QUEENSLAND UrbanUtilities

QCA INTERIM PRICE MONITORING

INFORMATION RETURN 2013–15

28 JUNE 2013

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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**

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Executive summary

Queensland Urban Utilities is pleased to be providing this information return to the Queensland Competition Authority (QCA) in response to the requirements under the regulatory framework. This year, the information return contains our budgeted and forecast financial information for two financial years: 2013/14 and 2014/15.

This information return marks the fourth year since the State Government undertook structural reforms of the south east Queensland (SEQ) water industry in 2009.

The reforms resulted in the creation of Queensland Urban Utilities on 1 July 2010 to provide water and sewerage services in Brisbane City, Ipswich City and the Lockyer Valley, Scenic Rim and Somerset regional council areas. As part of the reforms, the newly formed Queensland Urban Utilities was referred to the QCA for price monitoring purposes by the Queensland Government. Since 1 July 2010, the QCA has not found any evidence of abuse of market power by Queensland Urban Utilities.

Today, we manage $4.5 billion worth of assets and infrastructure, employ around 1,300 staff, and deliver water and sewerage services across a large service territory that is home to a population of more than 1.3 million people. Given the vital role that we play in our communities, we remain committed to delivering value to our customers. We endeavour to achieve greater operational efficiencies, strive for sustainable outcomes, and have an acute awareness of the price burdens our customers face.

Outlined within this information return are details of the expected costs of delivering water and sewerage services and the revenues we expect to earn from these services in 2013/14 and 2014/15. It also contains information outlining our current service standard performance and customer engagement practices. This information return should be read in conjunction with the data template provided.

Service standards and customer engagement

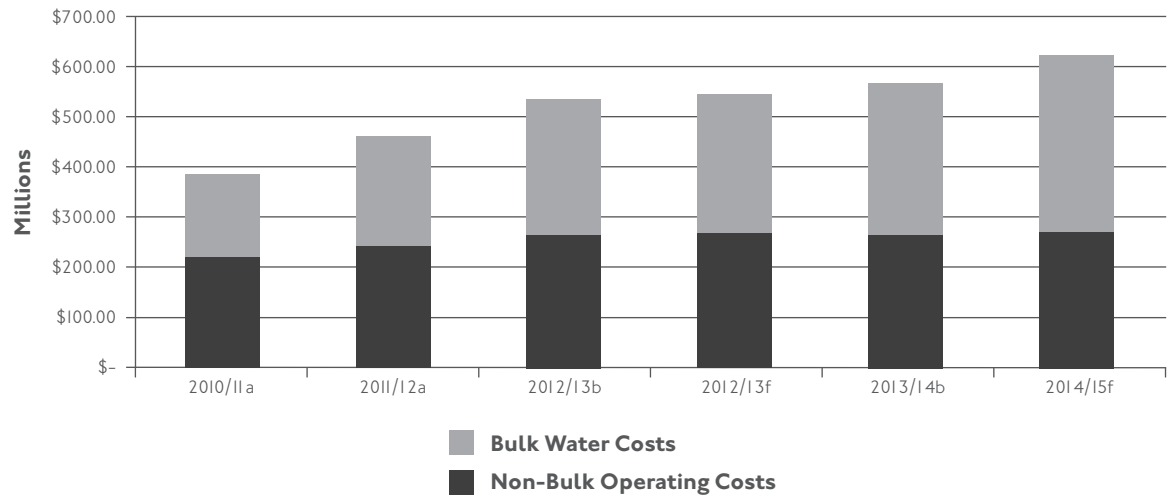
Queensland Urban Utilities measures our service standard performance against a range of metrics to ensure that overall customers receive a consistently high standard of service. These metrics include (but are not necessary limited to) water quality, water pressure, responding to bursts and general complaints. We have provided our service standard performance for 2010/11 and 2011/12.

To ensure that we continue to engage with our customers and the communities we serve, we formed a Customer and Community Reference Group (CCRG) to gain feedback and explore opportunities on a range of water and sewerage issues. The group is made up of self-nominated members who speak on behalf of a variety of community sectors to ensure fair representation. The CCRG meets on a quarterly basis.

Operational expenditure

Queensland Urban Utilities is budgeting total operational expenditure of $572.5 million in 2013/14 and $622.9 million in 2014/15. In each of these years, bulk water costs will represent 54% (2013/14) and 56% (2014/15) of total expenditure. Given growth and cost indexation assumptions, we have forecasted that our bulk water costs in 2014/15 will be $352.3 million, which is an increase of 30% from our 2012/13 budget allowance of $269.8 million.

Operational expenditure



With regard to our total non-bulk water operational costs, this will remain relatively constant over the next two years. We have budgeted a slight decrease in our non-bulk water costs for 2013/14 relative to our 2012/13 budget, while for 2014/15 there will be an increase of 2.8% from our 2013/14 non-bulk operating cost budget. We have been able to keep our non-bulk water operating costs budget relatively constant given our commitment to keeping costs down to ensure that our customers receive the best service for the lowest possible cost. For 2013/14 and 2014/15, we have budgeted for efficiencies of $9.5 million and $5.1 million respectively. This means that over the next two years, Queensland Urban Utilities will have built in efficiencies of $14.6 million into our budget. These efficiencies will come from a number of areas within the organisation.

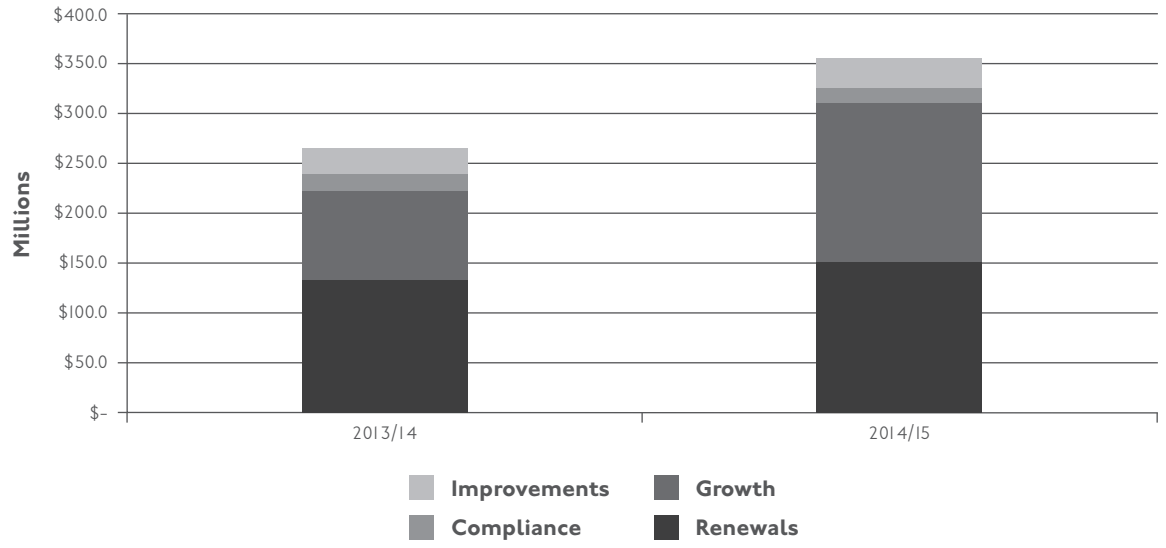
To achieve our efficiency targets for 2014/15 and beyond, we are undertaking an Enterprise Excellence Review of our business to identify opportunities for operational efficiency. This process is currently underway and will be used by Queensland Urban Utilities to achieve efficiencies, not just in this coming regulatory period, but also into future years.

Executive summary

Capital expenditure

Queensland Urban Utilities will be commissioning $262.8 million worth of capital works in 2013/14 and $356.3 million in 2014/15. This amounts to $619 million worth of capital works being commissioned over the next two years. Of this total amount, $284.5 million (46%) will be expenditure related to renewing infrastructure, $247 million (40%) is related to growth, while improvements and compliance capital expenditure will be $61 million (10%) and $24.7 million (4%) respectively.

Capital expenditure



These capital works will be commissioned in our regions in the following amounts (and proportions) as follows; $480 million (77.5%) will be commissioned in Brisbane City, $70.3 million (11.4%) in Ipswich City, while Lockyer Valley, Somerset and Scenic Rim regions will have a combined total expenditure $68.9 million (11.1%).

Revenue requirement

Based on the information put forward, Queensland Urban Utilities forecasts that our maximum allowable revenue (MAR) for 2013/14 is $977 million and $1051 million in 2014/15.

Our revenue requirement was determined with the following notable elements:

- Treatment of capital revenues

In previous submissions, Queensland Urban Utilities adopted the revenue-offset approach to exclude revenue from capital contributions in the calculation of our MAR. In this regulatory period, the asset-offset approach has been adopted to deal with capital contributions. This approach was adopted as this methodology was deemed to be better suited to lessening the volatility associated with forecasting capital revenues.

- New benchmark WACC

We have adopted the benchmark WACC of 6.57% that was proposed by the QCA. While we have accepted this WACC, we have some concerns regarding some of the assumptions which resulted in this WACC and these views will be put forward during the industry wide review of WACC that is currently underway.

- Treatment of under-recoveries

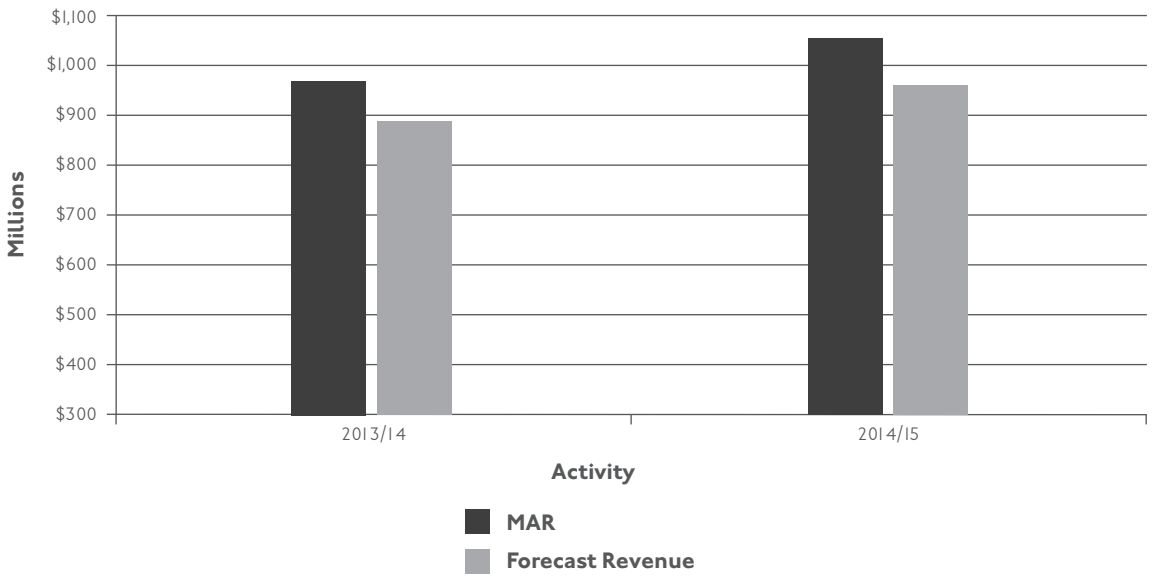
We are proposing to capture the value of the under-recovery from 2011/12 that was outside our control from the imposition of the CPI-based price cap.

