to 2011/12 dollars. The growth index was adjusted downward by 20% due to a reduction in current year receipts and short term flood effects.

The capital index used is shown in **Section 8.2.2**, while growth was forecast using the resident population projections based on the SEQ Regional Plan and five year forecasts from the Demography and Planning facet within the OESR. These five year intervals were annualised using a compounding annual growth rate then smoothed using a three year midpoint moving average.

The majority of donations are for local infrastructure including reticulation mains and connections. However, on occasion, developers could previously have negotiated with their relevant councils (now it would be with Queensland Urban Utilities) to build some trunk infrastructure through a formal agreement. In these circumstances, developers may receive an offset against their infrastructure charges obligations.

Current or draft agreements with developers within the Brisbane City amount to approximately $12 million. These are expected to be delivered over the next two years. This has been apportioned $4 million to 2011/12 and $8 million to 2012/13.

Discussions on infrastructure agreements with developers within Ipswich City cover approximately $5 million, with delivery over the next few years. This was apportioned $1 million to 2011/12 and $4 million to 2012/13. No trunk main donations are expected for Lockyer, Scenic Rim and Somerset. Actual, budget and forecast donations are presented in *Table 8-14*.

8.5.2 Developer cash contributions

The legislative basis for setting developer charges was being reviewed by the State Government as Queensland Urban Utilities' revenue forecasts were being prepared. Prior to the commencement of this review, PIPs were to be the basis of charges for new development approvals from 1 July 2011. Development of a common forecasting approach across the Queensland Urban Utilities service area has been delayed as a result of uncertainty surrounding these charges.

As discussed in **Section 7.3.1** the State government has introduced amending legislation setting a maximum charging regime to commence from 1 July 2011. The maximum standard charges proposed are:

- $28,000 per 3 or more bedroom dwelling
- $20,000 per 1 or 2 bedroom dwelling
- Various rates for non-residential development, including $50-70/m2 gross floor area (GFA) for industry and $140-180/m2 GFA for commercial.

Local governments may elect to charge less than the maximum if they choose.

The proportion of charges allocated to each network is to be agreed between Queensland Urban Utilities and each of its Participating Councils. Negotiations were underway at the time of writing, and as a result the water supply and sewerage charges relevant to Queensland Urban Utilities service area are not yet finalised.

The final budget was prepared on the expectation that approvals pre 1 July 2011 will be charged on PSP infrastructure charges. For approvals post 1 July 2011, 50% of the 'all networks' maximum standard charge was applied to the water and sewerage charges.

The actual developer cash contributions for Brisbane City in 2009/10 are considerably higher than forecast in the August 2010 submission. This is mainly due to the payment pattern of cash contributions being concentrated in the last few days of the financial year. This usually leads to one payment spike per year. For Brisbane, which operates with a financial year that usually closes prior to 30 June, the spike is at the commencement of each year. Due to the transition of the water business from the council to Queensland Urban Utilities occurring on the 1 July 2010, 2009/10 contains two payment spikes. This was further increased by Brisbane offering an incentive for developers to pay within two financial years of development approval.

Actual, budget and forecast developer cash contributions are presented in *Table 8-15*, while commentary on development of the 2011/12 budget is presented in *Table 8-16*. Actual 2010/11 developer revenue may vary significantly from forecast as the majority of developer charges are historically received in the last few days of June.

Table 8-14 Donations – Local and Trunk Infrastructure

Region	Activity	Actual, Budget and Forecast Donations ($'000)								
		2008/09[a]	2009/10[f]	2009/10[a]	2010/11[b]	2010/11[f]	2011/12[b]	2012/13[f]	2013/14[f]	2010/11 Budget v Forecast
Brisbane City	Water	$24,643	$24,000	$23,426	$24,414	$19,500	$19,019	$22,799	$19,204	Forecast donated assets reduced by $5 million due to actual donations for water connections being below the 2010/11 budget estimate.
	Sewerage	$20,566	$20,000	$20,251	$16,000	$16,000	$13,279	$13,112	$13,425	
Ipswich City[1]	Water	$7,638	$5,719	$1,906	$6,602	$7,594	$8,147	$13,113	$12,183	Forecast increased by $1 million as a result of a transfer from the capital programme of water connections to donations.
	Sewerage	$4,916	$5,719	$8,402	$6,729	$6,729	$7,275	$9,293	$10,355	
Lockyer Valley	Water	$761	$800	$547	$574	$42	$905	$1,033	$1,192	A portion of the Lockyer Valley budget was transferred to Scenic Rim and Somerset as these regions are forecast to receive minor donations.
	Sewerage	$690	$0	$1,932	$224	$224	$741	$845	$976	
Scenic Rim	Water	$815	$500	$449	$0	$266	$730	$825	$859	
	Sewerage	$688	$500	$684	$0	$0	$597	$675	$702	
Somerset	Water	$1,570	$0	$369	$0	$266	$1,194	$1,440	$1,657	
	Sewerage	$2,434	$0	$587	$0	$0	$977	$1,178	$1,355	
	Total	**$64,721**	**$57,238**	**$58,553**	**$54,543**	**$50,621**	**$52,864**	**$64,313**	**$61,908**	

Notes *a = actual; b = budget; f = forecast*

Note 1 *Ipswich 2008/09 total unchanged from August 2010 submission but water sewerage splits changed to match note 19 in Financial Statements*

Table 8-15 Developer Cash Contributions – Trunk Infrastructure

Region	Activity	Actual, Budget and Forecast Cash Contributions ($'000)								
		2008/09[a]	2009/10[f]	2009/10[a]	2010/11[b]	2010/11[f]	2011/12[b]	2012/13[f]	2013/14[f]	2010/11 Budget v Forecast
Brisbane City	Water	$26,410	$31,542	$42,832	$22,179	$18,813	$16,706	$18,895	$19,138	Forecast cash contributions have been reduced by $12.6 million as actual receipts (at the April 2011 forecast) indicate that the end of year revenue will be below the 2010/11 budget estimate.
	Sewerage	$32,457	$35,306	$50,708	$53,085	$43,865	$43,971	$44,439	$38,951	
Ipswich City	Water	$4,159	$4,267	$8,935	$6,839	$4,211	$6,782	$7,946	$9,218	Forecast decreased by $1.2 million due to the removal of the bulk water component that had been included in the budget estimate. Also reduced by $4.1 million due to lower than expected receipts.
	Sewerage	$4,165	$4,273	$11,135	$9,324	$6,676	$12,486	$14,122	$15,947	
Lockyer Valley	Water	$2,078	$587	$617	$0	$650	$880	$893	$928	Forecast value is based on current and expected receipts.
	Sewerage	$259	$148	$152	$0	$70	$720	$730	$759	
Scenic Rim	Water	$1,815	$459	$745	$849	$40	$990	$1,064	$1,106	Reduced in line with current receipts.
	Sewerage	$1,069	$270	$438	$351	$60	$810	$870	$905	
Somerset	Water	$2,765	$0	$330	$0	$1,093	$1,210	$1,297	$1,343	Forecast value is based on current and expected receipts.
	Sewerage	$1,689	$0	$180	$0	$1,077	$990	$1,061	$1,098	
	Total	**$76,866**	**$76,852**	**$116,072**	**$92,627**	**$76,555**	**$85,545**	**$91,317**	**$89,393**	

Notes a = actual; b = budget; f = forecast 2008/09 and 2009/10 include bulk water charges

Table 8-16 Developer Cash Contributions – 2011/12 Budget Development

Region	Key Assumptions
Brisbane City	Budget revenue is based on current unpaid approvals, historical payments trends and an average PSP charge for the PSP based revenue. Maximum standard charge revenue is based on a combination of average annual approvals over the past three years and the historical payment trends in the year of approval to estimate the equivalent tenements. The residential charge is assumed to be $14,000 for water and sewerage representing 50% of the network maximum charge. An average charge is estimated for non-residential development. Cash contributions were forecast based on a gradual transition from PSP charges to the maximum standard charge and expected growth.
Ipswich City	Equivalent tenements to be developed are based on resident population projections from the SEQ Regional Plan and Demography and Planning adjusted to take into account current receipt levels, which are lower than population projections. This results in a downward adjustment of 15% for 2011/12. These equivalent tenements are then split between revenue to be collected under current PSP approvals (80%) and new approvals in 2011/12 (20%). Average PSP charges are used and the maximum standard charge for residential is assumed to be $14,000 for water and sewerage. An average charge is applied for non-residential development. Cash contributions were forecast based on a gradual transition from PSP charges to the maximum standard charge and expected growth.
Lockyer Valley Scenic Rim Somerset	Based on the average of 2008/09 and 2009/10 water and sewerage receipts adjusted to 2011/12 dollars. This was then split between water and sewerage using the difference between forecast growth for water and sewerage properties in Lockyer Valley. Cash contributions were forecast using the 2011/12 budget adjusted for cost indexation and expected growth. The growth was forecast using the resident population projections based on the SEQ Regional Plan and Demography and Planning five year forecasts. These five year intervals were annualised using a compounding annual growth rate then smoothed using a three year midpoint moving average.

8.6 Maximum Allowable Revenue

The standard building block approach to the determination of the MAR is introduced in **Part A** and **Section 5.3**.

The collation, forecasting and computation of the various values are achieved through a series of spreadsheet based models. The MAR for 2008/09 and 2009/10 is based on historical information and for the current and future years based on forecast information. Queensland Urban Utilities 2011/12 budget provides the primary basis for forecasting the future years.

The MAR calculation also involves a number of decisions and/or assumptions as outlined in the preceding sections.

Table 8-17 and *Table 8-18* present the MAR building block values for water and sewerage services for the period 2008/09 through to 2013/14.

Table 8-17 Maximum Allowable Revenue – Water

Component	MAR Building Blocks – Water ($'000)					
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Return on assets	$146,126	$152,175	$166,110	$172,511	$180,133	$188,387
Indexation	-$32,118	-$53,512	-$44,416	-$46,126	-$48,164	-$50,371
Depreciation	$41,692	$42,933	$50,933	$54,347	$58,636	$63,371
Operating costs	$58,210	$67,310	$73,035	$80,405	$89,722	$91,013
Less flood response costs			-$1,369			
Bulk water costs	$106,580	$150,120	$182,791	$219,049	$257,147	$296,630
Net tax	$8,836	$5,859	$0	$0	$0	$0
Capital revenues	-$85,851	-$84,398	-$52,475	-$56,564	-$69,304	-$66,827
MAR	$243,475	$280,487	$374,610	$423,623	$468,170	$522,202

Table 8-18 Maximum Allowable Revenue – Sewerage

Component	MAR Building Blocks – Water ($'000)					
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Return on assets	$220,262	$224,786	$241,512	$248,961	$260,678	$292,728
Indexation	-$48,485	-$79,077	-$64,576	-$66,567	-$69,700	-$78,269
Depreciation	$95,855	$99,744	$110,634	$117,115	$125,295	$140,874
Operating costs	$104,667	$112,830	$153,031	$156,674	$165,111	$171,657
Less flood response costs			-$11,575			
Net tax	$14,773	$10,305	$3,898	$4,564	$4,870	$6,004
Capital revenues	-$70,509	-$102,737	-$74,701	-$81,847	-$86,325	-$84,474
MAR	$316,563	$265,852	$358,222	$378,900	$399,929	$448,519

Table 8-19 shows the variation between the budget and forecast MAR for 2010/11, where the budget value is the regulatory value presented by the QCA in the IPM Report 2010/11. The budget values are therefore based on the data presented in Queensland Urban Utilities' 2010/11 information return. The forecast values are based on the forecast for 2010/11 and adjustments to the roll forward of the asset base.

Factors contributing to the difference between forecast and budget MARs for water and sewerage include:

- Capital revenues are $20 million below the originally anticipated level and are the primary reason for the change in MAR (**Section 8.5**).
- A reallocation of the initial July 2008 RAB value between water and sewerage services, which in turn resulted in an adjustment to the 'return on assets' with water decreasing and sewerage increasing. The reallocation was based on the finalisation of asset transfers from Councils.
- Establishment costs were settled at $3.9 million below the original estimate which reduced the opening RAB for July 2010 and lead to a reduction in the return on assets of $360,000 each for water and sewerage.
- The 'return on assets' for 2010/11 is further reduced by the $20.7 million disposal of flood damaged assets. *(Note: the return on assets is based on the average RAB, so the disposal value reduces the average asset value by $10 million).*
- In response to the flood event the capital programme for 2010/11 was reprioritised to focus on service restoration. As a consequence, the portion of the capital programme that will be commissioned in 2010/11 increased as funds were diverted away from longer term projects.
- The various changes to the RAB also flow through depreciation and indexation components of the MAR. Noticeable impacts include an increase in the percentage value attributed to non-land assets in the initial RAB.
- Reductions in water demand have resulted in reduced bulk water costs.
- Overall other operating costs are $1.5 million lower than budgeted, which results from a $3.7 million decrease in water costs and a $2.2 million increase in sewerage costs.
- $12.9 million in operating costs relating to the flood events are not included in the above comparison. Also,the disposal of flood damaged assets is not included in the operating costs, but is removed from the asset base, reducing the return on assets as mentioned above.

8.7 Utility Revenue

Utility revenues cover those received from recurrent operations excluding capital and financing revenues, but including some non-regulated services which are identified separately.

Forecast revenue is a function of property counts (including expected growth), forecast demand (for water volume), and prices. Revenue forecasts have been derived from an analysis of 2010/11 billings, including connections growth, demand assumptions and applied price increases.

Table 8-20 show the actual, forecast and budget revenues for the water, sewerage and non-regulated activities undertaken by Queensland Urban Utilities from 2008/09 to 2012/13. Aggregate values for Queensland Urban Utilities are presented on *Figure 8-2*.