Executive summary

Revenues from utility services

Based on our demand forecasts and water and sewerage charges over the next two financial years, we have budgeted utility revenues of $894.6 million for 2013/14 and $971 million in 2014/15. This equates to an under-recovery of $81 million in 2013/14 (8.67% of MAR), and $78 million in 2014/15 (7.63% of MAR).

Capital expenditure



1 Queensland Urban Utilities

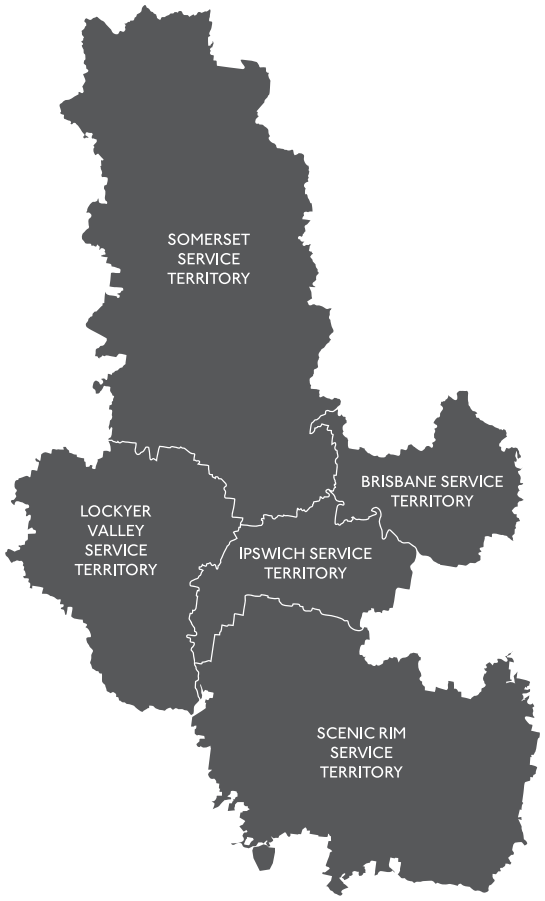
1.1 Who we are and what we do

Queensland Urban Utilities is a statutory body created on 1 July 2010 as a result of Queensland Government changes to the way water is managed in South East Queensland. We are managed by an independent board and jointly owned by five participating councils: Brisbane, Ipswich, Lockyer Valley, Scenic Rim and Somerset.

Approximately 1.3 million people reside in our service territory, which 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 (see Figure 1-1). By geographical area, we are the fourth largest water utility in Australia.

In 2012/13, we expect to deliver around 115,000ML of potable water within our service territory via a network of reservoirs, pipelines, pumps, valves, meters, and disinfection facilities. This network includes 8,842km of water pipes, 105 water reservoirs, 8,537km of sewerage mains and 28 sewage treatment plants. We also treat around 131,000ML of sewage each year.

Figure 1-1 – Queensland Urban Utilities' service territory



1.2 Our future – strategic direction

Queensland Urban Utilities' long-term vision is to be recognised for our excellence in water and sewerage services that meet the evolving needs of our customers and enhance our community. Our purpose is to enrich quality of life.

Our vision is underpinned by four strategic pillars, which are outlined below.

Our purpose
Enrich quality of life.

Our vision
We will be recognised for our excellence in water and sewerage services that meet the evolving needs of our customers and enhance our communities.

1.3 Information return – what this document is about

Queensland Urban Utilities is regulated under a price monitoring regulatory framework which requires us to submit information to the Queensland Competition Authority (QCA) relating to (among other things) the cost of delivering quality water and sewerage services.

As the regulator, the QCA assesses whether the costs incurred by Queensland Urban Utilities in delivering its services are prudent and efficient. This process is designed to ensure that monopoly providers of essential utility services are not charging prices in excess of efficient costs.

This document addresses the QCA's information requirements for the years 2013/14 and 2014/15, and should be read in conjunction with the data template. This document and the data template will form the basis of the review to be undertaken by the QCA and will be supported by additional information throughout the review as required.

2 Our customers

Queensland Urban Utilities manages a diverse program 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, while 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 that these regulations do not place unreasonable pressure on our business or on our customers.

The Customer and Community Reference Group (CCRG) – made up of representatives from key residential, community and commercial groups – assists Queensland Urban Utilities by providing valuable feedback on issues, initiatives and projects that affect our customers. The following section addresses customer rights and responsibilities as well as Queensland Urban Utilities' approach to the provision of support for vulnerable customers.

Outlined below are a number of regulations we comply with and initiatives we undertake to ensure that we deliver quality service to our customers.

2.1 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 represent the commitment, responsibilities and standards customers can expect, in relation to water and sewerage services. Queensland Urban Utilities' Customer Charter and Customer Service Standards are discussed below.

Under the machinery of government changes, accountability for the code now falls under the Department of Energy and Water Supply.

2.2 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.

Copies of our Customer Charter and Service Standards can be obtained from Queensland Urban Utilities and are also available on our website.

2.3 Vulnerable customer support

2.3.1 Financial Hardship Policy

Queensland Urban Utilities recognises that some 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.

A customer in hardship is defined as one who is willing but unable to meet their financial commitments. Short-term financial hardship is often due to an unexpected change in circumstances, such as loss of employment, onset of illness or relationship changes.

Long-term financial hardship is often due to customers experiencing short-term impacts which continue for a prolonged period of time, such as chronic illness or an extended period of unemployment. Low income customers on government benefits may also experience long-term hardship – with little discretion or flexibility in financial matters, they are vulnerable to changes in circumstance.

Customers in financial hardship may identify themselves, be identified by Queensland Urban Utilities employees or be referred from a financial advisor or community agency.

2 Our customers

2.3.2 Services offered to customers experiencing hardship

Queensland Urban Utilities offers various services to customers experiencing financial hardship. These include:

- referrals to a network of community support organisations (as Queensland Urban Utilities recognises that customers in hardship may be experiencing financial stress across a range of household living expenses and these agencies may assist customers in managing their expenses)
- providing a payment plan that allows for payment of outstanding balances before the next bill is issued
- developing tailored payment plans that customers can reasonably afford to pay and that enables the customer's debt position to be improved over time
- providing written confirmation of the terms of any payment plan that has been agreed
- allowing customers to request a change to the instalment amount if there is a change to their circumstances
- access to a payment card arrangement to assist customers in their budget process information on practical steps to keep water use to responsible levels
- encouraging the use of automated regular BPAY® payments to fulfil payment arrangements
- relief from legal action, and additional debt recovery costs provided that customers continue to meet any terms agreed with Queensland Urban Utilities
- halting the application of interest to the outstanding balance.

2.3.3 Pensioner rebates

Queensland Urban Utilities facilitates pensioner rebate arrangements provided by our participating councils and the State Government. The 2013/14 rebate arrangements are the same as 2012/13. The 2014/15 rebate arrangements are unknown.

Brisbane City Council's pensioner remission (2013/14):

- Full Pensioner Remission – 40% of the net charges in the water and sewerage account to a maximum of $476 per annum ($119 per quarter).
- Part Pensioner Remission 20% of the net charges in the water and sewerage account to a maximum of $238 per annum ($59.50 per quarter).

State Government Pensioner Subsidy (2013/14):

- $120 per annum ($30 per quarter).

2.3.4 Dialysis patient policy

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

2.4 Customer engagement

Queensland Urban Utilities' engagement with customers about costs and other underlying prices and the provision of water and sewerage services is primarily delivered through three processes/initiatives: the Water Netserv Plan, our Customer and Community Reference Group and tracking customer insights.

2.4.1 Water Netserv plan

Queensland Urban Utilities consulted with customers to develop the Water Netserv Plan. The plan provides an overview of our planning and development for the next 20 years and is critical to meeting our commitment to our customers. Included in the plan is an outline of how we will charge for our services to fund the development and maintenance of our water and sewerage network.

Queensland Urban Utilities invited customers to comment on the draft plan in 2011 through:

- small-group forums held at locations across our service territory
- a presentation and discussion at Queensland Urban Utilities' Customer and Community Reference Group
- local newspaper advertising and posters in community venues (e.g. libraries)
- emails to key stakeholder groups containing a summary of the Draft Netserv Plan and the opportunity to request a copy of the full Plan for comment
- Queensland Urban Utilities' customer service points and council ward/division offices.

2.4.2 Customer and Community Reference Group

Queensland Urban Utilities' Customer and Community Reference Group represents customers and the community through the provision of advice and input on a range of topics associated with the delivery of water and sewerage services. The group consists of eleven members representing key community sectors, local government and major industries. Formed in late 2010, the group meets quarterly and is regularly consulted on water and sewerage pricing and related topics such as Queensland Urban Utilities' Hardship Policy and Concealed Leak Policy.

2.4.3 Tracking customer insight

Queensland Urban Utilities tracks customer satisfaction with price and value through annual focus groups and monthly customer surveys. Through this research, we have identified four key drivers of customer satisfaction: value, transparency, customer focus and reliability.

The research also identified the importance customers placed on each driver. This determined the weighting for each driver: value 39%, transparency 11%, customer focus 29%, and reliability 21%.

Performance against these drivers is tracked monthly and is used to calculate a weighted measure of the overall organisation's brand health.

2.5 Our service standards

Queensland Urban Utilities has service standards in place to assure our customers that the services we deliver are of a consistent and high standard. Table 2-1 below lists our key performance indicators and how we performed against our service standards over the past two years.

The table shows that we met the majority of our key service standard indicators in 2010/11 and 2011/12[1] and are continuing to improve in areas where standards have not been met. These standards were set with reference to previous service standards that existed prior to council reforms, which saw the responsibility of water and sewerage delivery separated from councils and vested in Queensland Urban Utilities. Given that customers expected, and had become accustomed to these service standards, Queensland Urban Utilities adopted these standards when it was formed.

[1] Service standard performance indicators for 2012/13 were not available at the time this submission was prepared.

2 Our customers

Table 2-1 – Queensland Urban Utilities service standards

Indicator	Service standard	2010/11 result	2011/12 result
Water quality			
Water quality complaints	≤8 per 1000 properties	3.2	4.6
		The increase in water quality complaints was primarily driven by increased rainfall raising the levels of turbidity and naturally occurring manganese in the water supply.	
Water quality incidents	≤ 10 per 1000 properties	0.3	0.04
Water supply			
Water pressure	Water pressure Urban area ≥2 10 kPa Trickle feed areas (and private booster) ≥ 100kPa	Queensland Urban Utilities undertakes ongoing electronic and manual monitoring of the water network to ensure water supply pressure and volume standards are met. Where an issue is detected or a complaint received, it is investigated and corrective action is undertaken.	
Water volume	Urban areas ≥25 L/min		
Customer service			
Calls answered grade of service	≥80% within 30 seconds	75% (% within 20 seconds)	83% (% within 20 seconds)
Service connections			
Time to install a new service connection	≥95% within 15 working days	38%	52%
Continuity of supply			
Number of unplanned water supply interruptions	≤ 100 per 1000 properties per annum	63	48
Restoration of water supply	≥90% unplanned interruptions restored within 5 hours	87%	89%
Response to incidents			
Urgent water	100% within 1 hour	93%	99%
Urgent sewerage		85%	97%
Non-urgent water	100% within 24 hours	78%	97%
Non-urgent sewerage		86%	98%
Notification of planned interruptions water and sewerage	48 hours notice given	Queensland Urban Utilities provides a minimum of 48 hours notice to our customers before any planned interruption to services. This is done through letterbox notices or hand-delivered calling cards.	