Table 8-19 Budget and Forecast MAR Comparison – 2010/11

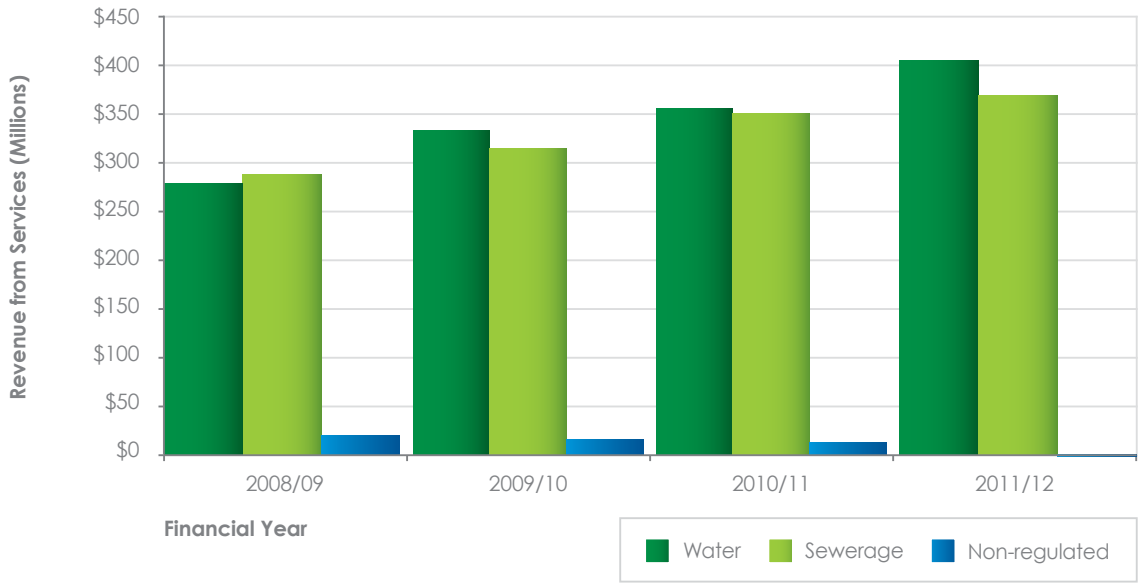
2010/11 MAR	Water			Sewerage		
	Budget	Forecast	Variance	Budget	Forecast	Variance
Return on Assets	$169,330	$166,110	-$3,220	$237,960	$241,512	$3,552
Indexation	-$45,960	-$44,416	$1,544	-$64,110	-$64,576	-$466
Depreciation	$48,460	$50,933	$2,473	$105,710	$110,634	$4,924
Operating Costs (excl flood costs)	$75,360	$71,666	-$3,694	$139,270	$141,456	$2,186
Bulk Water Costs	$187,570	$182,791	-$4,779	$940	$0	-$940
Net Tax	$0	$0	$0	$1,830	$3,898	$2,068
Capital Revenues	-$61,460	-$52,475	$8,985	-$85,710	-$74,701	$11,009
MAR	$373,300	$374,610	$1,310	$335,890	$358,222	$22,332

Table 8-20 Revenue from Services

Region	Activity	Revenue from Services ($'000s)					
		2008/09[a]	2009/10[a]	2010/11[b]	2010/11[f]	2011/12[f]	2012/13[f]
Brisbane City	Water	$220,601	$258,243	$284,027	$281,339	$325,425	$360,463
	Sewerage	$245,002	$267,622	$302,363	$302,502	$318,658	$334,081
	Non-regulated	$15,726	$14,558	$11,891	$12,014	$1,767	$1,850
Ipswich City	Water	$43,576	$53,244	$64,305	$57,432	$62,484	$69,429
	Sewerage	$35,844	$38,585	$44,682	$41,797	$44,132	$46,686
	Non-regulated	$851	$1,257	$1,220	$2,496	$92	$96
Lockyer Valley	Water	$6,403	$7,389	$6,612	$6,765	$6,582	$7,295
	Sewerage	$1,964	$2,170	$2,321	$2,305	$2,387	$2,522
	Non-regulated	$0	$0	$0	$220	$0	$0
Scenic Rim	Water	$5,334	$6,686	$5,765	$5,636	$6,165	$6,689
	Sewerage	$2,585	$3,040	$3,150	$3,030	$3,270	$3,405
	Non-regulated	$0	$0	$0	$210	$0	$0
Somerset	Water	$3,781	$5,046	$4,428	$4,232	$4,910	$5,369
	Sewerage	$1,580	$1,826	$2,015	$2,039	$1,922	$2,002
	Non-regulated	$0	$0	$0	$160	$0	$0
	Total	**$583,247**	**$659,666**	**$732,779**	**$722,177**	**$777,794**	**$839,887**

Notes *a = actual (2008/09 and 2009/10 revenues have been compiled from the accounts of the water businesses of the former Councils); b = budget; f = forecast*

Figure 8-2 Forecast Recovery (by Activity)



As outlined in **Section 5.1.3**, a price path for the period 1 July 2013 to 30 June 2018 will be developed by 1 March 2013.

As part of an agreement to a final price path, the Participating Councils and Queensland Urban Utilities, will consider a range of issues of varying degrees of complexity, including:

- geographic issues (e.g. continuation of location specific pricing, or the introduction of postage stamp pricing)
- tariff structure (e.g. including the relative proportion of fixed against variable component, and the nature of the variable component i.e. inclining block or flat rate)
- customer classes (residential and non-residential differentials).

The final price path, including the initial years of the July 2013 to June 2018 period, would take into account necessary cost increases (if any) and would seek to minimise year-on-year fluctuations by smoothing changes over an appropriate period.

A typical quarterly billing cycle for Queensland Urban Utilities generates over 2 million billing line items. This covers the extent of our customer base and the tariff structures (currently greater than 140 individual tariffs apply across Queensland Urban Utilities service area) inherited from the Participating Councils. This complex billing data is analysed and reduced to three primary revenue groups (i.e. water fixed charges, water volume charges and sewerage charges), against two customer groupings (i.e. residential and non-residential) and across each of the Participating Council regions.

Assumed property growth takes into account medium term planning forecasts moderated by the actual growth in connections as reflected in the billing data. Demand forecasting is discussed in greater detail in **Sections 6.2** and **6.3**.

As discussed in **Section 6.3** forecast demand for 2011/12 has been set at the same values used in determining prices for 2010/11 rather than the current demand which is 10-15% lower. Using the higher demand maintains some consistency in setting prices and reflects the expectation that the unusually wet weather experienced in 2010/11 is unlikely to be repeated in 2011/12.

Per capita demand (L/p/d) is converted to consumption per property (kL/annum) by the application of a standard factor to account for the average persons per property. A weighted average of 2.35 has been used for Brisbane due the mix of houses and units in the make up properties, while 2.6 has been used for the other districts as they consist primarily of houses.

Revenues are forecast using average prices. For 2011/12 and beyond, these are based on the 2010/11 average price increased in accordance with the tariffs as presented in **Part A**.

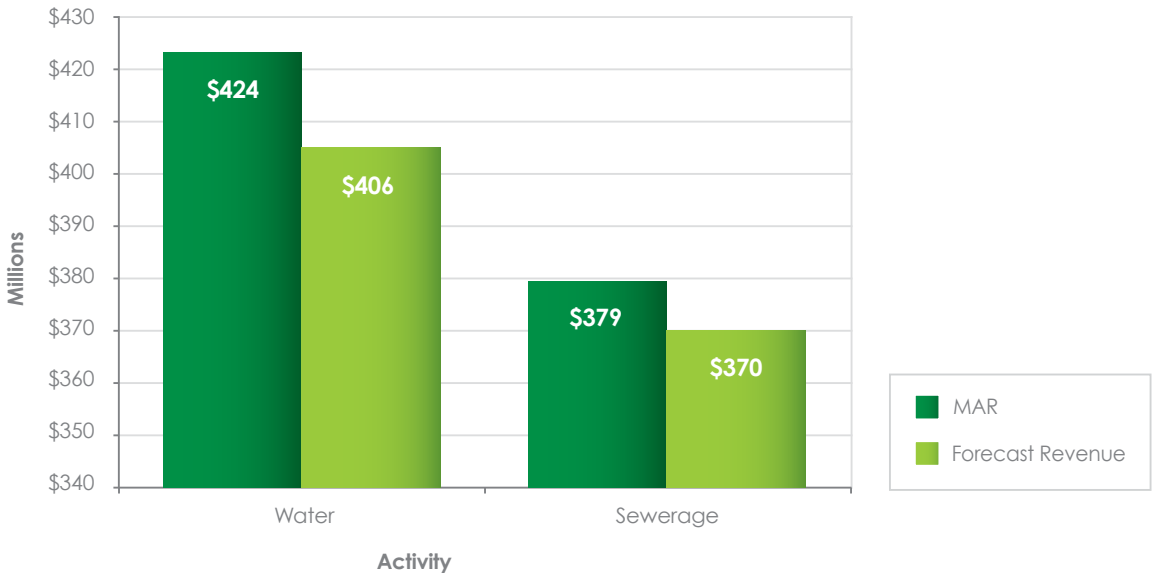
8.7.1 Recovery against MAR – 2010/11 and 2011/12

Utility revenues for 2010/11 are forecast to be slightly lower than budgeted (1.5%), primarily due to demand being lower than expected. Volume demand was budgeted at a weighted average per capita consumption of 174 L/p/d. The actual average per capita, as derived from the billings for the current year, is 168 L/p/d. The reduction in volume revenue has been partly offset by higher-than-expected fixed charges revenue which is mainly attributed to the misclassification of properties in the initial budget calculations.

Figure 8-3 shows the extent to which Queensland Urban Utilities is under-recovering against MAR for both water (5.1%) and sewerage activities (1.8%) in 2010/11, while *Figure 8-4* shows budgeted under-recovery for 2011/12 (4.3% for water and 2.3% for sewerage activities). These comparisons are based on the MAR values presented in **Section 8.6** (refer *Table 8-17* and *Table 8-18*) and the revenue values presented in *Table 8-20*.

Figure 8-3 Forecast Recovery (by Activity) v MAR – 2010/11

Figure 8-4 Forecast Recovery (by Activity) v MAR – 2011/12



9 Conclusion

Since being established as a distributor-retailer on 1 July 2010, Queensland Urban Utilities has worked hard to ensure the continuation of high-quality water and sewerage services to customers within its service area. While ensuring the continuation of these services Queensland Urban Utilities has already identified and delivered significant efficiencies ensuring that water and sewerage prices remain the lowest in SEQ.

This information return reflects the second year of the interim price monitoring period and demonstrates considerable commitment to the regulatory framework established by the Queensland Government. Queensland Urban Utilities continues to refine its policies, procedures and practices to ensure that sufficient information is available to facilitate the regulatory review of its activities. At the same time opportunities for the delivery of efficient water and sewerage services continue to be pursued in line with our purpose and vision.

9.1 Key Business Details

Key business details are summarised in *Table 9-1*.

Table 9-1 Business Details

Trading name	Queensland Urban Utilities
Australian Business Number	86 673 835 011
Principal place of business	Levels 6-8, West Tower, Brisbane Transit Centre 171 Roma Street Brisbane QLD 4000
Contact person	Louise M Dudley (Chief Financial Officer)

9.2 Director's Statement

In the opinion of the Board Member/s of Queensland Urban Utilities:

(a) The *price monitoring information returns* set out in the enclosed *QCA data template*, and supported by this document, are drawn up so as to fairly represent, in accordance with the requirements of the SEQ Interim Price Monitoring Information Requirements issued by the QCA, ("Information Requirements"):

  (i) the information required by the Information Requirements

  (ii) the information on *related party* transactions required

  (iii) the information on *third party* transactions required by the Information Requirements

(b) the terms and definitions used in this statement accord with the definitions set out in the Information Requirements.

Signed in accordance with a resolution of the Board:

Jude Munro AO
Chair

Dated
19 August 2011

An extract of the Minutes of the Board Meeting resolving to sign the Directors Responsibility Statement is provided in **Annex G**.

10 Abbreviations, acronyms and glossary

10.1 Abbreviations & Acronyms

Abbreviation	Abbreviated Term
ABS	Australian Bureau of Statistics
ADWG	Australian Drinking Water Guidelines
AS	Australian Standard
BCW	Brisbane City Works
Budget Guideline	*Queensland Urban Utilities Budget Guideline – 2011/2012*
CCRG	Customer and Community Reference Group
CCTV	Closed circuit television
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIP	capital investment programme
COO	Chief Operating Officer
CPI	Consumer Price Index
CWIP	Capital work in progress
DERM	Department of Environment and Resource Management
DRR Act (the)	*South East Queensland Water (Distribution and Retail Restructuring) Act 2009*
DWQMP	Drinking Water Quality Management Plan
ELT	Executive Leadership Team
EP	Equivalent person
ET	Equivalent tenement
EWOQ	Energy and Water Ombudsman
FMPM	Financial Management Practice Manual
GAWB	Gladstone Area Water Board
GFA	Gross floor area
GIS	Geographical information systems
ICS	Infrastructure Charges Schedule
IPM Report 2010/11	SEQ Interim Price Monitoring for 2010/11 Final Report (QCA, March 2011)
kL	kilolitre, or one thousand litres

Abbreviation	Abbreviated Term
km	kilometres
L/p/d	Litres per person per day
L/s	Litres per second
MAR	Maximum Allowable Revenue
MCOE	Multi-criteria options evaluation
ML	Megalitres or one million litres
NDRRA	Natural Disaster Relief and Recovery Arrangements
NRW	Non-Revenue Water
OESR	Office of Economic and Statistical Research
PIP	Priority Infrastructure Plan
PSP	Planning Scheme Policy
QAO	Queensland Audit Office
QCA	Queensland Competition Authority
QWC	Queensland Water Commission
RAB	Regulatory Asset Base
RBA	Reserve Bank of Australia
s.	Section (of an Act or Regulation)
SAMPs	Strategic Asset Management Plans
SEQ	South East Queensland
SEQWGM	SEQ Water Grid Manager
SCADA	Supervisory Control and Data Acquisition
SLMP	System Leakage Management Plan
SP Act	*Sustainable Planning Act 2009*
Treasury	Queensland Treasury
UDA	Urban Development Areas
ULDA	Urban Land Development Authority
WACC	Weighted Average Cost of Capital
WDV	Written down value
WSAA	Water Services Association of Australia

10.2 Glossary of Terms

Term	Definition
Amortised	The cost of an intangible is allocated proportionally against the years of useful life. The annual allocation represents the amount amortised.
Asset offset	One method that is used to avoid a regulated business earning a return to assets they have not funded. The revenue contributed by third parties (often developers) is not added to the asset base.
Building block approach	Generic approach to price/revenue regulation involving the determination of a maximum allowable revenue (MAR – see below). The MAR is made up of a number of separate components, including a return on capital and depreciation, as well as operating, maintenance, and administrative charges.
Bulk water	The name given to water supplied wholesale to distribution entities for retail sale to the public.
Capital expenditure (compliance)	Capital expenditure associated with meeting price monitoring or legislative obligations should be included in compliance.
Capital expenditure (growth)	Capital expenditure associated with increasing the capacity of assets or construction of new assets to meet growth in demand, or to provide additional security of supply should be included in growth.
Capital expenditure (improvement)	Capital expenditure associated with improving service levels and reliability to meet customer preferences should be included in improvements.
Capital expenditure (renewals)	Capital expenditure associated with replacing assets and generally maintaining service levels should be included in renewal of existing infrastructure.
Capitalisation	Recognition of the capital cost of an asset.
Depreciation	A measure of the decline in an asset's service potential related to usage or technological obsolescence.
Developer contribution	A monetary contribution, the dedication of physical assets free of cost, or the provision of a material public benefit.
Donated assets	Assets constructed by a third party (e.g. developer) and donated to Queensland Urban Utilities. In the case of trunk infrastructure this would typically be undertaken as part of an infrastructure agreement and offset against infrastructure funding obligations.
Equity beta	A measure of the undiversifiable market risk associated with an entity's assets, and the financial risk borne by shareholders due to an entity's use of debt financing.
Efficient (expenditure)	Minimum expenditure that is required to maintain a given level of service over an extended period.
Eastern service area	Queensland Urban Utilities' service area encompasses the local government boundaries of our Participating Councils. This service area is divided into eastern and western service areas for operational, service and maintenance reasons. The eastern service area corresponds to the Brisbane City Council local government boundary.
Equivalent person (EP)	A unit of measure that imposes the same demand/load on the water supply/sewerage system as a person living in a detached house. It is used to express the demands/loads from different types of development in a standard unit.
Equivalent tenement (ET)	The demand on the water supply or sewerage system unit which is represented by a single detached dwelling.
Financial Management Practice Manual	Queensland Urban Utilities manual addressing accounting and other financial practices.
Full cost pricing	An element of various competition reforms, where state or local government business activities are required to recover sufficient revenue to cover the identified costs of delivering goods and services.
Market power	In economics, market power is the ability of a firm to alter the market price of a good or service. A firm with market power can raise prices without losing its customers to competitors.