3 Demand forecasting

3.1 Background

Queensland Urban Utilities uses actual and forecast demand to guide our decision making in relation to undertaking capital and operational expenditure on our water and sewage networks, and also to guide our price-setting process.

To assist it in developing meaningful forecasts, Queensland Urban Utilities has developed a demand forecasting user guide[2] which sets out the processes in forecasting demand for the different aspects of the business. Queensland Urban Utilities' approach to demand forecasting for both long-term capital planning and short-term pricing was considered to be reasonable by the QCA[3] with a further recommendation that, moving forward, Queensland Urban Utilities should incorporate the price elasticity of water into our demand forecasting methodology.

This section on demand forecasting primarily deals with forecasting from a utility revenue basis as this is the most important factor in relation to revenue and prices for the regulatory period. Queensland Urban Utilities also undertakes forecasts of the long-term demands on our network from customers (impacting on the need for capital expenditure programs) and this information will be provided to the QCA during the review process, as required.

3.2 Forecasting water demand

The demand for water is essentially made up of an absolute component representing the population or number of connections and a rate of usage component, typically referred to in litres per connection or litres per capita terms. Each of these demand elements (rate of usage and the absolute component) are, in turn, driven by a number of factors, such as population growth, the number and growth in customer connections, rainfall patterns, changes in user behaviour and government policies.

3.2.1 Population growth and customer connections

Within the demand forecasting framework, Queensland Urban Utilities relies on a range of demographic information from local councils and state and federal governments to develop its projections on the resident population[4].

Typically, the resident population forecasts are then further refined 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. new connections) forecasts for financial planning purposes.

3.2.1.1 Serviced Population

Serviced population forecasts are developed by refining the resident population forecast by:

- excluding properties that are not and will not be serviced by reticulated water supply and sewerage
- incorporating information relating to non-residential equivalent person demands, which are not considered by the base population projections
- development of projections appropriate to the distribution network planning level
- consideration of population projections across an appropriate asset service life.

With regard to non-residential forecasts, industrial and commercial demands are a large component of the overall volume demand for water and sewage transported. 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 residential populations include people living in other types of accommodation (retirement villages, nursing homes, boarding houses, colleges, caravan parks). These people are taken into account via the non-residential population component.

[2] *User Guide – Short-Term and Long-Term Demand Forecasting* Policy
[3] P14. Final Report SEQ Price Monitoring for 2012-13 Part B – Detailed Assessment, QCA January 2013
[4] Resident Population is the population which resides in Queensland Urban Utilities' service area.

3 Demand forecasting

3.2.1.2 Property growth

While population level forecasts are used in capital planning, growth in properties is used as a basis for financial forecasting. Queensland Urban Utilities uses the Office of Economic and Statistical Research (OESR) demography and planning forecast data as the basis for dwelling growth. Currently, South East Queensland is experiencing low growth compared to recent high growth, with the OESR 2011 low series being considered to more appropriately reflect current growth than the medium series.

However as the Office of Economic and Statistical Research (OESR) only publish a medium series for dwellings, Queensland Urban Utilities adjusted the 2011 medium series dwelling forecasts using the low series population forecast. A further adjustment was made to account for non-serviced properties within the Queensland Urban Utilities service territory. The growth rates are then applied to the properties in the billing system. This is consistent with the user guide established for Queensland Urban Utilities.

Queensland Urban Utilities developed its 2012/13 forecasts in accordance with our demand forecasting user guide. Table 4-1 below shows a comparison between the original forecast growth and the actual growth observed so far, which shows that there is a material difference between what was forecast and the actual growth for the last two years.

Table 3-1 – Comparison of forecast and actual residential property growth

	Brisbane	Ipswich	Lockyer Valley	Scenic Rim	Somerset	QUU total
Forecast 2011/12	1.6%	3.6%	3.3%	1.6%	1.6%	**1.9%**
Actual 2011/12	1.1%	1.9%	3.4%	5.2%	6.1%	**1.4%**
Budget 2012/13	1.2%	4.0%	3.4%	4.6%	3.8%	**1.7%**
Forecast 2012/13	0.9%	2.0%	1.2%	2.7%	4.5%	**1.1%**

3.2.1.3 Customer connection forecasts

In developing our customer connection forecasts for 2013/14, Queensland Urban Utilities initially used the demand forecast user guide. However, the resulting forecasts were significantly different from the actual data that was observed (see Table 3-1 above) by Queensland Urban Utilities. Given this, Queensland Urban Utilities has developed a revised forecast for 2013/14 that has been influenced by the more recent trends that were evident in the actual information being received and also discussions with council representatives. Table 3-2 shows the resultant growth forecasts for 2013/14.

Table 3-2 – Revised forecast residential property growth for 2013/14

	Brisbane	Ipswich	Lockyer Valley	Scenic Rim	Somerset	QUU total
OESR[5]	1.2%	4%	3.4%	4.4%	3.6%	**1.7%**
Forecast 2013/14	1.0%	1.5%	1.0%	2.9%	1.4%	**1.0%**

[5] Adjusted as described in section 3.2.1.2

Queensland Urban Utilities does not have any evidence that this will be a more permanent change to the forecast growth beyond 2013/14, therefore we have retained our approach outlined in the user guide for 2014/15.

These alterations only impact on the short-term forecasting, not long-term capital planning forecasts.

The following table outlines the connection forecasts for the regulatory period based on the above discussion.

Table 3-3 – Customer connection forecasts for 2013/14 and 2014/15[6]

Region	2013/14	2014/15
Brisbane	406,287	411,162
Ipswich	65,142	67,617
Lockyer Valley	10,396	10,739
Somerset	5,192	5,374
Scenic Rim	6,400	6,669

3.2.2 Rate of usage

The underlying rate of water usage within the Queensland Urban Utilities region 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 capital planning process. Given that the rate of demand is heavily influenced by a range of factors, it can be difficult to accurately forecast. Factors that influence the rate of demand include the weather, long-term climatic changes, changes in user behaviour and government policy.

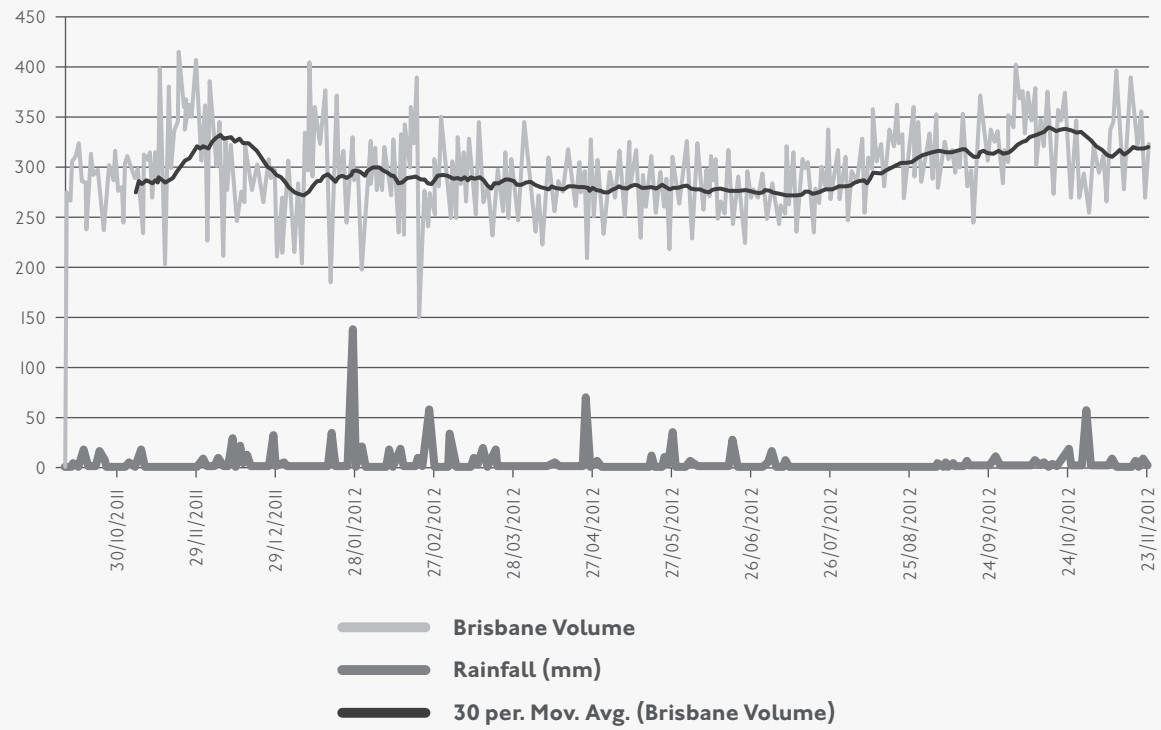
Day-to-day changes in temperature and rainfall have an impact on the rate of usage. Figure 3-1 overleaf is an illustration of the impact of temperature and rainfall on the rate of demand. The graph shows wet weather tends to reduce the need for water, especially for outdoor use, while dry weather tends to increase the rate of demand for water. It can be seen that from the end of July 2012 until the end of October 2012, there was almost no rainfall. During this time, the 30-day moving average (for usage) within Brisbane steadily increased from roughly 275ML per day to 345ML per day until wet weather in November resulted in the decrease to 310ML per day.

Given the variability of the weather, it is difficult to predict the rate of demand.

[6] It should be noted that the above forecasts are based on Queensland Urban Utilities' billing properties and will differ from the figures in the National Performance Report.

3 Demand forecasting

Figure 3-1 – Bulk water supplied and rainfall within the Brisbane district



In addition to the variability of day-to-day weather changes, the adoption of more water efficient home appliances and installation of water tanks makes it difficult to determine what the usage levels may 'bounce-back' to, and how quickly any such 'bounce-back' may occur.

There is also the possibility that recent price increases, especially the increase in bulk water charges over the last few years, could have a negative impact on consumer demand. However, without a detailed study into the price elasticity of demand for water within the Queensland Urban Utilities region, it cannot be known for certain the magnitude of this impact. From evidence seen to date for other regions within Australia, Queensland Urban Utilities is of the opinion that the demand for water is currently being influenced more by past government policies related to water restrictions and the adoption of water efficient behaviours by consumers than by the price of water.

The QCA and SKM.MMA (who previously undertook a review of Queensland Urban Utilities' demand forecasting methodology and the resulting forecasts) commented on the difficulty in predicting the rate of usage from year to year.

Therefore, having considered the above factors, and recognising the difficulty of forecasting the rate of demand, Queensland Urban Utilities has considered that an appropriate rate of demand growth factor to adopt on the 2012/13 budgeted demand is 5 litres/person/day for 2013/14 and 2014/15.

Queensland Urban Utilities' non-residential demand is essentially influenced by large customers. In 2012/13, Queensland Urban Utilities observed that there was significant growth in usage by large customers which drove non-residential demand. Queensland Urban Utilities is of the opinion that this growth in usage is unlikely to be sustained and, as a result, we adjusted our 2013/14 forecasts to 0% growth and 0.5% growth for 2014/15.

Table 3-4 – Forecast usage demand by region for regulatory period (l/p/d)

Region	Residential demand				
	2011/12[a]	2012/13[b]	2012/13[f]	2013/14[b]	2014/15[f]
Brisbane	164.5	175.0	178.3	180.0	185.0
Ipswich	159.8	175.0	159.5	180.7	185.0
Lockyer Valley	146.2	150.0	153.7	155.6	160.0
Scenic Rim	149.8	160.0	160.2	165.0	170.0
Somerset	139.8	165.0	158.5	170.7	175.0

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

Table 3-5 – Forecast non-residential growth by region for regulatory period

Region	Non residential demand	
	2013/14	2014/15
Brisbane	0%	0.5%
Ipswich	0%	0.5%
Lockyer Valley	0%	0.5%
Scenic Rim	0%	0.5%
Somerset	0%	0.5%

3.2.3 Non-revenue water

Non-revenue water is water that Queensland Urban Utilities purchases from the bulk water authority (Seqwater), but is unable to charge its customers for. This can be the result of a number of factors, including:

- providing water for fire services
- non-billed properties
- theft from illegal connections
- leakages within the network.

Queensland Urban Utilities determines this amount as the difference between the amount of bulk water we receive from Seqwater (the bulk water supplier) and the amount of water we bill our customers for.

Queensland Urban Utilities has initiated a number of programs to reduce the level of non-revenue water associated with our network, keeping in mind that at a certain point, it becomes uneconomical to reduce the leakage, i.e. the cost of reducing leakages outweighs the benefits of reducing these leaks. Queensland Urban Utilities views this as important in reducing cost impacts on our customers over the long-term.

Table 3-6 below outlines Queensland Urban Utilities' allowance for non-revenue water as a proportion of the bulk water purchased for each local council.

Table 3-6 – Non-revenue water (NRW) allowance for 2013/14 and 2014/15

NRW allowance	Brisbane	Ipswich	Lockyer Valley	Scenic Rim	Somerset
2013/14	12.5%	6%	18%	18%	18%
2014/15	12.5	6%	18%	18%	18%

3 Demand forecasting

3.2.4 Total forecast water usage for 2013/14 and 2014/15

Based on the discussion above, the following table provides Queensland Urban Utilities forecast total water usage for 2013/14 and 2014/15.

Table 3-7 – Total forecast demand (bulk water) by region for 2013/14 and 2014/15 (ML)

	2013/14	2014/15
Brisbane	112,031	115,030
Ipswich	16,840	17,652
Lockyer Valley	2,181	2,281
Scenic Rim	1,471	1,568
Somerset	1,542	1,604
Total	**134,065**	**138,135**

3.3 Recycled Water

Queensland Urban Utilities provides recycled water services to non-residential customers in Brisbane and Ipswich. These customers include BP, Caltex, Brisbane Airport Corporation and a number of sporting clubs. In 2010/11 and 2011/12, Queensland Urban Utilities delivered 5.59ML and 5.62ML of recycled water, respectively. In 2012/13, Queensland Urban Utilities has delivered 4.17ML[7] of recycled water. Queensland Urban Utilities is of the opinion that demand for recycled water will be relatively flat in 2013/14 and 2014/15 and has, therefore, forecasted recycled water will remain the same.

3.4 Demand for sewerage services

Sewerage demand is driven primarily by the growth in equivalent persons (EP) within the sewerage catchments and by changes in weather patterns. Generally speaking, as EP increases, the amount of sewerage being discharged into the network also increases, and this leads to a greater demand for sewerage services.

In addition to this, sewerage networks are built to accommodate for five times the average dry weather flow (ADWF) to build enough capacity into the network to prevent overflows during wet weather.

Queensland Urban Utilities also provides trade waste services to a number of customers within its region. Trade waste services cover waste that is delivered to our sewage treatment plants via the sewerage network, but has different characteristics to domestic sewage.

[7] Figure as of 31 March 2013

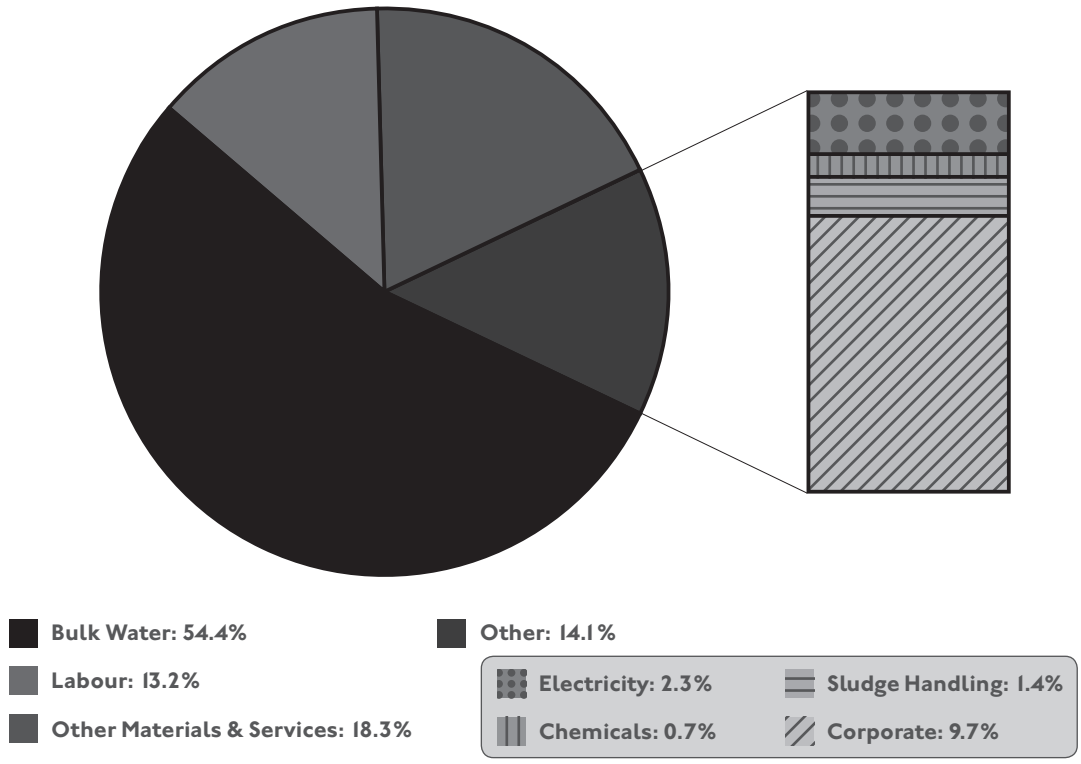
4 Operational expenditure

Since our formation in 2010, Queensland Urban Utilities has worked hard to keep our costs down and deliver our services more efficiently. Over the last three years, Queensland Urban Utilities has delivered significant reductions in its budgeted operational expenditure each year (approximately $63 million in total so far) and is committed to achieving operational excellence in all that we do.

The operating costs for Queensland Urban Utilities include: bulk water costs, labour expenses, electricity, sludge handling, chemicals and other materials and services. Of these costs, bulk water costs, which represent more than 54% of Queensland Urban Utilities' operational cost for 2013/14, is an uncontrollable cost for which Queensland Urban Utilities can do little to influence. Controllable costs are costs such as electricity, chemicals, labour and maintenance costs. Figure 4-1 highlights the proportions of operational expenditure that Queensland Urban Utilities expects to incur in 2013/14.

Figure 4-1 – Breakdown of operational expenditure for 2013/14

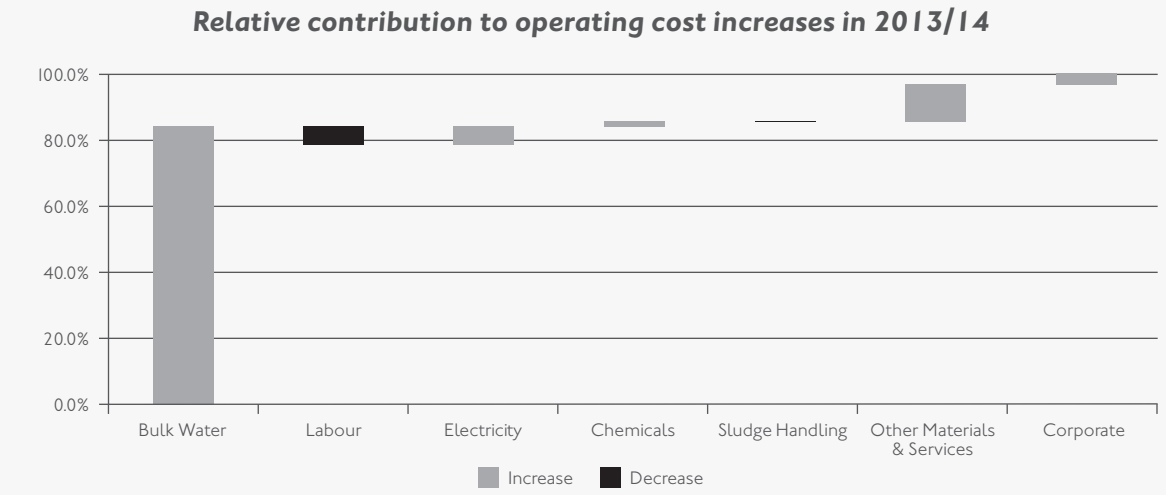
Relative contribution to operating cost in 2013/14