Term	Definition
Market risk premium (MRP)	The difference between the expected return on a market portfolio and the risk-free rate. The risk free rate of return is the theoretical rate of return of an investment with zero risk. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.
Maximum Allowable Revenue (MAR)	The MAR is a generally accepted regulatory term for the level of revenue that fairly compensates an entity for its efficient costs and the level of risk it has assumed (it corresponds to the Council of Australian Government's upper bound pricing). OR The total amount of revenue that an efficiently operated business would need to receive to remain commercially viable, but not earn monopoly profits. Generally derived using the building block approach.
Net present value (NPV)	Sum of a stream of revenue and expenditure discounted into current year dollars. Frequently used to assist in deciding between several potential projects.
Non-regulated service (see also 'regulated service')	Service for which a competitive price must be charged in order to maintain market share. A correctly classified non-regulated service is one for which a provider or customer has little or no power to influence the price.
Non-revenue water	The difference between system input volume and billed authorised consumption. In other words it is the difference between water purchased by Queensland Urban Utilities, and the water billed to Queensland Urban Utilities' customers. There are a number of factors that contribute to NRW. These include background leakage, legal and illegal unmetered consumption, unbilled metered consumption and meter inaccuracies.
Participation agreement	The agreement between Queensland Urban Utilities and its participating local governments in accordance with the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*.
Prudent (expenditure)	Expenditure is prudent where Queensland Urban Utilities can demonstrate a need for the expenditure. In terms of the capital works programme expenditure is prudent if it is required to meet a legal obligation (e.g. high-quality discharges to the environment from sewage treatment plants), to cater for new connections (i.e. growth), to ensure existing assets remain fit-for-purpose (i.e. renewals) or where it contributes to an increase in reliability or quality of supply that is endorsed or desired by customers (i.e. improvements).
Raw water	Water taken from the environment that has not been subject to any form of treatment or purification. Water that collects in a dam or other storage is transferred to a water treatment plant as 'raw water'. Typically it is then treated and purified to produce water suitable for drinking and other household purposes.
Recycled water	Water taken from any waste (effluent) stream and treated to a level suitable for further use, where it is used safely and sustainably for beneficial purposes. This is a general term that can include reclaimed water.
Regulated services	Services subject to oversight by an economic regulator.
Regulatory Asset Base (RAB)	Asset base refers to the underlying assets giving value to a company, investment or loan. In the case of a monopoly distributor-retailer, such as Queensland Urban Utilities, the regulatory asset base refers to the value of underlying assets that is accepted by the regulator as representing the minimum asset value necessary to deliver the required standards of service.
Revenue offset	One method that is used to avoid a regulated business earning a return to assets it has not funded. The revenue contributed by third parties (often developers) is added to the asset base and deducted from the maximum allowable revenue in the year of contribution.
Risk free rate	The return that accrues to securities with no risk. Returns on Commonwealth bonds are commonly used as a proxy for the risk free rate.

Term	Definition
Sewage	Material transported in a sewerage system. Sewage is collected from all internal household drains; it contains all the contaminants of grey water and urine, in addition to high concentrations of faecal material from toilets and wastes from industrial and commercial premises. Sewage can therefore contain a range of infectious enteric pathogens and a range of physical and chemical contaminants.
Statement of Comprehensive Income	A component of the end of financial year statements in which all recognised items of income and expense in a period are presented, according to the requirements of *AASB101 Presentation of Financial Statements*.
Strategic Asset Management Plans (SAMP)	Prior to the formation of Queensland Urban Utilities (and the other distributor-retailers), council owned water businesses were required to prepare and adhere to a SAMP. The SAMP outlined the services provided as well as the standards that those services would meet. SAMPs also outline the infrastructure required to meet these standards, along with operations, maintenance, and renewals strategies to be adopted, and the means by which activities outlined in the SAMP would be financed. Queensland Urban Utilities is required to develop an approved *Water Netserv Plan* (see below) to replace the SAMPs inherited from its Participating Councils.
Target 200	The QWC's (refer below) South East Queensland Water Strategy seeks to build a long-term water savings culture in the SEQ community, in part through the setting of a voluntary regional residential consumption target of 200 litres per person per day (Target 200). This challenge is separate from restrictions and is actively encouraged but not enforced.
Trade waste	Water-borne waste from a business or manufacturing premises, that is not: a. a prohibited substance (for example, petrol, pesticide); b. domestic sewage (human waste) c. stormwater.
Two part tariff	Pricing structures, under which users face a fixed charge (regardless of consumption levels) and a variable charge that is based on consumption.
Unaccounted for water	That volume of water that is metered as having entered a particular network or system, but is not metered on withdrawal.
Urban Development Areas (UDA)	Areas that are subject to streamlined planning and development processes administered by the Urban Land Development Authority as part of the *Queensland Housing Affordability Strategy*. The Minister for Planning nominates UDAs. Selection criteria for UDAs include areas of high growth or high housing stress, areas that contain significant portions of Crown land, areas that are close to public transport, employment opportunities or other services.
Water netserv plan	Section 99BJ of the *South East Queensland Water (Distribution and Retail Restructuring) Act 2009 requires that a "distributor-retailer must, from 1 July 2013, have a plan (a water netserv plan) about its water and wastewater networks and providing its water service and wastewater service".* Among other requirements the water netserv plan must be consistent with the SEQ Regional Plan and the planning assumptions for the distributor-retailer's geographic area. The water netserv plan will become the key strategic document guiding Queensland Urban Utilities delivery of water and sewerage infrastructure, replacing a range of planning tools that existed prior to the creation of the distributor retailers.
Weighted Average Cost of Capital (WACC)	In general terms, a company's assets are financed by either debt or equity. WACC is the average of the costs of these sources of financing, each of which is weighted according to their respective proportions of total financing.
Western service area	Queensland Urban Utilities' service area encompasses the local government boundaries of our Participating Councils. This service area is divided into eastern and western service areas for operational, service and maintenance reasons. The western service area corresponds to the area formed by the local government boundaries of the Ipswich City Council and the Lockyer Valley, Scenic Rim and Somerset Regional Councils.

ANNEXURES

ANNEX A
INFORMATION REQUIREMENTS
FOR 2011/12 79

ANNEX B
BOARD BIOGRAPHIES 111

ANNEX C
CUSTOMER SERVICE STANDARDS 115

ANNEX D
DESIGN STANDARDS
– SOURCE DOCUMENTS 121

ANNEX E
CAPITAL PRIORITISATION 125

ANNEX F
INFORMATION RETURN
ADJUSTMENTS 2010/11 131

ANNEX G
MINUTE EXTRACT 139

ANNEX A INFORMATION REQUIREMENTS FOR 2011/12

QUEENSLAND COMPETITION AUTHORITY

SEQ Interim Price Monitoring

Information Requirements for 2011/12

June 2011

Level 19, 12 Creek Street Brisbane Queensland 4000
GPO Box 2257 Brisbane Qld 4001
Telephone (07) 3222 0555
Facsimile (07) 3222 0599

general.enquiries@qca.org.au
www.qca.org.au

TABLE OF CONTENTS

		PAGE
1.	**INTRODUCTION**	**1**
2.	**REQUIREMENTS**	**3**
3.	**PRINCIPLES**	**4**
4.	**REVIEW AND ADJUSTMENT**	**7**
5	**DETAILS**	**8**
6	**DEFINITIONS AND INTERPRETATION**	**18**
7	**PROFORMA BOARD MEMBERS RESPONSIBILITY STATEMENT**	**26**
8	**PRICE MONITORING ACCOUNTING STATEMENT TEMPLATES**	**27**

1. INTRODUCTION

1.1 Purpose

1.1.1 These Information Requirements (Requirements) have been developed by the Queensland Competition Authority (the *Authority*) to assist the SEQ Distributor-Retailer Authorities (*entities*) to provide information to the Authority for the purposes of the interim price monitoring framework.

1.1.2 The Requirements should be read in conjunction with the Authority's Final Report on SEQ Interim Price Monitoring which sets out the proposed framework to apply to SEQ water and wastewater distribution and retail entities. A copy of that report can be downloaded from the Authority's website at www.qca.org.au.

1.1.3 The Requirements apply to the interim price monitoring period (interim period) which commences on 1 July 2010 and ends on 30 June 2013 with a particular focus on the information required for 2011/2012. Potential information requirements for subsequent years have also been identified to provide a context for compliance and to assist the *entities* to understand the potential demands on their information systems.

1.2 Authorising Provision

1.2.1 The price monitoring framework has been approved by the Ministers in the referral received by the Authority on 8 July 2010 pursuant to Part 3 of the *Queensland Competition Authority Act 1997* (the QCA Act).

1.3 The Entities

1.3.1 The entities are as follows:

(a) Unitywater ;

(b) Queensland Urban Utilities; and

(c) Allconnex Water.

1.4 Commencement and Application

1.4.1 These Requirements take effect on 27 July 2010 and apply to each entity.

1.4.2 The Requirements apply to 2011/12 other than where indicated to apply for subsequent years (as bolded).

1.4.3 The *entities* must comply with these Requirements from, and in respect of, each financial year relevant to a particular review.

(a) For 2011/12, information is to be submitted by 31 August 2011, and incorporate audited financial information for the year ending 30 June 2009 and the year ending 30 June 2010, to the extent that records and information have been provided to the entities by participating Councils, and forecasts for each year to 30 June 2014; or, where an entity chooses to set revenues and prices over a longer period, for that period. Audited information in respect of 2010/11 is to be provided within two months of audited results being publicly available or as otherwise agreed with the Authority;

1.4.4 Should an entity materially change prices more frequently, the Authority must be notified and the Authority may initiate further reporting.

1.5 Amendment to these Information Requirements

1.5.1 The Authority may amend these Requirements on its own initiative, in response to a proposal by an entity or other stakeholder or as the result of a review of the price monitoring information returns submitted by the entities.

1.5.2 The Authority will not make material amendments to these Requirements until entities and other stakeholders have had an opportunity to comment on the nature of any proposed amendment and those comments have been considered.

1.5.3 The Authority will give reasonable notice to each entity of any amendments to these Requirements.

2. REQUIREMENTS

2.1 General Obligation

2.1.1 An *entity* must prepare, maintain and submit *price monitoring information returns* to the Authority in accordance with these Requirements.

2.1.2 An *entity* must ensure that it keeps information that enables it to prepare *price monitoring information returns* which properly record and explain the transactions and financial position of that entity in accordance with these Requirements.

2.1.3 An *entity* must provide any information relating to price and revenues that may be reasonably required by the Authority.

2.2 Preparation of Returns

2.2.1 An *entity* must prepare *price monitoring information returns* in accordance with the templates in Section 8.

2.2.2 Where required by the templates, an *entity* must prepare explanatory notes which explain the basis of the information recorded in the *price monitoring information returns*.

2.3 Submission of Returns

2.3.1 An *entity* must submit *price monitoring information returns* in respect of a reporting year to the Authority in hardcopy and electronic format by 31 August of that year, unless the Authority has agreed in writing to an extension of time prior to that date. From the 2011/12 reporting year onwards, the entity will also provide the Authority with audited financial accounts (*statutory accounts*) in respect of the immediately prior year within two months of audited results being publicly available to an entity or as otherwise agreed with the Authority.

2.4 Publication of Prices

2.4.1 An e*ntity* must set and publish a list of all prices for water and wastewater services on its website as soon as these are determined and before 1 July of each year.

2.5 Retention of Accounting Records

2.5.1 An *entity* must retain its accounting records from which *price monitoring information returns* were prepared for five *financial years* immediately following the reporting year in respect of which the *price monitoring information returns* were submitted.

3. PRINCIPLES

3.1 Substance of Transactions

3.1.1 *Price monitoring information returns* must report the substance of transactions.

3.1.2 If the substance of a transaction differs from the legal form of the transaction, the substance of the transaction must be reported.

3.1.3 For the purposes of determining the substance of a transaction, a group or series of transactions which achieves, or is designed to achieve, an overall commercial effect must be reported in a consistent manner.

3.2 Returns to be derived from Statutory Accounts and Budget

3.2.1 The price monitoring information returns must be consistent with the statutory accounts and Budget of the entity.

3.2.2 The *price monitoring information returns* must include any revenue earned, asset utilised and liability or cost incurred in relation to the supply of the *monopoly business activities* by:

(a) separately identifying cost items associated with the supply of services which are *non-regulated services* (but not disaggregated by service);

(b) eliminating adjustments not permitted by these Requirements;

(c) including adjustments required by these Requirements; and

(d) allocating or disaggregating details as required in clause 3.4.2 and section 5.

3.2.3 Movements from an *entity's statutory accounts* and Budget must be clearly reported in the *price monitoring information returns* of that *entity*.

3.2.4 *Price monitoring information returns* must contain information that is consistent with the *general ledger* which records the actual *statutory account* costs of the relevant *entity*.

3.2.5 An *entity* must ensure that the *price monitoring information returns* referred to in clause 2.3.1 above are able to be reconciled with:

(a) the *statutory accounts* and Budget in respect of the *entity*;

(b) the *chart of accounts* and trial balance underlying the *statutory accounts*; and

(c) a statement of all price monitoring accounting principles and policies which were used by the entity to prepare the *price monitoring information returns*.

3.3 General principles

3.3.1 An *entity* must adopt price monitoring accounting principles and policies in the preparation of *price monitoring information returns* so that:

(a) there is a recognisable and rational economic basis that underlies the utilisation of those principles; and

(b) the *price monitoring information returns* satisfy the accounting concepts of relevance and reliability.

3.4 Allocation Principles

3.4.1 The *price monitoring information returns* of an *entity* must provide information that is consistent with the *statutory accounts* and Budget in accordance with the allocation principles referred to in this clause.

3.4.2 For 2011/12, the details in chapter 5 must be disaggregated by each *entity* according to the following deemed categories:

(a) each Activity;

(b) each geographic area;

(c) each *core service* and (in aggregate) *non-regulated services*. **For subsequent years**, *non-core services* are to be allocated as determined by the Authority;

(d) each *asset class* and cost driver as required; and

(e) **for subsequent years**, for each *customer group*. For 2011/12, revenues are also to be allocated to customer groups.

3.4.3 Allocations are required in relation to:

(a) revenue;

(b) the regulatory asset base;

(c) capital expenditure; and

(d) operating costs.

3.4.4 The allocations in 3.4.2 must be based on the principle that:

(a) amounts are directly attributable to that category;

(b) amounts which are not directly attributable to a category must be allocated on a *causa*l basis, except where a *causal* relationship cannot be reasonably established. Amounts may be allocated on a non-*causal* basis provided that:

(i) there is likely to be a strong positive correlation between the non-causal basis and the actual cause of resource or service consumption or utilisation that those costs represent; or

(ii) the cost to derive the causal allocation outweighs the benefits of allocating items on that basis; and

(iii) the aggregate of all amounts allocated on a non-causal basis is not material to the *price monitoring information returns*.

3.4.5 The *entity* must report the basis for the allocation of amounts. **For subsequent years**, a more detailed and consistent basis for the allocation of these amounts may need to be defined.

3.5 Statement of Accounting Principles and Policies

3.5.1 An *entity* must provide to the Authority as part of the *price monitoring information returns* full and detailed documentation and disclosure of:

(a) details of the *accounting principles and policies* that were used to prepare the *statutory accounts* and Budget;

(b) *any price monitoring accounting principles and policies* that were used to prepare the price monitoring information returns that are additional to, or in place of, the accounting principles and policies used to prepare its statutory accounts and Budget; and

(c) any changes in the *accounting principles and policies* which were used to prepare its *statutory accounts* and Budget or in its *price monitoring accounting principles and policies* which occurred since the submission by the entity of the last *price monitoring information returns*. Where such a change has occurred, an entity must disclose to the Authority:

(i) the nature of the change;

(ii) the reasons for the change; and

(iii) the effect of the change on the *price monitoring information returns*.

4. REVIEW AND ADJUSTMENT

4.1.1 Each *entity* must acknowledge that the Authority or a person appointed by the Authority may review the compliance of the *price monitoring information returns* submitted by that *entity* with these Requirements.

4.1.2 As part of such a review and without limitation the *entity* must:

(a) provide access to the *entity's* accounting records retained in accordance with these Requirements;

(b) provide any information reasonably requested by the Authority or a person appointed by the Authority; and

(c) provide any assistance reasonably requested by the Authority or a person appointed by the Authority.

4.1.3 Following review of the *entity's price monitoring information returns*, the *entity* may be required to:

(a) make any adjustments to the *price monitoring information returns* which are required by the Authority; and

(b) change its *price monitoring accounting principles and policies* to ensure future compliance with the Requirements.

4.1.4 If at a later date information becomes available that materially changes the results or values reported in the *entity's price monitoring information returns*, the *entity* shall advise the Authority of any such change.

4.1.5 An *entity* must submit:

(a) a responsibility statement in the form set out in section 7 signed by a Board Member of the *entity*; and

(b) an extract from the minutes of the *entity's* Board that confirms the *price monitoring information returns* are fairly presented.

4.1.6 In its *price monitoring information return*, an *entity* must clearly identify and explain any changes to data provided as part of a previous *price monitoring information return*.

5 DETAILS

For the purpose of section 5, an entity is required to provide the requested information regarding 2008/09 and 2009/10 to the extent that further records and information have been provided to the entity by the participating Councils.

If Councils do not provide required historical information, entities must seek from Councils the reason for this and provide this to the Authority.

5.1 Statutory Accounts and Budget

For each year *of the interim price monitoring* period, an *entity* must provide each of the statutory accounts listed below for the preceding year. In addition, Budget documentation is required relating to the year under review.

5.1.1 Profit And Loss

(a) an *entity* must provide high level details of the profit and loss statement (or income statement) as recorded in the business's *statutory accounts* and Budget for the following the revenue and expenditure categories:

(i) Revenue;

(ii) Investment income;

(iii) Net profit from sales of assets;

(iv) Contributions;

(v) Operating expenditure;

(vi) Depreciation;

(vii) Bad debts;

(viii) Borrowing costs;

(ix) Net loss from the sale of assets; and

(b) net loss from the sale of assets; and where appropriate an *entity* should refer the Authority to any relevant notes that are included in the entity's statutory accounts and Budget that will assist in interpretation of the *price monitoring information returns*.

5.1.2 Balance Sheet

(a) an *entity* must provide high level details of the balance sheet (or statement of financial position) as recorded in the business's *statutory accounts* and Budget must be consistent with that relating to the deemed categories included in the *price monitoring information template* in section 8;

(b) where appropriate, an *entity* should refer the Authority to any relevant notes that are included in the *entity's statutory accounts* and Budget that will assist in interpretation of the balance sheet template; and

(c) in the explanatory notes section, an *entity* is required to provide explanation of any change in accounting treatment from the previous year.

5.1.3 Cash flow statement

(a) an *entity* must provide high level details of the cash flow statement as recorded in the *entity's statutory accounts* and Budget, in accordance with the categories included in the template in section 8;

(b) where appropriate, an *entity* should refer the Authority to any relevant notes that are included in the *entity's statutory accounts* and Budget that will assist in interpretation of the cash flow statement template; and

(c) in the explanatory notes section, an *entity* is required to provide explanation of any change in accounting treatment from the previous year.

5.2 Revenue

5.2.1 Actual and forecast revenue from Prices

For revenue allocated to each deemed category as in 3.4.2, an *entity* must provide details of:

(a) actual revenues for the year ending 30 June 2009 and for the year ending 30 June 2010 and estimated actual revenues for the year ending 30 June 2011;

(b) forecast revenues for each year from 1 July 2012 to 30 June 2014 (at the time of setting 2011/12 prices);

(c) each tariff structure and associated sales consistent with the above revenues;

(d) any pricing policy, and supporting documents, for the interim period including the rationale for any smoothing adopted;

(e) the expected date at which any change to forecast revenues (including tariff structure) is to take place, and the revenues (including tariff structures) that would apply before and after the change;

(f) the costs and other factors underlying annual price increases, including the method of calculating prices, and a copy of relevant models and spreadsheets; and

(g) the change in prices of services subject to the CPI price cap in the *South East Queensland Water (Distribution and Reform) Act 2009*. An entity must provide all relevant information to demonstrate compliance with the price cap, including all tariff charge rates and relevant rebates and subsidies.

For revenue allocated as in 3.4.2, an *entity* will be required to provide actual revenues for the preceding year of the review. Where an *entity's* actual or forecast revenues differs from previous estimates provided to the Authority the *entity* must explain the cause of the variance. The *entity* may also be required to further allocate this revenue between revenue sources that are determined under pricing principles.

5.2.2 Revenue from Other Sources

An *entity* must allocate revenue from other sources to each deemed category in 3.4.2 and further between (i) revenue that will offset prices/revenue requirement and (ii) revenue that will not offset the revenue requirement.

5.3 Service Standards[1]

5.3.1 An *entity* must provide details (relevant to each deemed category in 3.4.2 and for customer groups) of:

(a) service standards[2] for each year from 1 July 2008 to 30 June 2011, as approved by other agencies[3];

(b) service standards[3] for each year from 1 July 2011 to 30 June 2014, as approved by other agencies;

(c) the expected date at which any change to service standards[3] is to take place, and the standards that would apply before and after the change.

5.4 Demand

5.4.1 An *entity* must provide details (relevant to each deemed category in 3.4.2 and for customer groups) of:

(a) actual demand for the year ending 30 June 2009 and 30 June 2010, and estimated actual demand for the year ending 30 June 2011, and corresponding non-revenue water and bulk water purchases (where relevant);

(b) forecast demand for each year from 1 July 2011 to 30 June 2014, and corresponding non-revenue water and total bulk water purchases (at the time of setting 2011/12 prices);

(c) additional forecasts of demand necessary to substantiate proposed capital expenditure, and corresponding non-revenue water bulk water purchases, where relevant; and

(d) the method adopted to forecast demand used for setting prices and for calculating capital and operating expenditure, and the relationship between these forecasts.

5.4.2 Where an *entity's* demand (actual or forecast) differs from previous estimates provided to the Authority an *entity* must explain the cause of the variance. It is anticipated that each *entity* will also be required to provide a more sophisticated basis for demand forecasting to substantiate the increased disaggregation of costs and to improve the accuracy of forecasts.

5.5 Regulatory Asset Base

5.5.1 Regulatory Asset Base as at 1 July 2008

An *entity* must provide for each deemed category in 3.4.2 (except for customer groups) for 1 July 2008[4]:

(a) details of assets, including a description and unique identifier derived from the asset register, by individual asset or asset class. Bulk water assets should be excluded;

[1] The Authority will also obtain details of past performance since 1 July 2008 as reported to the National Water Commission under the National Performance Reporting framework using the Statewide Information Management (SWIM) database.
[2] Also required are details of contractual service standards, or changes in contractual service standards, between the SEQ Water Grid Manager and the distribution/retail entity.
[3] Where a council has directed that higher service standards be pursued than those approved by other agencies, it is appropriate for these to form the basis for reporting. However, the entity must demonstrate to the Authority that is has been directed by Council to do so and that these standards are indeed superior.
[4] Where audited asset values are not available as at 1 July 2008 (e.g. the values are only available as at 15 March 2008) these must be rolled forward to 1 July 2008 in a manner consistent with the formulae in the Ministerial Direction.

(b) audited written down asset values for each asset or asset class[5]; and

(c) values for the initial regulatory asset base (RAB), by asset or asset class of common type or function, that are consistent with the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade's advised asset values. The RAB values should be based on audited values in (b) adjusted by the ratio of the total initial regulatory asset base as at 1 July 2008 to total written down audited values for the relevant assets[6].

5.5.2 Rolling Forward the RAB

(a) an *entity* must provide for each deemed category in 3.4.2 (except for customer groups) sufficient detail to allow the Authority to roll forward asset values for each year from 1 July 2008 to 30 June 2010, according to the following formula:

$RAB_t = (RAB_{t-1} + \text{Capital Expenditure}_t - \text{Regulatory Depreciation}_t - \text{Disposals}_t^{7} + \text{Indexation}_t)$

where t = the year under consideration.

(b) an *entity* must provide for each deemed category in 3.4.2 (except for customer groups) sufficient details to allow the Authority to roll forward asset values for each year from 1 July 2010 to 30 June 2014, according to the above formula.

5.6 Capital Expenditure

5.6.1 An *entity* must provide for each deemed category in 3.4.2 (except for customer groups):

(a) details of actual capital expenditure for the year ending 30 June 2009, and 30 June 2010, excluding *establishment costs*, as included in council financial accounts for the period from 1 July 2008 to 30 June 2010;

(b) details of estimated capital expenditure for each year, excluding *establishment costs*, for the period from 1 July 2010 to 30 June 2014, or further forward where required to assess proposed projects during this period. ; and

(c) details of *establishment costs* approved by the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade.

5.6.2 An *entity* must allocate capital expenditure items and the regulatory asset base between asset classes.

5.6.3 An *entity* must provide to the Authority a complete list of capital expenditure items, identifying their values, the effect of indexation and the expected commissioning year. Capital expenditure should be included in the RAB when it is commissioned, and contributes productive capacity to the system.

[5] The values of asset classes should be able to be reconciled with the underlying individual asset values in an entity's detailed asset registers.

[6] Alternative methods of allocating the RAB may also be provided. If so, information must be provided to explain the use and application of that methodology.

[7] For (individual) assets retired prior to being fully depreciated could remain in the RAB and be depreciated over their remaining life, provided that the individual asset does not account for more than 5% of the asset class. The Authority may review this approach in light of its experience in actual price monitoring.

5.6.4 Criteria and Processes for Capital Expenditure

(a) Prudency

For the purposes of establishing the prudency of capital expenditure, an *entity* must allocate *capital expenditure* items between the following *cost drivers*:

(i) growth – Capital expenditure associated with increasing the capacity of assets or construction of new assets, to meet growth in demand, or to provide additional security of supply should be included in growth;

(ii) renewal of existing infrastructure – Capital expenditure associated with replacing assets and generally maintaining service levels should be included in renewal of existing infrastructure;

(iii) improvements – Capital expenditure associated with improving service levels and reliability to meet customer preferences should be included in improvements; and

(iv) compliance – Capital expenditure associated with meeting price monitoring or legislative obligations should be included in compliance.

(b) Efficiency

For the purpose of establishing efficient capital expenditure, information is required on:

(i) the scope of the works (a description of the characteristics of the capital item);

(ii) the standard of the works including the technical, design and construction standards adopted (in accordance with legislation, industry and other standards, codes and manuals); and

(iii) the cost of the defined scope and standard of works and its timing (year). This should be linked, where relevant, to the underlying cost components such as unit rates, on-costs and contingencies and any other supporting materials such as consultant reports.

(c) Expenditure Approval Processes

For the purpose of establishing the prudency and efficiency of capital expenditure (as well as operating expenditure), information is required on expenditure approval policies and procedures. In addition, links to strategic development plans, risk and asset management planning, corporate directives, evidence of external drivers, and review of procurement practices should be identified.

Evidence of any consideration of alternative investments, the substitution possibilities between capex and opex, and non-network alternatives such as demand management is required.