4 Operational expenditure

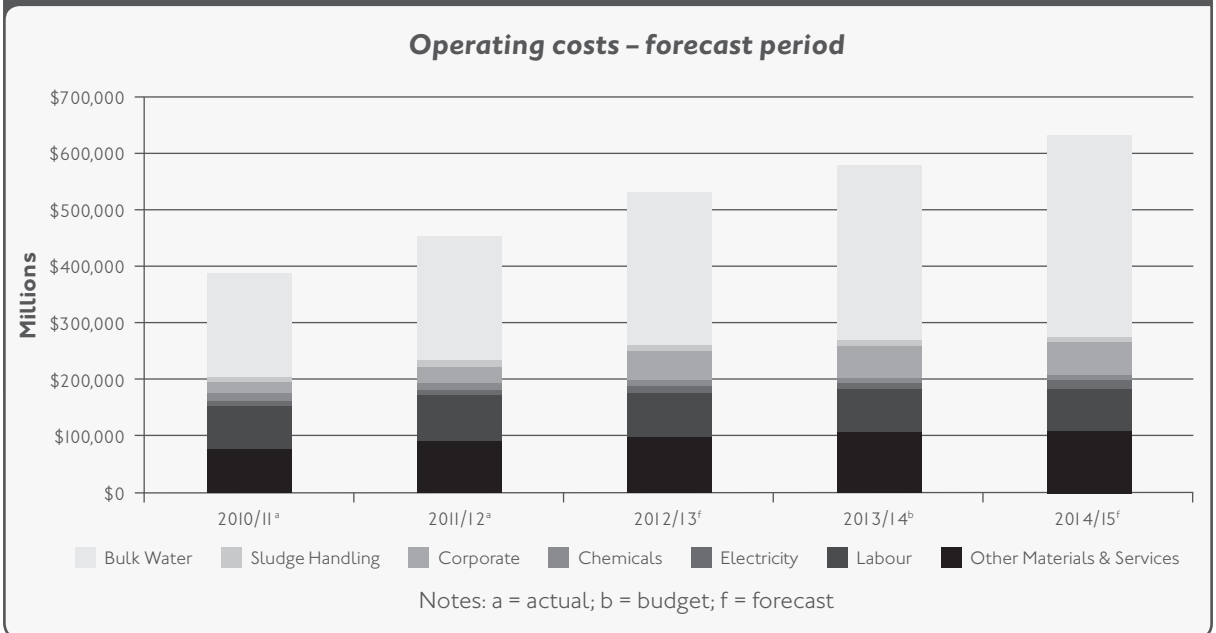
Figure 4-2 highlights the types of operating costs that are the key drivers of cost increases from 2012/13 to 2013/14. The figure shows that the State Government's bulk water charge is the major contributor to operating cost increases with nearly 85% of the increase in operating costs directly attributable to bulk water. The increase in the 'other materials and services' component makes up the largest component of increases that are controllable by Queensland Urban Utilities. The movements of these cost components are discussed in further detail in Section 4.2.

Figure 4-2 – Relative contribution to operating cost increase in 2013/14



It can be seen from Figure 4-3 that bulk water costs are a significant component of Queensland Urban Utilities' operating expenditure, and since 2010/11 this bulk water cost component has been increasing as both demand for water and the cost of bulk water have increased. As such, bulk water costs represent an uncontrollable cost component for Queensland Urban Utilities, in that end users determine how much is demanded, and the cost for which is determined externally by the State.

Figure 4-3 – Breakdown of actual and forecast operating expenditure from 2010/11 to 2014/15



With regard to non-bulk water operational expenditure[8], Queensland Urban Utilities has budgeted for $263.2 million in 2013/14 and has forecasted $270.6 million for 2014/15. This means that non-bulk water operational expenditure will represent roughly 46% and 43% of total operational expenditure (ie. when bulk water costs are included) in 2013/14 and 2014/15, respectively.

The above cost components are discussed in further detail below in Section 4.2.1.

4.1 Expenditure forecast development

In developing our operating expenditure forecasts for 2013/14 and 2014/15, Queensland Urban Utilities used its budgeted expenditure for 2013/14 that was approved by the Queensland Urban Utilities Board in March 2013.

The development of the 2013/14 budget is based on a combination of a 'bottom-up' approach and an analysis of historical trends and efficiency opportunities. Each manager is required to develop their business as usual budget from one year to the next, with ongoing refinement from the executive team taking into account a whole of organisation budgeting perspective. This process involves a functional and account level review, including comparisons against the historical trends and forecasts for the 2012/13 year, consideration of any new initiative requirements and previously agreed efficiency targets.

To develop its 2014/15 operating expenditure forecast, Queensland Urban Utilities has used the 2013/14 budgeted operating expenditure as a base and extrapolated this based on different growth indices, cost indices, efficiency forecasts and changes in temporary projects (New Initiatives).

4.2 Operating expenditure categories

The following provides an overview of each of the expenditure categories to provide some perspective as to what they entail and also outline the indexation applied to each expenditure category and the subsequent expenditure forecasts.

4.2.1 Bulk water

Queensland Urban Utilities purchases bulk water from the state-owned bulk water supplier (Seqwater) and distributes it to our customers. In 2013/14, we expect to deliver around 134,065ML of water to our customers.

4.2.1.1 Growth indexation

The growth in bulk water is based on property and volume growth plus non-revenue water. The forecasts in bulk water demand are discussed in more detail in Section 3.2.

4.2.1.2 Cost indexation

The cost index used for bulk water was based on the updated bulk water price path announced by the State Government in May 2013, which was provided in nominal terms Given the significance of bulk water to Queensland Urban Utilities' operating expenditure, it was considered appropriate to update the upcoming budget for the most recent information available.

Table 4-1 – Bulk water price for 2013/14 and 2014/15 operating expenditure ($/kL)

	Brisbane	Ipswich	Lockyer Valley	Scenic Rim	Somerset
2013/14	2.302	2.238	2.495	2.602	2.872
2014/15	2.547	2.483	2.740	2.847	2.988

[8] Non-bulk water operational expenditure also includes non-recurrent costs and licence regulatory fees not included in figure 4-3

4 Operational expenditure

4.2.1.3 Summary

Table 4-2 shows the combination of the demand forecasts and the revised 2013 bulk water price path for 2013/14 and 2014/15 which has been included as Queensland Urban Utilities' forecast bulk water costs. It can be seen from this that Queensland Urban Utilities' bulk water expenditure will continue to rise over the next 2 years.

Table 4-2 – Forecast bulk water costs (000's)

	2010/11 [a]	2011/12 [a]	2012/13 [b]	2012/13 [f]	2013/14 [b]	2014/15 [f]
Bulk water	$183,027	$224,192	$269,822	$271,414	$309,281	$352,316

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

4.2.2 Sludge handling

Sludge is the residual product after all biological treatment processes and mechanical dewatering processes have taken place at the treatment plant.

Sludge generation is driven by a number of factors, such as population growth (which is accounted for as equivalent persons (EP)[9]), the biological treatment process in place at a specific plant, and the biosolids treatment processes in place at specific plants.

As population increases in a sewerage catchment, more sewage is discharged into the network which needs to be treated. In addition to this, the amount of sludge generated at a treatment plant also varies from plant to plant which is reflective of the different technologies[10] that are used to treat sewage.

Queensland Urban Utilities uses a sludge forecasting model to assist it with developing forecast costs for its 2013/14 budget. This model takes into account EP growth and other variables which are important for sludge forecasting.

4.2.2.1 Growth indexation

As a result of having reliable data, Queensland Urban Utilities used average flow rates for the last three years to estimate the forecast for Brisbane. With regard to the other council regions and for 2014/15, Queensland Urban Utilities used the growth factors shown in Table 4-3.

Table 4-3 – Forecast growth

Region	2013/14	2014/15
Brisbane	na	1.2%
Ipswich	4.0%	3.8%
Lockyer Valley	3.4%	3.3%
Scenic Rim	4.4%	4.2%
Somerset	3.6%	3.5%

These growth percentages are based on OESR (2011 medium series) dwelling growth adjusted down using the OESR (2011 low series) population, with further adjustment to account for properties currently serviced and 95% of future properties to be serviced.

[9]Within its forecasting models, Queensland Urban Utilities uses equivalent person (EP) as a measure of the population calculated in adult terms, making allowance for a different or lower demand from younger persons.

[10]The different technologies from plant to plant come as a result of plants being built at different points in time. When a plant is being built, the most appropriate available technology at the time is adopted.

4.2.2.2 Cost indexation

Based on external advice from PricewaterhouseCoopers (PwC), Queensland Urban Utilities has escalated costs in relation to sludge handling based on an estimate of inflation.

The advice concluded that there is a lack of escalation forecasts that are suitable. It was therefore recommended that increasing the costs based on the estimated forecast rate of inflation was appropriate.

For 2014/15, 2.5% is applied based on the November 2012 Reserve Bank of Australia forecast.

4.2.2.3 Summary

A number of factors, including the growth and cost indexation factors above, are used as inputs in the sludge forecasting model to derive an initial budget cost for sludge handling costs. This initial budget figure is then adjusted further by management based on an expected level of improvement to arrive at a final budget figure for 2013/14.

Table 4-4 – Forecast sludge handling costs (000's)

	2010/11 [a]	2011/12 [a]	2012/13 [b]	2012/13 [f]	2013/14 [b]	2014/15 [f]
Sludge handling costs	$7,393	$7,702	$8,420	$8,466	$8,284	$8,630

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

4.2.3 Chemicals

Queensland Urban Utilities uses chemicals in both our water and sewage treatment operations.

Chemicals are used to treat water at our reservoirs prior to it being transported to customers to ensure that it remains safe for consumption and to treat sewage at our 28 treatment plants.

Chemicals are used during the sewage treatment process to improve and supplement our biological processes to ensure that the treated effluent being discharged into the environment is safe and meets environmental laws and regulations. For the same reasons as sludge costs, population growth is a significant driver of chemical costs. As the population within a sewerage catchment increases, more sewage is discharged into the sewerage network, which requires an increase in chemicals to treat this sewage.

The other factors that affect chemical forecasts are weather patterns (i.e. increase in rainfall increases the amount of water entering inlet works at sewage treatment plants).

With regard to chemical costs for sewage treatment, Queensland Urban Utilities uses a chemical forecasting model to assist with developing forecasts for our 2013/14 budgets. As with the sludge handling model, this model takes into account EP growth and other variables that are important for chemical forecasting.

4.2.3.1 Growth indexation

As a result of having reliable data, Queensland Urban Utilities used average flow rates for the last three years to estimate the forecast for Brisbane for 2013/14. With regard to the other regions and for 2014/15, Queensland Urban Utilities used historic actual expenditure and applied the growth factors shown in Table 4-5.

Table 4-5 – Forecast growth

Region	2013/14	2014/15
Brisbane	na	1.2%
Ipswich	4.0%	3.8%
Lockyer Valley	3.4%	3.3%
Scenic Rim	4.4%	4.2%
Somerset	3.6%	3.5%

These growth percentages are based on OESR (2011 medium series) dwelling growth adjusted down using the OESR (2011 low series) population, with further adjustment to account for properties currently serviced and 95% of future properties to be serviced.

4.2.3.2 Cost indexation

As with the indexation of sludge handling costs, Queensland Urban Utilities has escalated our costs in relation to chemicals based on an estimate of inflation.

External advice from PwC concluded that there is a lack of escalation forecasts that are suitable. It was therefore recommended that increasing the costs based on the estimated forecast rate of inflation was appropriate.

For 2014/15, 2.5% is applied based on the November 2012 Reserve Bank of Australia forecast.

4.2.3.3 Summary

A significant portion of Queensland Urban Utilities' increase in chemical costs is attributed to growth and cost indexation. However, there are other factors that have contributed to the increase in chemical costs for the regulatory period:

- The Oxley Sewage Treatment Plant runs a Cambi thermal hydrolysis process ('Cambi THP') to treat sewage. In 2012/13, the Cambi THP was partially operational, and as such, chemicals used for the Cambi were also reduced. We plan to operate the Cambi THP at full capacity in 2013/14 and 2014/15, which will require a greater need of chemicals used as part of the treatment process.
- Also contributing (to a lesser degree) to the increase in chemical costs is the running of Membrane Bio Reactors (MBRs) at a number of the smaller plants.