Further, information on the compatibility with existing and adjacent infrastructure is relevant and consideration of modern engineering equivalents and technologies. Compliance with Strategic Asset Management Plans and Total Management Plans is also relevant.

5.6.5 Explanatory Notes

An *entity* is required to provide information on all capital expenditure items that have been allocated across items in section 3.4.2, including a description of the item, its value, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

An *entity* is required to provide an explanation of any significant shift in expenditure compared with the previous year in the explanatory notes section. Where an entity's capital expenditure (actual or forecast) differs from previous estimates provided to the Authority an entity must explain the cause of the variance.

5.6.6 Exclusions:

(a) asset revaluations or adjustments for impairment (whether the adjustments would have the effect of increasing or decreasing asset values) are not permitted in price monitoring accounts unless they are specifically agreed to or required by the Authority; and

(b) goodwill and any related impairments are not permitted in price monitoring information returns.

5.7 Contributed, Donated and Gifted Assets

5.7.1 An *entity* must provide for each deemed category in 3.4.2 (except for customer groups) details of:

(a) actual contributed, donated and gifted assets for the year ending 30 June 2009 and for the year ending 30 June 2010 as included in council financial accounts;

(b) contributed, donated and gifted assets in each year from 1 July 2010 to 30 June 2014;

(c) actual capital contributions (cash and infrastructure charges) approved under the *Integrated Planning Act 1997* for the year ending 30 June 2009 and for the year ending 30 June 2010 as included in council financial accounts;

(d) forecast capital contributions approved under a SEQ infrastructure charges schedule for each year from 1 July 2011 to 2014;

(e) actual planning scheme policy charges received for to the year ending 30 June 2009 and for the year ending 30 June 2010 as included in council financial accounts;

(f) each infrastructure charge and associated demand consistent with the above;

(g) any SEQ infrastructure charges schedule and supporting documents with the details of related assets where available, for the interim period including the rationale for any smoothing adopted;

(h) details of the method adopted by the *entity* for the forecast of contributed, donated and gifted assets and capital contributions (cash and infrastructure charges);

(i) any date nominated by the *entity* to adopt the asset offset method; and

(j) the expected date at which any changes to forecast revenues is to take place (including the basis for the change) and the *revenue*s (including tariff structures) that would apply before and after the change.

Where an entity's contributed, donated and gifted assets (actual or forecast) or capital contributions (cash and infrastructure charges) differ materially from previous estimates provided to the Authority an entity must explain the cause of the variance.

5.8 Depreciation

5.8.1 An *entity* must provide the following information for each deemed category in 3.4.2 (except for customer groups):

(a) details of depreciation of RAB values and capital expenditure for the period 1 July 2008 to 30 June 2010 on the physical assets calculated on a straight line basis using existing useful lives attaching to the individual assets from 1 July 2008. Individual assets should be grouped by *asset class*; and

(b) details of depreciation of RAB values and capital expenditure for each year of the interim period from 1 July 2010 to 30 June 2014 calculated on a straight line basis using remaining useful lives on the basis of individual assets (on the same basis as for (a) above or, if different asset lives are adopted, with appropriate supporting information).

5.9 Indexation

5.9.1 An *entity* must index:

(a) the RAB values for each year from 1 July 2008 to 30 June 2010 using the ABS Consumer Price Index (all groups, Brisbane). For the period 1 July 2009 to 30 June 2010, the 2009-10 Queensland State Budget inflation forecasts may be used; and

(b) the forecast RAB values for each year of the interim period from 1 July 2010 to 30 June 2014 using forecasts of CPI as determined by the difference between the RBA return on the market rate for five year bonds and five year capital indexed bonds.

5.10 Return on Capital

5.10.1 An *entity* must provide details of the target return on capital for each year of the interim period from 1 July 2010 to 30 June 2014, including the values attached to the key underlying parameters and the method of WACC calculation.

5.10.2 An *entity* must provide details of the following for each from 1 July 2010 to 30 June 2014:

(a) borrowing costs; and

(b) dividends.

5.11 Operating costs

5.11.1 An *entity* must provide details, allocated between the deemed categories in 3.4.2, of:

(a) actual operating costs (including taxes and approved establishment costs) for the year ending 30 June 2009 and for the year ending 30 June 2010; and

(b) forecast operating expenditure (including taxes and approved establishment costs) from 1 July 2010 to 30 June 2014;

according to:

(a) bulk water costs;

(b) employee expenses;

(c) contractor expenses;

(d) GSL Payments;

(e) electricity charges;

(f) sludge handling costs;

(g) chemicals costs;

(h) other materials and services (not relating to capital expenditure):

(i) licence or regulatory fees;

(j) non-recurrent costs;

(k) corporate costs; and

(l) indirect taxes.

5.11.2 Comparative Data

An *entity* is required to provide an explanation of any significant change in expenditure in the explanatory notes section.

5.11.3 Explanatory notes

An *entity* is required to provide information on all operating expenditure items that have been allocated across *entity business segments* or asset categories, including a description of the item, the value in thousands of dollars, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

An *entity* is also required to provide the reasons for anticipated changes in operating costs and taxes over the period from 1 July 2010 to 30 June 2014. Where an entity's operating costs differ materially from previous estimates provided to the Authority an entity must explain the cause of the variance. An *entity* is also required to provide further explanation of significant one-off expenditure items or any allocations made that would assist the Authority in its assessment of the *entity's price monitoring information returns.*

5.11.4 Subsequent Years

For subsequent years, a greater level of disaggregation of operating expenditure may be required. For that to be effected, a substantial effort may be required to allocate costs to their appropriate category. The degree of detail required by the ESC in Victoria for example forms Attachment 1.

5.12 Third Party Transactions

5.12.1 Where an *entity* enters into transactions with a *third party* which total greater than $1,000,000 of operating expenditure in aggregate, or $10,000,000 of *capital expenditure* in aggregate for the *financial year*, the *entity* must disclose:

(a) the name of the *third party*;

(b) a description of the services provided by the *third party*;

(c) the value of the payments made to the *third party*;

(d) a description of how the basis for the payment was determined; and

(e) a description of how the payment is reflected in the price *monitoring information returns*, including the asset class or cost category that the costs are included in.

5.13 Related Party Transactions

5.13.1 Where an *entity* enters into a transaction with a *related party* the *price monitoring information returns* must disclose for each transaction:

(a) the name of the *related party* which incurred the cost in providing the service to the *entity* and a description of the *entity's* interest in the *related party*;

(b) a description of the service provided or received by the *related party*;

(c) the value of the payments for the service;

(d) demonstration that the value reflects that which would be paid by two companies dealing at arm's length dealing with each other;

(e) a description of how the value was arrived at, including any market testing undertaken;

(f) description of how the payment for the service is reflected in the *price monitoring information returns*; and

(g) a description of how shared costs have been allocated.

5.13.2 For the purposes of this clause, a payment made under a contract with a party who was a *related party* at the time the contract was entered into, even if that party is no longer a *related party* (including, but not limited to, where the *related party* was sold to another party) must be recorded as a related party transaction.

5.14 Non-regulated Services

5.14.1 An *entity* is required to list all services provided during each financial year that do not fall within those services defined as *monopoly business activities*, being services that the Authority does not monitor under the QCA Act.

5.14.2 An *entity* is required to provide revenue, operating and capital expenditure values related to its *non-regulated services* at an aggregated level.

5.14.3 If costs to a non-regulated *revenue source* are not directly attributable, an *entity* should allocate costs based on the principles in clause 3.4.

5.14.4 Explanatory notes – An *entity* is required to provide explanation of the basis of any allocations made to *non-regulated services* that would assist the Authority in its assessment of the business' *price monitoring information returns*.

5.15 Tax

5.15.1 An entity must provide for each deemed category in 3.4.2 (except for customer groups):

(a) written down asset values and remaining useful lives for tax purposes for each existing asset or asset class as at 1 July 2008; and

(b) useful lives for tax purposes for each new asset or asset class from 1 July 2008.

5.16 Maximum Allowable Revenue

5.16.1 An entity must provide details of the maximum allowable revenue/s used by the entity in setting prices for 2011/12 and any smoothing period adopted by the entity.

6 DEFINITIONS AND INTERPRETATION

6.1 Definitions

Accounts means a system that records the financial transactions of a business, including revenue earned, costs incurred, and changes in assets, liabilities and equity on which a business's financial statements are based.

Accounting principles and policies mean principles and policies that are used by an *entity* to prepare the statutory accounts and budget.

Activity means each of the water retail/distribution activities and wastewater retail/distribution activities, pending any declaration of activities as monopoly business activities under Part 3.

Asset class means a group of assets with common characteristics and asset lives. As a minimum, asset classes are:

(a) distribution infrastructure not included in the following categories:

(b) reservoirs;

(c) pump stations;

(d) treatment;

(e) associated telemetry and control systems;

(f) meters;

(g) billing systems;

(h) corporate systems;

(i) sundry property, plant and equipment;

(j) land;

(k) buildings other than infrastructure housing;

(l) support services; and

(m) mains and pipes.

Authority means the Queensland Competition Authority established under the *Queensland Competition Authority Act 1997*.

Budget means the budget adopted by the entity at the time of setting prices.

Bulk water costs means all direct and indirect operating expenditure associated with the purchase of bulk services including costs associated with: the purchase of bulk water from the Water Grid Manager and other entities; and the purchase of bulk sewerage services.

Capital Contribution means cash (potentially in the form of an infrastructure charge payment) contributed to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*).

Capital expenditure means any expenditure, which has been disclosed as a non-current asset in the balance sheet of the *entity's statutory accounts* and Budget provided that the expenditure conforms with at least one of the following:

(a) the expenditure relates to the purchase, development or construction of a new non-current asset of the *entity*;

(a) the expenditure will increase the capacity or functionality of the *entity's* non-current assets;

(b) the expenditure will significantly reduce the ongoing maintenance of the *entity's* non-current assets; and/or

(c) the expenditure will extend the service life of the *entity's* non-current assets beyond that expected when the assets were originally installed.

Causal means, in relation to a relationship or basis of allocation, that the allocation base is the most significant trigger of consumption or utilisation of the resources or services represented by the costs or other item that is being allocated.

Chart of accounts means the detailed listing of all accounts represented in the *general ledger*.

Chemical costs means all chemical costs incurred in the process of treating water, sewerage or recycled water during the year.

Contributed assets means assets contributed to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*).

Contractor expenses means a person (or team of persons) who provides services including consultancy and agency staff) to the business but is not directly employed by the business. This does not include contractors engaged in the provision of IT maintenance and support services (these are to be included in the IT expenditure allocation category).

Core service is a monopoly service provided by the business to customers on a continuous basis. Each core service is typically differentiated by a standard description that defines the type, characteristics and attributes that logically separates that service from all other core services. Core services for water include: the supply of drinking water delivered by the distribution network, and the supply of recycled water via a separate distribution network. Core services for wastewater include acceptance and disposal of sewerage directly from users' premises to the sewer network (core wastewater service) and acceptance and disposal of trade waste from users' premises to the sewer network.

Corporate costs means general corporate expenditure that cannot be reasonably allocated to other cost types, including such costs associated with:

(a) personnel in the corporate group/division;

(b) general management;

(c) board members;

(d) legal counsel;

(e) company secretary;

(f) quality/business improvement;

(g) corporate relations;

(h) strategy and planning;

(i) human resource management;

(j) risk management;

(k) insurance management;

(l) environment management;

(m) property management;

(n) financial management;

(o) support staff for the corporate office;

(p) costs incurred by the corporate office, including:

  (i) property rental, repair and maintenance, utilities, and taxes for the corporate office;

  (ii) printing and stationery;

  (iii) telephone and fax;

  (iv) travel expenses;

  (v) legal fees;

  (vi) consultants;

  (vii) auditing;

  (viii) board fees;

  (ix) brand advertising and corporate image making;

  (x) corporate/community sponsorships and donations;

  (xi) internal communication;

  (xii) membership fees for industry or trade organisations;

  (xiii) freight, courier and postage;

(q) membership fees for industry or trade organisations;

(r) IT systems other than costs associated with the SCADA (Supervisory Control and Data Acquisition control system);

(s) telemetry and other 'operational' IT costs should be allocated to the relevant activity area; and

(t) price monitoring staff, providing information requested by the Authority, preparing submissions in response to consultations conducted by the Authority, non-financial audits and the preparation of price monitoring accounts.

Costs associated with the following items must be excluded, and separately identified, from corporate costs:

(a) management fees which are a transfer of profit rather than a fee for service; and

(b) costs associated with property required for workshops and for network assets.

Customer group means, for example, residential, *non-residential*, or *other customer group* that is the source of revenue. Where there are commercially negotiated arrangements, these also need to be separately identified. Revenues from commercially negotiated arrangements include revenue that is *directly attributable* to the provision of services for which a price is not included in an *entity's* pricing schedule.

Directly attributable means, in relation to the allocation of an item, that the item is wholly and exclusively associated with the *activity* or *service.*

Director means a person appointed to the board of a water business.

Distribution activity means activities related to the transmission, reticulation and treatment of water and wastewater.

Dividend means any dividend payments either paid or payable that relate to the profit earned during the financial year. For the avoidance of doubt, any dividend payments made during the financial year that relate to profits earned in previous financial years should not be reported.

Donated assets means assets provided to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*). There may be instances where such a benefit is not anticipated. Details of the nature of the arrangement are required in this instance.

Electricity charges means all electricity costs that have been incurred during the year, including, as a separate item, renewable or green electricity expenditure.

Employee expenses means wages and costs related to employees directly employed by the business with the exception of labour costs for the provision of IT services and customer service and billing. Any agency staff or labour expenses incurred on contractors should be included in the 'Contractor expenses' category. Employee expenses should be disaggregated according to:

(a) superannuation;

(b) WorkCover;

(c) long service leave;

(d) payroll tax;

(e) training;

(f) study assistance;

(g) overtime.

Entity means a SEQ Distributor-Retailer Authority created by the *South-East Queensland Water (Distribution and Retail Restructuring) and Natural Resources Provisions Act 2009* listed under clause 1.3 of these requirements or its successor.

Establishment Costs means the costs involved in establishing the entities. Criteria for these costs will be advised by the Queensland Water Commission. Only the establishment costs approved by the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade can be included in the *entities' price monitoring information returns*.

Estimated actual means the expected year end results for the year immediately prior to the reporting year as estimated at the time of drafting the price monitoring information returns.

Financial year means a standard *financial year* beginning 1 July and ending 30 June the following year.

General ledger means the detailed set of *accounts* of an *entity* upon which the detailed transactional information for each cost category and *revenue source* is recorded.

Geographic area means each of the ten amalgamated council boundaries, and by system (catchment) where available.

Gifted assets means assets provided to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*). There may be instances where such a benefit is not anticipated. Details of the nature of the arrangement are required in this instance.

GSL payments mean gross payments made to customers under a GSL Scheme approved by the approved by the Minister under section 94(1)(b) of the *South-East Queensland Water (Distribution and Retail Restructuring) and Natural Resources Provisions Act 2009*.

Information Technology means all information technology costs that have been incurred during the year. This includes such items as software (where classified as an operating expenditure by the business), IT licence costs, IT maintenance and support arrangements and SCADA operating costs. Entities should also allocate any direct or contracted labour expenses related to the provision of IT services to this category. IT related to billing systems should be recorded separately under billing systems.

Licence and regulatory fees means fees paid to the Department of Environment, Resources and Mines, the Energy and Water Ombudsman Queensland, Queensland Competition Authority or other relevant agency. Fees must be identified on the basis of the agency to which they relate. Licence fees must exclude membership fees for industry or trade organisations (to be included corporate costs).

Material means, in relation to an item, that the omission, misstatement or non-disclosure of the item has the potential to prejudice the understanding of the financial position and nature the entity and allocations between entity business segments and activity areas. For guidance, any variation above 5% is considered material.

Ministers means the Premier and the Treasurer.

Ministerial Direction means the Ministers' Direction Notice made under Section 10 (e) of the *Queensland Competition Authority Act 1997* and published in the Queensland Government Gazette Vol. 352, No. 46 on Friday 9 October 2009.

Monopoly business activity is an activity declared for the purposes of price monitoring under Part 3 of the QCA Act. To avoid doubt, *monopoly business activities* include core services and non-core services.

Non-regulated service means a service provided by an *entity* that is not required to satisfy any specified legal obligation or is provided by other service providers in a competitive market in which the business has no legal power to influence a customer's selection of the business as the service provider. For example, this could include laboratory services. Non-regulated services are not to be disaggregated between water and wastewater.

Non-residential customer means commercial and industrial customers and community or council groups.

Operating Costs means those costs which relate to the day to day operations of the *entity*.

Other Customer group means customers other than residential and non-residential (commercial and industrial) and typically includes the provision of irrigation, irrigation drainage, domestic and stock, surface water diversions and groundwater diversions.

Other Expenses means all other operating expenditure accounts not already included in the previous operating expenditure categories. The Authority anticipates that this category would include a number of smaller expenditure accounts (to the extent that they are considered to be incurred in the provision of specified services), including, but in no way limited to:

(a) membership fees;

(b) advertising;

(c) subscriptions and publications fees;

(d) sponsorships;

(e) entertainment;

(f) meal expenses; and

(g) travel and accommodation.

Other Material and Services includes:

(a) the hire of equipment to undertake maintenance works;

(b) expenditure on concrete;

(c) expenditure on steel and other metals or alloys;

(d) expenditure on cables and other electrical *materials* ;

(e) expenditure on wood or timber products;

(f) expenditure on nuts, bolts and screws;

(g) expenditure on any other plant or materials that can be reasonably justified by the business for inclusion in this category.

Price monitoring information returns means financial records derived from an *entity's statutory accounts* and Budget that record transactions associated with the *Activities* and services of the *entity*.

Price monitoring accounting principles and policies means *accounting principles and policies* that are used by an *entity* to prepare *price monitoring information returns* that are additional or in place of the accounting principles used to prepare the *statutory accounts* and budget.

QCA Act means the *Queensland Competition Authority Act 1997*.

Related party means in relation to an *entity* any other party that, at any time during the reporting period, is subject to (or may exert) control or significant influence by (or upon) the *entity*. For the avoidance of doubt, a related party would include an entity's participating councils.

Residential Customer means a person who provides revenue in exchange for services directly attributable to the provision of services to residences.

Revenue from other sources means:

(a) Revenue that will offset prices/revenue requirement

(i) Proceeds from asset disposals (to be deducted from RAB) - Revenue collected from the disposal of assets used to provide monopoly business activities should be included in proceeds from asset disposals.

(ii) Government contributions (operating) - Government grants that are intended to offset prices for purposes other than capital expenditure should be included in government contributions (operating).

(iii) Government contributions (capital) - Government grants for capital purposes that are intended to offset prices should be included in government contributions (capital);

(b) Revenue that will not offset prices/revenue requirement

(i) Proceeds from sale of assets (with no impact on the RAB) - Revenue collected from the disposal of assets used to provide non-regulated services should be included in proceeds from asset disposals.

(ii) Other non-regulated revenue - Revenue that is directly attributable to the provision of non-regulated services should be included in other non-regulated revenue (non-regulated revenue includes interest on investments, but not interest paid by customers on overdue accounts).

Service can be *core* or *non-core* or *non-regulated*, as per above definitions.

Statutory accounts means the *statutory accounts* of an *entity*, audited where available.

Statutory account amount means amounts taken from the *statutory accounts* for the purposes of allocating or disaggregating those amounts as required by these requirements.

Subsequent price monitoring accounting period means, from time to time, the price monitoring period directly following the interim price monitoring period.

Third party means any party other than a *related party* contracted by the *entity* to provide services in order for the entity to fulfil its obligations.

Treatment means the treatment and disposal of sewage and trade waste.

Vehicle Fleet running costs means all fuels and other vehicle fleet running and maintenance costs. Fuels include petrol, diesel, liquefied petroleum gas (LPG) or any other fuel used to power motor vehicles. Any labour costs incurred by the business in managing its fleet, should be included in the 'Labour costs' expenditure allocation category, rather than in this expenditure allocation category.

6.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

(a) The singular includes the plural, and the converse also applies.

(b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.

(c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.

(d) A reference to a clause or appendix is a reference to a clause of or appendix to, this document.

(e) A reference to an agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, innovated or replaced, except to the extent prohibited by this document or that other agreement or document.

(f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.

(g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.

(h) Any 'notice' to be given or matter to be 'notified' must be in writing.

7 PROFORMA BOARD MEMBERS RESPONSIBILITY STATEMENT

In the opinion of the Board Member/s of [name of *entity*]:

(a) The *price monitoring information returns* set out on pages [ ] to [ ] are drawn up so as to fairly represent, in accordance with the requirements of the SEQ Interim Price Monitoring Information Requirements issued by the Queensland Competition Authority, ("Information Requirements"):

  (i) the information required by the Information Requirements;

  (ii) the information on *related party* transactions required;

  (iii) the information on *third party* transactions required by the Information Requirements; and

(b) no related party transactions of the type described in the Information Requirement arose during the current price monitoring accounting period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above);

(c) no third party transactions of the type described in the Information Requirement occurred during the current price monitoring period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above); and

(d) the terms and definitions used in this statement accord with the definitions set out in the Information Requirements.

Signed in accordance with a resolution of the Board:

(name of Board Member) Dated

Please append an extract of the Minutes of the Board Meeting that the above attestation.

8 PRICE MONITORING ACCOUNTING STATEMENT TEMPLATES

Information templates are available from the Authority's website www.qca.org.au.

The combined experience of the Queensland Urban Utilities Board includes public and private sector leadership across water policy and governance, local government leadership, finance and economics, strategy and corporate development, commercial and financial law and infrastructure delivery.

ANNEX B
BOARD BIOGRAPHIES

L to R: Len Scanlan, Bernard Ponting, Phil Kesby, Dennis Cavagna, Barry Ball, Jude Munro AO (Chair), Paul Emmerson and Diana Eilert

Jude Munro AO (Chair)

Appointed: 25 June 2010

Jude is a non-executive Director of Airservices Australia and Uniting Care Queensland. She is the Director of her own consultancy company, Jude Munro and Associates.

Jude was the Chief Executive Officer of Brisbane City Council from 2000 to 2010, and was CEO, City of Adelaide from 1997 to 2000. She has been CEO of the City of St Kilda and CEO of the City of Moreland in the early 1990's.

She has served on a number of boards in Brisbane and Adelaide and is a former President Queensland of the Institute of Public Administration.

Jude was awarded the Order of Australia Medal in 2010 for distinguished service to local government, particularly the Brisbane City Council, and to the community through contributions to business, professional development and philanthropic organisations.

- *BA (Hons) (PolSc)*
- *GDip Public Policy*
- *GDip Bus Admin*
- *Directors Course, AICD*

Len Scanlan

Appointed: 25 June 2010

Len's public service career spanned 31 years and included service with the Departments of Premier, Transport, Auditor-General and the Queensland Treasury.

Len was Auditor-General of Queensland from 1997 until 2004.

Upon completing his term as Auditor-General, Len commenced a portfolio career as an independent private consultant, encompassing various activities in the public and private sectors.

Len has been an active member of CPA Australia for 30 years, serving on numerous committees at local, state and national levels, including time as State President.

Len is an Adjunct Professor at the University of Queensland and Bond University and is also Chair of Brisbane City Council's Audit Committee.

- *BBus (Acc)*
- *BA (Gov't/Asian Studies/ Public Admin)*
- *MPA*
- *FAICD*

Bernard Ponting

Appointed: 25 June 2010

Bernard became a solicitor of the Supreme Court of Queensland on 14 December 1978. After initially practising in Brisbane, he commenced practice at Southport in 1981, where he continues under the firm name of Bernard Ponting & Co.

His practice covers a range of legal areas, with an emphasis on commercial, corporate and administrative law matters, and litigation in those areas. His clients are drawn from Australia and overseas.

Bernard was a member of the Gold Coast Waterways Authority from 1988 to 1990. It had responsibility for the management and control of the Gold Coast Seaway at Southport and the waterways and navigable rivers of south Moreton Bay and the Gold Coast area. Bernard was also a member of its successor authority, the Gold Coast Harbours Authority, in 1998.

- *LLB (Hons)*
- *GDip Legal Practice*
- *Solicitor of the Supreme Court of Queensland*
- *GAICD*

Phil Kesby

Appointed: 25 June 2010

Phil has more than 32 years experience in infrastructure delivery and property related industries. He has exceptional business and people skills and is highly regarded for his expertise in relationship management and stakeholder engagement.

Phil was Strategic Relationship Manager, within the Thiess Queensland Leadership Team and was responsible for relationship management, stakeholder engagement and marketing. Phil was at the forefront of cultural programs which improved the personal and business environments at Thiess.

Phil established his own consultancy practice in 2008 and provides high level mentoring and guidance in the fields of relationship management, stakeholder engagement and business development.

- *CertConst (Hons)*
- *Licensed Builder (NSW & QLD)*
- *GAICD*

Dennis Cavagna

Appointed: 25 June 2010

Dennis has a wealth of experience in leadership roles in finance, economics and IT roles within the water and essential services industries in Victoria.

His professional experience spans some 25 years in the Victorian water industry, including leadership positions with South East Water, Melbourne Water, Mornington Peninsula and District Water Board and the Department of Water Resources.

Since 2007 as a Commissioner of the Essential Services Commission (the independent economic regulator in Victoria) Dennis has been involved with the approval of prices and the quality and reliability of essential utility infrastructure services, including water services.

Dennis is also an independent member of the Risk and Audit Committee of the Victorian Department of Sustainability and Environment.

- *BEcon*
- *GDip Fin Planning*
- *GAICD*
- *FCA*

Barry Ball

Appointed: 25 June 2010

Barry is Deputy Director of the Global Challenge Institute, at the University of Queensland, and Water Policy Manager, International Water Centre. He provides leadership in the area of water policy and governance, institutional strengthening and social change.

Barry held senior management positions with the Brisbane City Council for more than 18 years and has held many positions in organisations devoted to issues of water, planning and natural disaster responses.

Barry's roles within the water sector include as Chair of the International WaterForum Management Committee and a board member of the International River Foundation.

Barry is a registered professional engineer and winner of the Australian Public Service Medal for Water Policy.

- *BEng (Civil)*
- *GDip Mgt*
- *Directors Course, AICD*

Paul Emmerson

Appointed: 25 June 2010

Paul is a Solicitor, Certified Practising Accountant and Registered Tax Agent. His long-standing involvement in numerous community groups and major projects of regional significance contributed to his winning the 2009 inaugural Lockyer Valley Council Citizen of the Year award.

Paul's many years of legal and accounting experience has made him sought after in the fields of commercial and financial law.

As Principal of PJ Emmerson Accountancy Practice, and manager of the family dairy farm, Paul has a wealth of business experience and regional knowledge.

Paul has been heavily involved in water user groups for more than a decade, including the Upper Lockyer Water Users Association, Lockyer Water Users Forum and South East Queensland Western Catchment Group.

- *BComm*
- *LLB*
- *Solicitor of the Supreme Court of QLD*
- *Directors course, AICD*

Diana Eilert

Appointed: 25 June 2010

Diana is a highly experienced senior executive and board member, having spent more than 25 years managing and driving change through service-based businesses. These range from start-ups to large listed companies including News Ltd, Suncorp, and Citibank as well as small on-line businesses. Diana's experience includes such roles as Group Executive responsible for Suncorp's entire general insurance business and Group Executive responsible for Suncorp's Marketing, IT, HR and Joint Ventures, as well as CEO of listed small cap Clarius Group. Diana is currently the Head of Strategy and Corporate Development for News Ltd.

In addition to her executive experience, Diana also has substantial Board and governance experience. She is currently a Director of REA Group (ASX200). Previously Diana has also held Board roles as Managing Director of Clarius Group (ASX listed), Chair of GIO Australia, and various other Suncorp subsidiaries.

- *BSc (Maths)*
- *MComm (Fin & Marketing)*
- *GAICD*

ANNEX C CUSTOMER SERVICE STANDARDS

Queensland Urban Utilities
Service Standards

January 2011

QUEENSLAND Urban Utilities

WATER QUALITY

The Queensland Urban Utilities' customer service standards outline commitments, responsibilities and standards you can expect from us, in relation to your water and wastewater service. The standards cover customers across all of our service territory including the Brisbane City, Ipswich City, Lockyer Valley Regional, Scenic Rim Regional, and Somerset Regional council areas.