As with sludge handling costs, this initial budget figure is then adjusted further by management based on an expected level of improvement to arrive at a final budget figure for 2013/14.

Table 4-6 – Forecast chemical costs (000's)

	2010/11 [a]	2011/12 [a]	2012/13 [b]	2012/13 [f]	2013/14 [b]	2014/15 [f]
Chemicals	$3,003	$2,950	$3,535	$3,253	$4,045	$4,205

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

4.2.4 Electricity

Queensland Urban Utilities' electricity costs arise as a result of using electricity for the following purposes:

- operating sewage treatment plants
- pumping sewage
- pumping water
- operating buildings and facilities
- operating equipment.

We have developed an electricity model to assist us in developing forecasts for budget purposes. Growth, cost, and efficiency factors are applied within this model to derive an initial cost which is then further adjusted by management during the budget process to arrive at a budgeted figure. A 2.5% efficiency factor was applied within the model.

4.2.3.1 Growth indexation

Queensland Urban Utilities used a consumption growth factor of 1.7% within our electricity model. This equates to the adjusted OESR property growth factor as presented in Table 3-2.

4.2.3.2 Cost indexation

Queensland Urban Utilities purchases electricity under two contracts, one for large contestable sites, and the other for small contestable sites.

Large contestable sites (2013/14)

Large contestable sites are (generally) sites that use electricity above 100MWh per annum. For these large contestable sites, two categories of electricity charges apply to Queensland Urban Utilities. The first category relates to the usage charge, which is based on contract rates[11]. The contract rates will be ending on 31 December 2013, therefore contract rates reflecting an increase of 11.6% were used to forecast costs up until this date. Subsequent to this, 2.3% (as per discussion below) has been applied.

The second category relates to network charges. The increase in the network charges are based on contract rates, which will be ending on 31 December 2013. The average increase in network charges on the contract rates was 19%. Subsequent to this date, an increase of 7.5% was applied to reflect expected increase from 1 January 2014. This estimate was based upon the mid-point of an estimate of an independent paper[12].

Small contestable sites (2013/14)

For the small contestable sites, Queensland Urban Utilities has used the SKM.MMA electricity forecasts generated for the Water Services Association of Australia (WSAA). This indicated that there would be an increase in the electricity price for 2013/14 of 2.3%.

Overall increase

The average cost of electricity for Queensland Urban Utilities across all large and small sites on a cents per kWh basis is:

- 2012/13 : 12.29 cents per kWh
- 2013/14 : 14.67 cents per kWh.

This increase in the average cost of electricity (approximately 19%) is primarily driven by material increases in contract prices for our large contestable sites (discussed above).In addition to these increases in the contract rates, new sites and upgrades for 2013/14 have also been incorporated – Cullen Avenue building and upgrades to the Goodna and Canungra sewage treatment plants.

Cost Indexation (2014/15)

The cost indexation used for 2014/15 (10.3%) is taken from the SKM.MMA report for the medium scenario for commercial businesses.

It should be noted that Queensland Urban Utilities was required to forecast our electricity costs for budgeting purposes prior to the finalisation of the draft determination for the QCA Regulated Retail Electricity Prices 2013/14. This draft determination has forecast an increase that is materially greater than that proposed by SKM.MMA for 2013/14, however given the timing of its release, Queensland Urban Utilities was unable to incorporate this uplift in cost to our electricity budget for 2013/14. This also impacts on the 2014/15 forecast of electricity costs given the lower base of the cost for 2013/14. Given that the QCA has previously adjusted forecast electricity costs based on the more updated information from its determinations, it is expected that the QCA will account for this difference in its review.

[11] These contract rates are driven by market outcomes in the National Electricity Market

[12] Energetics – "Energy prices in 2013: what business can expect and what you can do about it" 10 December 2012

4 Operational expenditure

It should be noted that Queensland Urban Utilities was required to forecast our electricity costs for budgeting purposes prior to the finalisation of the draft determination for the QCA Regulated Retail Electricity Prices 2013/14. This draft determination has forecast an increase that is materially greater than that proposed by SKM.MMA for 2013/14, however given the timing of its release, Queensland Urban Utilities was unable to incorporate this uplift in cost to our electricity budget for 2013/14. This also impacts on the 2014/15 forecast of electricity costs given the lower base of the cost for 2013/14. Given that the QCA has previously adjusted forecast electricity costs based on the more updated information from its determinations, it is expected that the QCA will account for this difference in its review.

4.2.4.3 Summary

Given the above discussion, the table below outlines Queensland Urban Utilities' electricity cost forecasts for 2013/14 and 2014/15.

Table 4-7 – Forecast electricity costs (000's)

	2010/11 [a]	2011/12 [a]	2012/13 [b]	2012/13 [f]	2013/14 [b]	2014/15 [f]
Electricity	$11,596	$10,279	$11,148	$11,507	$12,932	$14,494

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

4.2.5 Labour

Labour is a significant cost component for Queensland Urban Utilities in our service delivery. Many of the services we deliver require physical delivery or management of the processes to ensure customers receive the a quality service.

4.2.5.1 Growth indexation

In 2012/13, Queensland Urban Utilities budgeted for 1,293 full time equivalent (FTEs) positions to enable us to deliver water and sewerage services to five council regions. During 2012/13, 34 new staff were employed as part of our acquisition of the SAS Laboratories (in non-regulated services) resulting in a 2012/13 forecast FTEs of 1,327. In 2013/14, Queensland Urban Utilities has budgeted for 1,238 FTEs.

Changes to the number of FTEs from 2012/13 to 2013/14 have been materially influenced by:

- targeted reduction of 50 FTEs as part of efficiency targets of 3% of total operating costs
- a reduction of 39 temporary FTEs associated with the ICT Separation Program due to the program's completion at the end of 2012/13.

In developing our 2013/14 budget, Queensland Urban Utilities has applied a global 3% efficiency factor to our labour costs across all divisions. This has been driven by Queensland Urban Utilities' senior management seeking to ensure that cost impacts on customers are minimised. The 3% efficiency is based on the 2012/13 approved budget expenditure.

No growth indexation has been applied to labour costs for 2014/15.

4.2.5.2 Cost indexation

Based on an internal analysis of industry trends regarding expected increases on overall labour costs, Queensland Urban Utilities has applied a 3% cost index to labour expenditure which includes costs resulting from actual direct labour costs, costs associated with organisational change and any expected increases. The analysis of industry trends focused on Certified Agreements (wages, terms and conditions of employment) for government employees within Queensland and comparable utilities across Australia in order to provide an up-to-date estimate of the labour market.

4.2.5.3 Summary

Taking into account the above factors, Queensland Urban Utilities has arrived at an operating expenditure of $76 million for labour costs for our 2013/14 budget. The increase in labour expenses from $73.6 million in the 2012/13 budget to $76 million budget in 2013/14 is partly the result of a decrease in the capitalisation of labour. From 2012/13 to 2013/14, we have altered our capitalisation policies, resulting in a reduced amount of labour expenditure being capitalised.

The forecast for 2014/15 has been derived by applying cost indexation to the 2013/14 budget, no labour growth, a reduction for completed new initiatives/temporary projects and an assignment of 60% of the efficiency factor, discussed in Section 4.3.1.

Table 4-8 – Forecast labour costs (excluding corporate costs) (000's)

	2010/11 [a]	2011/12 [a]	2012/13 [b]	2012/13 [f]	2013/14 [b]	2014/15 [f]
Labour	$78,733	$82,631	$73,624	$77,584	$76,033	$76,931

Notes: a = actual; b = budget; f = forecast
Includes contractors and consultancies

4.2.6 Other materials and services

The 'other materials and services' category encompasses a range of different expense categories and is predominantly designed to capture expenses that are not captured in the other defined categories.

The forecast costs related to other materials and services are based on a 'bottom-up' budget process that is undertaken by Queensland Urban Utilities' Executive Leadership Team for each of the different divisions within Queensland Urban Utilities.

Costs within the other materials and services category include (but are not limited to):

- bad and doubtful debts
- sub-contractors
- postage
- printing
- rent (property)
- plant and equipment hire.

4.2.6.1 Growth indexation

Queensland Urban Utilities has not applied any growth indexation to this cost category.

4.2.6.2 Cost indexation

Queensland Urban Utilities received external advice from PwC that recommended the use of an estimate of general inflation given that there is no available industry forecast suitable for our general costs (which are contained within other materials and services).

For 2014/15, 2.5% is applied based on the November 2012 Reserve Bank of Australia forecast.

4.2.6.3 Summary

The forecast for 2014/15 has been derived by applying cost indexation to the 2013/14 budget, no growth factor, the net change in new initiatives/temporary projects and an assignment of 40% of the efficiency factor, discussed in Section 4.3.1.

Subsequent to this, we have enhanced some of our programs in 2014/15 that impact on the level of costs to be incurred. The primary program that influences this is an increase in planned maintenance. Queensland Urban Utilities is embarking on a continued approach to increase our planned maintenance program to ensure that we implement an efficient overall maintenance program.

Planned maintenance is more cost-effective than reactive maintenance, therefore Queensland Urban Utilities considers it prudent to have an increased focus on planned maintenance. It is expected that this increase in planned maintenance will lead to a reduction in reactive maintenance in the future.

Table 4-9 – Forecast other materials and services costs (000's)

	2010/11 [a]	2011/12 [a]	2012/13 [b]	2012/13 [f]	2013/14 [b]	2014/15 [f]
Other materials & services	$73,538	$87,647	$104,350	$98,313	$105,398	$106,661

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

4.2.7 Corporate costs

Queensland Urban Utilities' corporate costs are those which generally cannot be attributed directly to the operational costs of delivering water and sewerage services. Such costs include management and administrative functions of the business, which include:

- Office of the CEO
- Finance, Risk, and Procurement activities
- IT Services (excluding ICT Separation Program)
- People and Safety activities,
- Strategy and Growth activities
- Marketing and Communications activities.

In previous submissions to the QCA, Queensland Urban Utilities did not separate corporate costs from labour and other materials and services. This was due to the expenditure not being mutually exclusive; therefore Queensland Urban Utilities provided information on corporate costs separately to the submission.

Queensland Urban Utilities has now incorporated corporate costs in the data template as part of this information return following off system analysis and extensive re-categorisation of costs. Historic costs have also been presented for consistency. Given that Queensland Urban Utilities' operating expenses are now presented as a mix of expense type and functions, care must be taken in interpretation of the data, particularly in relation to labour and other materials and services expenses on making year-on-year comparisons.

4.2.7.1 Indexation of corporate costs

As corporate costs are a reflection of the other cost categories – primarily labour and other materials and services – there are no specific growth rates that apply to corporate costs. The proportionality of corporate costs between the other expenditure categories effectively defines the indexation rates for corporate costs. Queensland Urban Utilities has therefore applied no growth indexation to corporate costs, but rather, has applied cost indexation to corporate costs depending on the type of expenditure.

4.2.7.2 Summary

In 2014/15, a reduction in corporate cost new initiative projects of $3.1 million (these projects are outlined in Sections 4.4 and 4.5) is more than offset by an increase in forecast ICT investment program expenditure required for new enterprise resource planning software for the business.