Drinking water quality standard	
Definition	The Australian Drinking Water Guidelines specified by the National Health Medical Research Council, against which Queensland Urban Utilities measures the verification of water quality.
Queensland Urban Utilities Service Standard	National Health Medical Research Council, Australian Drinking Water Guidelines

Water quality complaints per 1000 properties per year	
Definition	The total number of complaints received by Queensland Urban Utilities requiring further investigation that relate to water quality, including water quality complaints resulting from operational practices. With respect to water quality, this is any complaint regarding: • discolouration • taste • odour • stained washing • illness, or cloudy water (e.g. caused by oxygenation), etc. It excludes complaints relating to: • service interruption • adequacy of service • restrictions • pressure and leakage. Complaints that require further investigation are those where the recommended action by Queensland Urban Utilities does not quickly solve the customer's concern. For example, a recommendation to address discolouration would be to run the tap for a minute. If effective, a complaint requesting service would not be recorded.
Queensland Urban Utilities Service Standard	Less than or equal to eight water quality complaints per 1000 properties per year

Water quality incidents per 1000 properties per year	
Definition	An incident is any event affecting Queensland Urban Utilities' infrastructure, which adversely affects the water quality delivered to customers, and to which water quality complaints can be attributed.
Queensland Urban Utilities Service Standard	Less than or equal to ten water quality incidents per 1000 properties per year

WATER SUPPLY

Water pressure	
Definition	The minimum pressure that customers can expect to receive at the connection to the property.
Queensland Urban Utilities Service Standard	Urban areas - minimum 210 kPa (kilopascals) Trickle feed areas and private booster - minimum 100 kPa (kilopascals)

Water volume	
Definition	The minimum flow rate that customers can expect to receive at the connection to the property.
Queensland Urban Utilities Service Standard	Urban areas – 25 litres per minute Trickle feed areas – minimum 3.2 litres per minute

CUSTOMER SERVICE

Calls answered (Grade of Service)	
Definition	The percentage of calls answered within 30 seconds.
Queensland Urban Utilities Service Standard	To have 80 percent of calls answered within 30 seconds

SERVICE CONNECTIONS

Time to commence work following customer payment	
Definition	The time to install a new service connection.
Queensland Urban Utilities Service Standard	Time frame to be 15 working days, 95 percent of the time

CONTINUITY OF SUPPLY AND NOTIFICATION OF INTERRUPTIONS

Number of unplanned water interruptions per 1000 connections per year.	
Definition	An unplanned water supply interruption occurs when the property is without a service due to any cause, excluding the following: • Property service connection interruptions (unless the burst or leak requires the water main to be shut down for repair and therefore affects multiple customers) • Interruptions that cause some reduction to the level of service but where normal activities(shower, washing machine, toilet flushing etc.) are still possible • Breaks in house connection pipes or mains • Planned interruptions. An unplanned water supply interruption is when the customer has not received at least 48 hours notification (or as otherwise prescribed by regulatory requirements) of the interruption. It also includes situations where the duration of a planned interruption exceeds that which was originally notified. In this circumstance the duration of the entire interruption is referenced. All un-notified interruptions caused by third parties should be included.
Queensland Urban Utilities Service Standard	Less than or equal to 100 unplanned water interruptions per 1000 connections per year

Restoration of supply after unplanned interruptions	
Definition	Restoration occurs where all interrupted connections are restored to normal service, that is, regardless of whether connections are progressively restored, for example, due to location of isolation valves.
Queensland Urban Utilities Service Standard	Less than five hours on 90 percent of occasions

Response to urgent incidents	
Definition	The response time is determined as the time it takes the utility to attend to the incident, measured from the time of the customer request to the time taken to determine appropriate restoration action.
Queensland Urban Utilities Service Standard	Urban areas – less than one hour Rural areas – less than two hours

Response to non-urgent incidents	
Definition	Response time to non-urgent incidents is determined as the time it takes the utility to attend to the incident, measured from the time of the customer request to the time taken to determine appropriate restoration action.
Queensland Urban Utilities Service Standard	Urban areas – less than 24 hours Rural areas – less than 72 hours

CONTINUITY OF SUPPLY AND NOTIFICATION OF INTERRUPTIONS

Notification of planned interruptions	
Definition	Planned interruption is when the customer is given notification of the interruption as it is part of organised works. Planned work of which the customer is not notified is an unplanned interruption.
Queensland Urban Utilities Service Standard	Minimum of 48 hours

Queensland Urban Utilities
GPO Box 2765, Brisbane Qld 4001
ABN 86 673 835 011

Printed on recycled paper
Q00171-2011

For more information
visit www.urbanutilities.com.au
or call 13 26 57

ANNEX D
DESIGN STANDARDS – SOURCE DOCUMENTS

Water supply network desired standards of service

Measure	Planning criteria (qualitative standards)	Design criteria (quantitative standards)
Reliability/ continuity of supply	All development receives a reliable supply of potable water with minimal interruptions to their service.	• Local government standards in planning scheme and planning scheme policies • Customer service standards • Customer service obligations
Adequacy of supply	All development is provided with a water supply that is adequate for the intended use.	• Water Service Association of Australia codes • IPWEA standards • Customer service standards • Local government standards in planning scheme and planning scheme policies
Quality of supply	Provide a uniform water quality in accordance with recognised standards that safeguards community health and is free from objectionable taste and odour.	• The Australian Drinking Water Guidelines developed by the National Health and Medical Research Council
Environmental impacts	The environmental impacts of the water supply network are minimised in accordance with community expectations.	• Compliance with the requirements of the Environmental Protection Act 1994 and associated Environmental Protection Policies and the Water Act 2000
Pressure and leakage management	The water supply network is monitored and managed to maintain the reliability and adequacy of supply and to minimise environmental impacts.	• System Leakage Management Plan (Chapter 3, Part 3, Division 1A Water Act 2000)
Infrastructure design/planning standards	Design of the water supply network will comply with established codes and standards.	• Water Supply Code of Australia—Water Services Association of Australia— WSA 03–2002 • The Australian Drinking Water Guidelines developed by the National Health and Medical Research Council • Planning Guidelines for Water Supply and Sewerage—Department of Natural Resources and Water (NRW) • Local government standards in planning scheme policies

Sewerage network desired standards of service

Measure	Planning criteria (qualitative standards)	Design criteria (quantitative standards)
Reliability	All development has access to a reliable sewerage collection, conveyance, treatment and disposal system.	• Local government standards in planning scheme and planning scheme policies • Customer service standards • Customer service obligations
Quality of treatment	Ensures the health of the community and the safe and appropriate level of treatment and disposal of treated effluent.	• Local water quality guidelines prepared in accordance with the National Water Quality Management Strategy • Queensland Water Quality Guidelines 2006—Environmental Protection Agency (where local guidelines do not exist) • National Water Quality Guidelines—National Water Quality Management Strategy (where local or regional guidelines do not exist)
Environmental impacts	The environmental impacts of the sewerage network are minimised in accordance with community expectations.	• Compliance with the requirements of the Environmental Protection Act 1994 and associated Environmental Protection policies
Effluent re-use	Reuse effluent wherever possible.	• Guidelines for Sewerage Systems: Reclaimed Water — February 2000 • Queensland Water Recycling Guidelines —December 2005
Infrastructure design/planning standards	Design of the sewerage network will comply with established codes and standards.	• Planning Guidelines for Water Supply and Sewerage—NRW • Sewerage Code of Australia— Water Services Association of Australia—WSA 02—2002 • Sewerage Pumping Station Code of Australia—Water Services Association of Australia—WSA 04—2005 • Local government standards in planning scheme and planning scheme policies

ANNEX E
CAPITAL PRIORITISATION

Queensland Urban Utilities Capital Risk Prioritisation Guidelines

Introduction

The Australian Water Industry is a very capital intensive industry being driven by the need to meet growth in our expanding cities and changing regulatory requirements. Queensland Urban Utilities are currently proposing to deliver a massive program to the value of $360M. The global financial crisis and requirements of funding institutions will lead to funding constraints. Capital effectiveness and efficiency are critical.

The Queensland Urban Utilities capital prioritisation framework has a number of objectives:

- Assessing each project:
    - Contribution to Queensland Urban Utilities objectives (still to be developed).
    - Risk of deferring the project against the Risk Framework.
- Ability to prepare scenarios that:
    - Trade off between risk and value.
    - Optimise the program to meet budget constraints.
    - Facilitate decision making.
- Ensure that all projects and decisions are transparent.

Why is Capital Prioritisation Important?

Capital Prioritisation is important for a number of reasons:

- To ensure a financially responsible spend profile that provides services at optimal timing and minimum cost.
- To ensure a program that will meet shareholder requirements and maximise returns.
- To result in an affordable program that will meet Queensland Urban Utility's pricing and lending policies.
- To develop a program that will be justifiable to the pricing and asset regulators and able to sustain review.

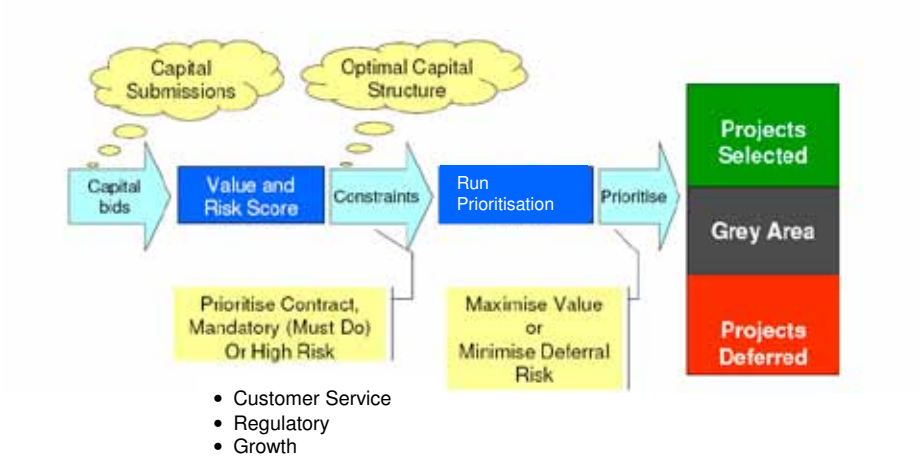
Capital Prioritisation Methodology

The capital prioritisation process addresses a number of issues:

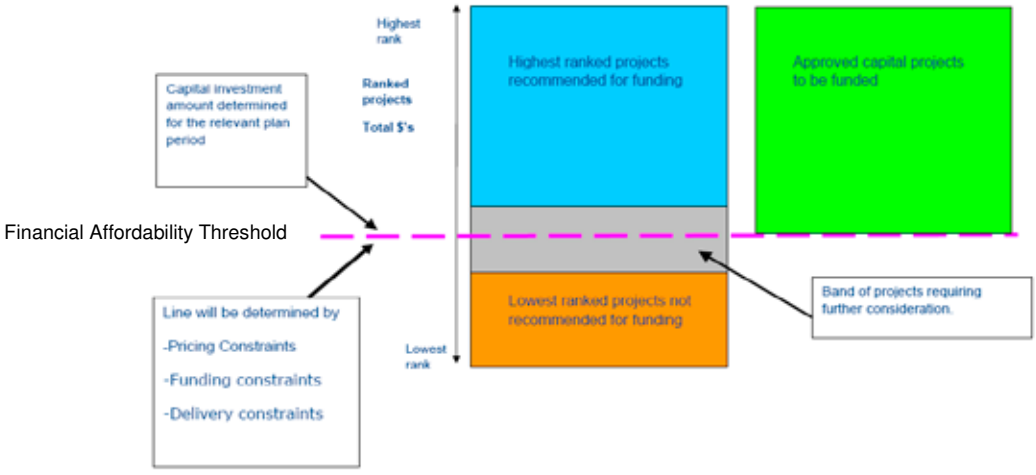
- Ongoing projects – Where there is a contractual commitment or approved funding is in place.
- Rolling Programs – Where some level of funding is desired every year.

- New Projects – An evaluation of risk of deferral is carried out. In this process both the likelihood and consequence of deferral are evaluated.

The following diagram illustrates the capital prioritisation process:



The output of the prioritisation process will be a list of projects as follows:



The output of this process will be a list of projects with a financial affordability threshold for consideration by the Establishment Committee.

Step Through of Prioritisation Process

Scenario: Assume the Project will not be funded in 2010/11 Budget.

Responses to Questions below are entered on the risk assessment worksheet provided.

Q1a. Is the project contractually committed as of the 14th January 2010?

Note: Contractually committed means either a contract has been awarded to an external provider or there is a fixed commitment by that date to an internal service provider to undertake the works.

If the answer is YES these projects are automatically placed at the top of the overall prioritised list of projects. This acknowledges that the project is already in the delivery process and that to not fund the project would mean that existing contracts would need to be broken.

Q1b. Does the project have approved funding in 2009/10, but is not yet contractually committed?

If the answer is YES these projects are ranked immediately below the contractually committed projects. This acknowledges that Councils have already seen fit to approve funding for these projects and as such have already been justified through rigorous budgetary processes.

Q1c. Is the line item for a Rolling Program?

Note: A Rolling Program is a program of repeatable minor works for which some level of funding is desired every year (e.g. Water Meter Replacement, Burst Mains Replacement etc).

If the answer is YES these programs are ranked immediately below the ongoing projects. This acknowledges that historically these programs are always funded. The level of funding rather than the need for the program is usually the key discussion point.

Q2. What is the event that might occur as a result of delaying the project?

Examples: Asset failure, sewage overflow, licence breach, customer complaints, inability to allow additional development, lost revenue opportunity etc.

What is the likelihood of this event? Choose rating from Table 1 Likelihood Rating.

What is the consequence of this event from a Customer Service, Regulatory and Growth Perspective? Choose a rating for each of the three criteria (Customer Service, Regulatory and Growth) from Table 2 Consequences Rating.

Capital Project Prioritisation Formula

The qualitative risk associated with not funding the project is calculated by multiplying the associated scores for likelihood and consequences. The largest of the three calculated risk scores is then used for project prioritisation purposes.

Projects are then ranked as follows:

- Contractually committed projects first (in prioritisation score order)
- Ongoing projects not yet contractually committed second (in prioritisation score order)
- Rolling Programs (in prioritisation score order)
- New Projects (in prioritisation score order)
- Deferred / cancelled projects

Table 1: Likelihood Rating

Rating	Definition
Almost certain	The event and consequence are expected to occur a number of times this year under most circumstances. Occurrence is almost certain within the coming year.
Likely	The event and consequence will occur with 75% probability within the next year under a given set of circumstances or scenarios. Occurrence is likely within the coming year.
Moderate	The event and consequence may occur with 50% probability within the next year under a limited or narrow set of circumstances or scenarios. Occurrence is possible within the coming year.