Table 4-10 – Forecast corporate costs (000's)

	2010/11 [a]	2011/12 [a]	2012/13 [b]	2012/13 [f]	2013/14 [b]	2014/15 [f]
Corporate Costs	$24,741	$34,034	$53,363	$53,994	$54,534	$58,660

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

4.2.8 Non-recurrent expenditure

Queensland Urban Utilities continues to allocate operating costs incurred as a result of the January 2011 flood to non-recurrent costs.

In addition to these flood costs, the ICT Separation Program costs are now identified as non-recurrent costs for all the relevant years. While several other smaller new initiative costs represent non-recurrent expenditure, the number and size of these costs is not significant and have not been reported separately under non-recurrent expenditure.

We will continue to separate new initiatives to provide the QCA with an oversight of the temporary projects we will undertake to deliver our services to our customers. These new initiatives are discussed further in Section 4.4.

4.3 Efficiencies

Efficiencies are an integral part of any business. The implementation of efficient programs and operations ensure that customers are paying for a service which accurately reflects the efficient cost of providing that service.

Queensland Urban Utilities strives to continually be an efficient provider of water and sewerage services, as the benefits derived from this has a significant impact on our customers and our shareholders. Queensland Urban Utilities and our Board are driven to achieve efficiencies within the business to ensure that any cost increases in providing water and sewerage services to our customers is minimised. This commitment has seen a decrease in Queensland Urban Utilities' operational budget in 2013/14 over the 2012/13 budget and has driven further efficiencies to be forecasted through the next regulatory period.

4 Operational expenditure

4.3.1 Forecast operating efficiencies

For the 2013/14 and 2014/15 financial years, Queensland Urban Utilities has forecasted the following efficiencies:

- $9.5 million in the 2013/14 operating budget over 2012/13 budget
- a further $5 million efficiency factor on our operating budget for 2014/15.

This means that Queensland Urban Utilities has forecasted a total of $14.6 million in efficiencies over the two year price monitoring period. These efficiencies have been built into the operating budgets and come as a result of Queensland Urban Utilities seeking to ensure we are providing our customers with the best possible service at least cost.

Some of the projects that have been identified to reduce operating expenditure for 2013/14 are:

- improvements in network optimisation
- improvements in procurement
- reductions in corporate materials and services (such as consultancy fees, bank charges and vehicle hire).

In achieving the efficiency targets for 2014/15 and beyond, we are undertaking an Enterprise Excellence Review of our business to identify opportunities for operational efficiency.

This process is currently underway and will be used by Queensland Urban Utilities to achieve efficiencies not just in this coming regulatory period, but also into future years.

4.4 New initiatives

Queensland Urban Utilities had previously used the term 'new initiatives' to outline projects and costs that were not necessarily captured in the initial budgeting process submitted to the QCA. Based on feedback from the QCA, we have altered our approach for new initiatives for the submission and are focusing on:

- projects/programs related to complying with new obligations or requirements
- projects/programs designed to achieve efficiencies within the business.

This new definition reduces the number of projects that would previously have been classed as new initiatives. Table 4-11 highlights a number of new initiatives that were identified in the previous submission that have continued into 2013/14 and also new initiatives that are beginning in 2013/14.

Table 4-11 – Impact of new initiatives ($,000)

New Initiatives	Reasoning	2012/13	2013/14	2014/15
ICT Separation Program	**Separation from BCC**	$11,016	$1,017	
Utility Model Development	**Changing legislation**	$782	$636	$655
Efficiency Program	**Drive efficiencies**	$1,034	$2,797	
Payroll Implementation	**New requirement**		$256	

4.4.1.1 ICT Separation Program

Upon Queensland Urban Utilities' formation, it was agreed that, under a Transitional Services Agreement (TSA), Brisbane City Council (BCC) would provide for the delivery and management of ICT and other related services until 30 June 2013. The ICT Separation Program has been established to design and initiate technical separation of technology and systems from BCC's ICT environment.

The 'handover' of the system management requirements is at the end of 2012/13, with some residual management of the program required after this point. This has resulted in a significant reduction in the costs incurred in delivering this program for 2013/14. The expense portion of this program is shown as non-recurrent expenditure over its life.

4.4.1.2 Utility Model Development

This project is required in order for Queensland Urban Utilities to comply with pending state legislation that requires a direct relationship between distributor-retailers in the water industry and parties seeking access to water and sewerage services through new property development processes. This process is currently managed by each council across Queensland Urban Utilities' service regions on behalf of Queensland Urban Utilities. The existing legislation will expire on 30 June 2013 but an extension until 1 March 2014 has been granted for the implementation of the new utility model. Queensland Urban Utilities must undertake considerable effort both prior to and after the implementation of the new legislation to ensure a smooth transition.

4.4.1.3 Efficiency Program

This program team is dedicated to driving efficiencies that have been identified within the business. These relate to efficiencies previously identified and also those identified through the ongoing Enterprise Excellence Review.

As discussed further in Section 4.3.1, in order to drive efficiencies throughout the business, Queensland Urban Utilities is working to identify efficiency opportunities.

This program incorporates the Operations Business Improvement Program and the Portfolio Management Office both identified as New Initiatives in the 2012/13 budget and the Enterprise Excellence Review. No expenditure has been allocated to this program for 2014/15 as the efficiencies applied for 2014/15 are net of the expenditure incurred to achieve them.

4.4.1.4 Payroll Implementation Project

Following the separation from BCC, Queensland Urban Utilities was required to establish a payroll implementation project, involving training of staff for the new system.

4 Operational expenditure

4.5 Temporary projects

In addition to the new initiatives outlined above, there are other projects that are temporary in nature and can impact on the derivation of the base budget. The identification of these temporary projects is essential when using a base budget to derive future years operating expenditure forecasts.

These projects are temporary in nature and therefore have a defined start and finish date. The projects are not necessarily required to be undertaken through any new legislation or designed to drive efficiencies, but are needed for Queensland Urban Utilities to continue to operate effectively.

The costs of these projects are captured in the above expenditure categories. For completeness however, Queensland Urban Utilities has identified these projects to indicate when they will be completed and therefore be removed from the cost base, or alternatively when new projects begin and therefore are included in the cost base.

Table 4-12 identifies temporary projects that were included in the 2012/13 cost base that are no longer required and therefore excluded from the 2013/14 budgeted operating expenditure.

Table 4-12 – Temporary projects from 2012/13 that are no longer needed ($,000)

Project	2012/13
Optimisation Initiative Program	$163
Office Relocations	$191
QCA submission – 3 positions	$295
State Procurement Compliance	$30
Pensioner Verification	$514
Develop Online Customer Channel Strategy	$150
Regulatory Compliance with New Customer Legislation	$100
Enhancing Stakeholder Interaction – Training	$82
Conveyancing Improvements	$80
Regulatory Compliance – Western Corridor	$40
Investigation into Tankered Recycled Water	$40

Also there are some temporary projects that have been identified for 2013/14 and 2014/15 that have been incorporated within the budgeted operating expenditure. Table 4-13 identifies some of the larger temporary projects that have been incorporated, as these projects are completed, they will be removed from the operating cost base.

Table 4-13 – Temporary projects for 2013/14 onwards ($,000)

Project	2013/14	Year Terminating
EBA2 + EBA3	$256	2013/14
Implementation of Culture Map	$461	2016/17
Review of Q-Pulse System	$82	2013/14

The largest temporary project on this list is the implementation of the culture map. This project is part of the broader culture program of works which gives Queensland Urban Utilities a framework of core programs, strategies and initiatives to guide our organisation to become more constructive in its behaviour, leading to a more efficient and productive business. We recognise this as an opportunity to influence and improve many facets of our business.

5 Capital expenditure

Queensland Urban Utilities currently manages $4.5 billion worth of assets which we use to deliver high quality water and sewerage services to our residential and non-residential customers. To ensure that we continue to provide services that meet customer expectations, ensure compliance to legal and regulatory obligations, and meet the growing and evolving needs of our customers, Queensland Urban Utilities intends to spend $597 million over the next two years. Over 2013/14 and 2014/15, Queensland Urban Utilities plans to commission $537 million of capital assets.

Queensland Urban Utilities' capital expenditure is applied to the regulatory asset base (RAB) on an 'as-commissioned' basis as required by the QCA. 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.

5.1 Capital expenditure – as incurred

Table 5-1 presents the actual, budgeted and forecast capital expenditure 'as-incurred' for the period 2010/11 through 2014/15.

Table 5-1 – Capital expenditure 'as incurred'

Region	Capital expenditure ($'000s)						
	2010/11[a]	2011/12[f]	2011/12[a]	2012/13[b]	2012/13[f]	2013/14[b]	2014/15[f]
Brisbane[1]	$123,932	$128,406	$132,455	$180,896	$210,493	$213,364	$198,500
Ipswich	$83,184	$133,949	$119,534	$73,844	$58,901	$31,729	$35,617
Lockyer Valley	$1,377	$3,171	$2,373	$13,814	$10,647	$22,791	$38,192
Scenic Rim	$5,970	$9,783	$9,783	$9,776	$15,146	$10,109	$5,845
Somerset	$1,731	$3,905	$3,905	$13,194	$10,605	$7,431	$33,357
Total	**$216,195**	**$279,214**	**$267,053**	**$291,524**	**$305,793**	**$285,423**	**$311,511**

Notes: a = actual; 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

5.2 Capital expenditure - as commissioned

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 weighted average cost of capital). 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 capital work in progress (CWIP) is added to the RAB, the carried forward amount from the previous year's CWIP has six months of interest capitalised.

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 2014/15 as shown in Table 5-2 and Table 5-3.

It can be seen in Table 5-2 that the capital expenditure for renewals in 2012/13 is significantly lower than in other years. This is due to the fact that Queensland Urban Utilities has changed its capitalisation policy in relation to rolling renewals capital expenditure for it to be commissioned for regulatory purposes in the year after it is incurred. Previously it had been commissioned within the year it was incurred. This change was to align the regulatory treatment with the accounting treatment of the expenditure.