Table 2: Consequences Rating

	Customer Service & Standards	Regulatory	Growth
	The specific impact of the event on **existing** customers and the community. • Failure to meet Standards of Service • Adverse Customer and Community Impacts	The specific regulatory impacts and consequences of the event. • Water Act 2008 • Environmental Protection Act • Workplace Health & Safety • Local Government Act • Other TBA	The specific impact of the event on the mid to long term objectives, plans and goals of the region. • Regional Plan • Integrated Planning Act • Local Growth Management Strategy
MAJOR Critical event, which with proper management, will be endured. State Government intervention and independent review are a possibility.	– Major service failure over a large area. – Extended service failure over several days. – Customers unable to maintain daily routines during the event with ongoing impacts. – The event will trigger significant community disruption. – Major revenue opportunity lost. – Major operational and maintenance cost savings fail to be realised.	– The event will probably result in action being taken by one or more regulators as a significant breach of standards, regulations or licence conditions. – The event will probably be considered wilful damage or negligence resulting in fines and or regulatory action. – One or more serious injuries may result from the event; people may suffer significant health effects; 100 or more people may suffer minor or ongoing health effects.	– Development will be unable to proceed over a large area. – The event is likely to cause a major review of the Local Growth Management Strategy. – Higher level government intervention possible.
MEDIUM Significant event, which can be managed under normal procedures.	– Major service failure over a local area. – Service failure limited to a day or two. – Customers unable to maintain daily routines during the event with no ongoing impacts. – The event is likely to trigger moderate community disruption. – Potential revenue opportunity not realised. – Moderate operational and maintenance cost savings fail to be realised.	– The event may result in action being taken by one or more regulators as a breach of standards, regulations or licence conditions. – The event may be considered damage or negligence resulting in fines and or regulatory action. – Serious injuries will be unlikely to result from the event; one or more people may suffer moderate health effects; a few people may suffer minor or ongoing health effects.	– Development may be unable to proceed over a local area. – The event may cause a review of the Local Growth Management Strategy. – Higher level government intervention unlikely.
LOW Consequences can be readily absorbed but management effort is still required to minimise the impact.	– Service failure restricted to a small number of customers. – Service failure quickly able to be resolved. – Customers able to maintain daily routines during the event. – The event may trigger some local community disruption. – Minor process efficiencies not realised.	– The event will not conform with relevant policies, guidelines, codes of practice etc. – The event is unlikely to result in action being taken by a regulator as a breach of standards, regulations or license conditions. – The event is unlikely to be considered damage or negligence resulting in fines and or regulatory action. – An individual may suffer minor health effects; a few people may suffer minor health effects.	– Development impacts are minor. – The event will not cause a review of the Local Growth Management Strategy. – No higher level government intervention.
NOT APPLICABLE	– Not applicable	– Not applicable	– Not applicable

Important Note: **The interpretation of consequence category descriptors such as *large area, local, small number, major, minor* etc should be reflective of the district in which the works are proposed. This recognises and allows for the scale differences between regional areas.**

ANNEX F INFORMATION RETURN ADJUSTMENTS 2010/11

Project ID	Detail	2010/11 (all values in $000s)				2011/12 (all values in $000s)			
		Original	Revised	Change	Reason for Adjustment	Original	Revised	Change	Reason for Adjustment
Summary									
Total in Commissioning Model		341,112	308,333	-17,044		500,273	394,294	-105,979	
Donated Assets		54,543	50,622	-3,921	$4.9M decrease in Brisbane for property connections and an increase of$1M for Ipswich Property Connections	88,302	52,865	-35,437	
Commonwealth Funded		17,614		-17,614	Project removed pending confirmation of Federal Funding	8,708		-8,708	Project removed pending confirmation of Federal Funding
Total net of donated assets and commonwealth funded		**268,955**	**257,711**	**4,491**		**403,263**	**341,429**	**-61,834**	
Less Proposed Efficiency Dividend 2011/12			0						
Total		**268,955**	**257,711**	**4,491**	**Refer below for detail**	**403,263**	**341,429**	**-61,834**	**Refer below for detail**
Capital Expensed		8,365	16,987	8,622	Increase mainly due to Flood Recovery Asset Repairs ICT Recurrent Investment Programme	9,410	16,606	7,196	Increase mainly due to ICT Recurrent Investment Programme
Adjustments									
Various	Flood Recovery	0	35,731	35,731	Recovery of Flood Damaged Assets	0	15,585	15,585	Recovery of Flood Damaged Assets
AICTAA01	ICT Strategy	0	4,630	4,630	Provision of funding for ICT Initiatives not included in the initial budget				
AFLTAA01	Fleet	0	0	0		0	6,000	6,000	Provision of funding for Fleet Renewals not included in the initial budget
WWP138 BWWCAA02	Brisbane Trunk Sewers Renewal Programme	8,005	13,005	5,000	Completion of 2009-10 scope, funding required for emergency work (Nudgee Road Manhole) and increased costs.	9,000	14,219	5,219	Increased scope identified for 2011/12, also increase in cost estimates.

I_WWP7	Ipswich Sewerage Pump Stations Renewal Programme	5,059	2,511	-2,548	Deferral of work for a number of pump stations pending finalisation of project scope/ environmental issues and revised procurement strategy.				
IWWCAA26	Ipswich Old Toowoomba Road Sewerage Pump Station Upgrade (SP01)					40	2,410	2,370	Increase in project estimate ($1.3M) and deferred funding from 2010/11 pending finalisation of project scope/ environmental issues and revised procurement strategy.
WWP25bm	Brisbane Wastewater Transportation Minor Renewal Programme	4,650	2,453	-2,197	Delays associated with design of the Indooroopilly Rising Main. Also deployment of resources to flood recovery activities will further delay the project.				
AWWCAA21	All Regions - Western Services Area Compliance Programme	0	2,570	2,570	Further to asset condition and performance assessments of the Western Region Facilities a new project was initiated to address non compliant assets.				
SNI00175	Ipswich Woogaroo Creek (Goodna) Trunk Sewer Augmentation	26,166	16,166	-10,000	Project savings ($5M) realised due to mitigation of key risks. Also work delayed due to the contractor needing to retender for a subcontractor for the excavated section of the project.	53,635	52,000	-1,635	Funding deferred - review of timing
WWP147 BWWCAA22	Brisbane Bulimba Creek Trunk Sewer Upgrade - Padstow Road to Coora Street	13,000	17,670	4,670	Funding bought forward from 2011/12 in order to align expenditure with the contractors construction delivery schedule.	27,000	22,330	-4,670	Funding bought forward to 2010/11 in order to align expenditure with the contractors construction delivery schedule.

Project ID	Detail	2010/11 (all values in $000s)				2011/12 (all values in $000s)			
		Original	Revised	Change	Reason for Adjustment	Original	Revised	Change	Reason for Adjustment
WWP62 BWWCAA21	Brisbane - Woolloongabba Sewer Catchment Augmentation Parts A & B	9,000	6,500	-2,500	Project delayed due to the flood and in obtaining traffic approvals.	23,000	5,500	-17,500	Cashflow revised in light of the flood and delivery considerations.
WWP48 BWWCAA23	Brisbane - Auchenflower Branch Sewer Upgrade	7,500	3,200	-4,300	Project delayed pending council approved of the traffic management plan. Also $1M saving due to a favourable contract price.	8,800	5,510	-3,290	Savings realised due to a favourable contract price.
SNW00018 IWWTAA22	Ipswich Goodna STP Upgrade	55,893	36,700	-19,193	Project has been delayed due to late Post Market Approval, extended negotiations and contract execution. Project savings $5.9M 2010/11 have been realised further to mitigation of key project risks.	9,000	14,219	5,219	Increased scope identified for 2011/12, also increase in cost estimates.
S_WWT1 SWWTAA21	Somerset Fernvale STP Implementation	5,000	500	-4,500	Both Lowood and Fernvale STPs have been flooded. Original Plan was to go to market in March 2011.However, it will now be delayed until at least May 2011 due to delay in completion of the Performance Specification and Project Mandate.	7,000	2,700	-4,300	Cashflow revised in light of the flood
WWT134	Brisbane - Fairfield WRP Upgrade	3,200	5,315	2,115	Completion of 2009-10 scope which was delayed due to a late issue for construction design. Also additional funding $1M required for contract contingencies.				

L_WWT2 LWWCAA21	Lockyer Valley Eastern Regional STP Upgrade	3,000	352	-2,648	Project delayed due to land identification and purchase, and environmental approvals required by DERM.	14,800	800	-14,000	Cashflow revised in light of the flood, delivery considerations and review of timing
WWT113	Brisbane - Oxley Creek WRP Primary Digesters Environment Improvements	2,800	128	-2,672	Planning stage of the project indicated that for operational requirements 2 digestors need to be on line at all times. As a consequence it is was possible to deliver the project over 1 financial year as planned.				
BWWTAA57	Brisbane Luggage Point WRP - Cogeneration Plant Replacement					3,321	0	-3,321	Funding deferred - in line with updated Master Plan for Luggage Pt WRP
BDWDAA01	Brisbane Water Reticulation System Renewals Programme					10,200	7,811	-2,389	Rolling Programme funding reduced on optimisation of capital programme for 2011/12.
IDWDAA44	Ipswich Redbank Plains HL Reservoir					2,273	0	-2,273	Project deferred.
R_DW7	Scenic Rim Walker Drive Reservoir Kooralbyn Upgrade					2,544	0	-2,544	Project removed - master plan indicates that the upgrade is not required until 2051.
IWWCAA30	Ipswich Deebing Creek Sewer Trunk Main Augmentation - Stage 1					0	2,870	2,870	Deferred funding from 2010/11 $1.8m. Survey and detail investigations were delayed due to flood impacts on site and prolonged negiotations with land owners. Also the project estimate has increased by $1 m.

Project ID	Detail	2010/11 (all values in $000s)				2011/12 (all values in $000s)			
		Original	Revised	Change	Reason for Adjustment	Original	Revised	Change	Reason for Adjustment
SWWCAA21	Somerset Lowood Catchment Upgrade (Eagle Rise Development)					4,500	0	-4,500	Project removed as scope will be incorporated under SWWTAA21 Somerset Fernvale WRP Implementation.
RWWTAA30	Scenic Rim Canungra WRP Upgrade					1,000	3,345	2,345	Funding increased in line with procurement cost plan.
BWWTAA29	Brisbane Luggage Point WRP - Odour Control - Stage 1					3,351	0	-3,351	Funding deferred - in line with updated Master Plan for Luggage Pt WRP
IWWTAA24	Ipswich Bundamba WRP Upgrade - Stage 5a					8,856	2,051	-6,805	Funding deferred - review of timing
RWWTAA23	Scenic Rim Bromelton WRP Implementation					4,578	0	-4,578	Funding deferred - review of timing
AWWTAA03	Water Reclamation Plant Lagoons Enhancements					0	4,608	4,608	New project required to return 6 water reclamation plant lagoons in the Western Region to licence compliance
IDWDAA08	Ipswich Water Distribution Minor Enhance Programme					3,587	0	-3,587	Rolling Programme funding reduced on optimisation of capital programme for 2011/12.
BDWDAA10	Brisbane Leakage Management and Pressure Reduction Programme					5,000	2,100	-2,900	Funding deferred - pending QUU Strategy

BWWCAA07	Brisbane Wastewater Transport Minor Enhance Programme					4,230	1,967	-2,263	Rolling Programme funding reduced on optimisation of capital programme for 2011/12.
IWWCAA07	Ipswich Wastewater Transport Minor Enhance Programme					3,339	997	-2,342	Rolling Programme funding reduced on optimisation of capital programme for 2011/12.
BWWCAA08	Brisbane Sewer Pump Station Reliability Improvement Programme					4,685	2,000	-2,685	Rolling Programme funding reduced on optimisation of capital programme for 2011/12 and funding bought forward to 2010/11.
IWWCAA08	Ipswich Sewerage Pump Stations Overflow Mitigation					3,761	500	-3,261	Funding deferred - review of timing and delivery considerations
IPLNAA01	Ipswich Capital Planning and Design Programme					0	2,000	2,000	Capital Planning and Design Funding for the Western Region.
AWWCAA14	Sewer Overflow Management Works					0	3,300	3,300	New programme to investigate the potential for reducing wet weather sewage overflows into private property.
IDWDAA34	Ipswich Land Purchase for 2 Ripley Valley Reservoir Sites					1,850	0	-1,850	Funding deferred - review of timing
IWWCAA21	Ipswich Rosewood Sewer Catchment Augmentation					2,486	636	-1,850	Funding deferred - review of timing

Project ID	Detail	2010/11 (all values in $000s)				2011/12 (all values in $000s)			
		Original	Revised	Change	Reason for Adjustment	Original	Revised	Change	Reason for Adjustment
IDWDAA36	Ipswich Fischer Road (Ripley) Water Trunk Main Implementation					1,831	0	-1,831	Funding deferred - review of timing
IDWDAA33	Ipswich Springfield HLZ Elevated Reservoir Implementation					1,700	0	-1,700	Funding deferred - review of timing
IWWCAA01	Ipswich Sewer Reticulation System Renewals Programme					2,484	789	-1,695	Funding reduced on optimisation of capital programme for 2011/12.
IDWDAA21	Ipswich Rosewood Water Zone Master Project					1,703	150	-1,553	Funding deferred - review of timing
RDWDAA21	Scenic Rim Reservoir Site Beaudesert South - 2ML					1,500	0	-1,500	Funding deferred - review of timing
Various	Other Adjustments	125,682	110,280	333	Other Adjustments <$2M	108,873	110,869	1,996	Other Adjustments <$1.5M
Total per above		**268,955**	**257,711**	**4,491**		**403,263**	**341,429**	**-61,834**	

ANNEX G MINUTE EXTRACT

18 July 2011

Board Minute - QCA Interim Price Monitoring – Information Return 2011/12

The Board:

1. *APPROVED the submission of price monitoring information to the Queensland Competition Authority (QCA) on the required date. Price monitoring information to be submitted to the QCA includes the FINAL Information Return 2011/12 and a Data Template (and supporting documents).*

2. *NOTED that the required date has changed to 31 August 2011.*

3. *ACKNOWLEDGED the auditor's report.*

4. *APPROVED the signing of a Director's Responsibility Statement, which must accompany the final submission. A copy of the Director's Responsibility Statement is provided in* ***Section 9*** *of the Information Return 2011/12.*

Queensland Urban Utilities
GPO Box 2765
Brisbane Qld 4001
ABN 86 673 835 011

Printed on recycled paper
Q00252-2011

For more information

visit www.urbanutilities.com.au

or call 13 26 57