5.3 Capital expenditure – by drivers and regions

Table 5-2 – Forecast capital expenditure by driver (as commissioned)

Driver	Capital expenditure ($'000s)						
	2010/11 [a]	2011/12 [f]	2011/12 [a]	2012/13 [b]	2012/13 [f]	2013/14 [f]	2014/15 [f]
Growth	$4,681	$32,388	$28,329	$103,381	$211,235	$88,886	$158,064
Renewals	$83,148	$104,587	$82,418	$142,628	$55,834	$132,857	$149,973
Compliance	$4,568	$12,283	$11,111	$12,776	$1,078	$17,852	$7,337
Improvements	$9,849	$14,102	$13,565	$39,851	$38,920	$23,238	$40,956
Total	**$102,247**	**$163,359**	**$135,424**	**$298,636**	**$307,068**	**$262,833**	**$356,330**

Notes: a = actual; b = budget; f = forecast
Does not include unders/overs

Table 5-3 – Forecast capital expenditure by region (as commissioned)

Region	Capital expenditure ($'000s)						
	2010/11 [a]	2011/12 [f]	2011/12 [a]	2012/13 [b]	2012/13 [f]	2013/14 [f]	2014/15 [f]
Brisbane	$75,105	$121,233	$104,121	$219,313	$92,389	$184,479	$295,493
Ipswich	$23,330	$21,919	$16,618	$54,948	$202,828	$41,913	$28,407
Lockyer Valley	$1,115	$3,255	$2,145	$9,737	$1,007	$11,030	$13,332
Scenic Rim	$1,416	$14,230	$10,269	$9,244	$5,674	$14,729	$10,684
Somerset	$1,281	$2,722	$2,272	$5,394	$5,169	$10,682	$8,413
Total	**$102,247**	**$163,359**	**$135,424**	**$298,636**	**$307,068**	**$262,833**	**$356,330**

Notes: a = actual; b = budget; f = forecast
Does not include unders/overs

5.4 Indexation of capital expenditure

The capital program was indexed to nominal dollars by applying a specific capital index. The Construction Forecasting Council produces a publicly available index for engineering construction in Australia. The indices applied are shown in Table 5-4 below. The October 2012 update was used as the most recently available at the time of setting the budget.

Table 5-4 – Indexation of capital expenditure

	2013/14	2014/15
Engineering Construction Index [12]	0.96%	2.49%

[12] Source: Construction Forecasting Council, October 2012

5 Capital expenditure

5.5 Key capital projects by driver

5.5.1 Growth driver

Capital expenditure under the growth driver is derived from Queensland Urban Utilities' capital planning and investment decision processes. Before making 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 that 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 the regulatory period are shown in Table 5-5.

Table 5-5 – Key projects –growth

Project (by region)	Proposed investment 2013/14	Proposed investment 2014/15	Total project cost
Brisbane			
Woolloongabba Sewer Catchment Augmentation	$33.3 million	-	$85.9 million
Bartleys Hill/Wellers Hill Zone Connection Including Twin River Crossing	$3.0 million	$19.1 million	$22.6 million
Bulimba Creek Trunk Sewer Upgrade Stage 2A – Wecker Road to Old Cleveland Road	$2.0 million	$15.0 million	$48.2 million
Capital Planning and Design Program	$4.5 million	$4.5 million	Rolling
Luggage Point STP – Odour Control – Stages 1 & 2	$1.3 million	$6.7 million	$14.4 million
Wastewater Transport Minor Enhance Program	$3.5 million	$2.8 million	Rolling
Luggage Point STP Rotary Sludge Thickener	$1.2 million	$4.9 million	$6.1 million
Ipswich			
Rosewood Sewer Catchment Augmentation	$5.2 million	$4.6 million	$10.4 million
Goodna STP to Wacol STP Transportation Scheme	$2.2 million	$4.3 million	$38.5 million
Wastewater Transport Minor Enhance Program	$3.4 million	$1.2 million	Rolling
Bundamba WRP Upgrade – Stage 5a	$2.2 million	$2.0 million	$110.8 million
Capital Planning and Design Program	$2.0 million	$2.0 million	Rolling
Lockyer Valley			
Lockyer Valley Regional Wastewater Transfer Scheme	$12.0 million	$31.1 million	$63.3 million
Western Drive, Gatton Pump Station (SP411) & Rising Main Upgrade	$5.5 million	-	$5.9 million
Withcott STP Implementation – Stage 1	-	$4.1 million	$4.1 million
Scenic Rim			
Water Distribution Minor Enhance Program	$3.6 million	$1.0 million	Rolling
Wastewater Transport Minor Enhance Program	$2.2 million	$0.8 million	Rolling
Somerset			
Fernvale WRP Implementation	-	$26.0 million	$68.1 million

5.5.2 Renewals driver

Queensland Urban Utilities' Capital Asset Replacement/Rehabilitation Program 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 signs of early failure.

The Capital Asset Replacement/Rehabilitation Program is supported by feasibilities, minor capital submissions and individual asset class rolling programs, and it is governed by rules as stipulated in the associated business cases.

A rolling program is a program 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 program business rules.

The capital works program for the regulatory period includes the major renewals projects/programs shown in Table 5-6.

Table 5-6 – Key projects – renewals

Project (by region)	Proposed investment 2013/14	Proposed investment 2014/15	Total project cost
All regions			
Fleet Replacement Program	$5.2 million	$3.5 million	Rolling
Brisbane			
Sewer Trunk System Renewals Program	$20.4 million	$20.2 million	Rolling
Water Reticulation System Renewals Program	$15.1 million	$17.6 million	Rolling
S1 Main Sewer Rehabilitation, Eagle Farm PS to James St – Stages 2 to 5	-	$15.5 million	$163.8 million
Sewer Reticulation System Renewals Program	$7.5 million	$4.3 million	Rolling
Sewer Pump Stations Renewals Program	$5.9 million	$5.0 million	Rolling
Sewage Treatment Plant Renewals Program	$7.8 million	$2.9 million	Rolling
Water Meters Renewals Program	$6.2 million	$4.0 million	Rolling
Condition Assessment Program	$7.6 million	$2.2 million	Rolling
Sewer Creek and Waterway Crossings Renewals Program	$5.7 million	$2.0 million	Rolling
Sewer Rising Mains Renewals Program	$2.6 million	$4.5 million	Rolling
Water Reservoirs Renewals Program	$2.8 million	$3.8 million	Rolling
Fortrose Street Sewer Rising Main Rehabilitation	$1.5 million	$4.9 million	$11.3 million
S1 Main Sewer Rehabilitation, Eagle Farm PS to James St – Stage 1	$6.0 million	-	$7.9 million
Jindalee Water Trunk Main Replacement	$1.0 million	$4.9 million	$11.3 million
Oxley STP Bioeactors Stages 1 to 4 Flood Recovery	$5.4 million	-	$6.0 million
Water Trunk System Renewals Program	$3.1 million	$2.0 million	Rolling
Ipswich			
Water Reticulation System Renewals Program	$2.6 million	$2.5 million	Rolling
Water Trunk System Renewals Program	$0.3 million	$2.0 million	Rolling
Sewer Reticulation System Renewals Program	$0.5 million	$1.5 million	Rolling
Water Meters Renewals Program	$1.1 million	$0.9 million	Rolling

Table 5-6 – Key projects – renewals (continued...)

Project (by region)	Proposed investment 2013/14	Proposed investment 2014/15	Total project cost
Lockyer Valley			
Sewer Pump Stations Renewals Program	$0.5 million	$0.2 million	Rolling
Water Reservoirs Renewals Program	$0.5 million	$0.1 million	Rolling
Scenic Rim			
Water Reticulation System Renewals Program	$0.8 million	$0.3 million	Rolling
Sewerage Pump Stations Renewals Program	$0.4 million	$0.4 million	Rolling
Somerset			
Flood Recovery Water Mains (Road Damage)	$1.3 million	-	$1.8 million
Water Reservoirs Renewals Program	$0.7 million	$0.1 million	Rolling

5.5.3 Compliance driver

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.

The capital works program for the regulatory period includes the major compliance projects/programs shown in Table 5-7.

Table 5-7 – Key projects – compliance

Project (by region)	Proposed investment 2013/14	Proposed investment 2014/15	Total project cost
Brisbane			
Sewage Pump Station Reliability Improvement Program	$2.9 million	$1.0 million	Rolling
Odour Compliance Program	$1.2 million	$0.8 million	Rolling
Sewage Treatment Plants Safety Upgrades Program	$2.0 million	-	Rolling
Ipswich			
Bulk Water Meters Implementation Program	-	$1.1 million	$2.5 million
Lockyer Valley			
Sewage Treatment Plants Safety Upgrades Program	$0.1 million	-	Rolling
Scenic Rim			
Sewage Treatment Plants Safety Upgrades Program	$0.1 million	-	Rolling
Somerset			
Nil			

5.5.4 Improvements driver

As required under the regulatory framework, capital expenditure that is associated with improving service levels and reliability to meet customer preferences is classified under the improvements category.

The capital works program for the regulatory period includes the following major improvements projects/programs as shown in Table 5-8.

Table 5-8 – Key projects – improvements

Project (by region)	Proposed investment 2013/14	Proposed investment 2014/15	Total project cost
All regions			
ICT Investment Portfolio	$7.1 million	$20.0 million	Rolling
ICT Separation Program	$1.1 million	-	$42.4 million
Brisbane			
Flood Resilience Program Sewage Treatment Plants	$11.4 million	$7.3 million	$18.6 million
Screening and Grit Disposal for Routine Sewer Maintenance	-	$5.0 million	$5.0 million
Pioneer Cres Pump Station Bypass	$1.0 million	$3.9 million	$5.2 million
Sewage Treatment Plant Minor Enhance Program	$3.0 million	$1.3 million	Rolling
Flood Resilience Program Sewerage Pump Stations	$2.7 million	-	$2.7 million
Ipswich			
Flood Resilience Program Sewage Treatment Plants	$0.5 million	$3.6 million	$4.1 million
Lockyer Valley			
Water Supply Contingency Improvement	$2.4 million	-	$2.9 million
Scenic Rim			
Rathdowney Reservoir	$1.0 million	-	$1.5 million
Somerset			
Flood Resilience Program Sewage Treatment Plants	$0.3 million	-	$0.3 million

6 Revenue requirement

The regulatory framework aims to ensure that Queensland Urban Utilities delivers its services by charging cost reflective prices, which allow for an appropriate rate of return and for these services to be delivered at appropriate service standard levels.

To test whether cost-reflective tariffs and appropriate rates of returns are being earned, the QCA assesses Queensland Urban Utilities' forecast total revenue against an efficient cost of delivery benchmark called the maximum allowable revenue (MAR).

6.1 Maximum allowable revenue

The regulatory framework requires that a maximum allowable revenue (MAR) be determined, which acts as a cap on the revenue that Queensland Urban Utilities is allowed to earn in a given financial year.

The MAR is calculated as the sum of operational expenditure, return on capital and return of capital (depreciation). Return on capital is determined by applying a weighted average cost of capital to the regulatory asset base (RAB).

The revenue that we earn from delivering our services is then compared to the MAR to determine whether there is any evidence of market power being exercised. In previous financial years, the QCA has found no evidence of market power being exercised by Queensland Urban Utilities.

The determination of Queensland Urban Utilities' MAR is discussed further below.

6.1.1 Operational expenditure

As discussed in Section 5, Queensland Urban Utilities' operational expenditure (including bulk water costs) is $573 million and $623 million in 2013/14 and 2014/15, respectively.

Operational expenditures are costs that are incurred by the business immediately and, as such, there is a need for these costs to be offset by corresponding revenues to ensure that we continue to deliver water and sewerage services. From this standpoint, revenue adequacy for operational and maintenance purposes is essential.

6.1.2 Return on capital

Return on capital is calculated as the regulated asset base (RAB) multiplied by the weighted average cost of capital (WACC). The RAB for Queensland Urban Utilities was initially set in July 2008 by the State Government, when it determined a RAB for each of the five council's water and sewerage businesses. As of July 2008, the RAB for each council was rolled forward by making appropriate adjustments to the initial RAB values to arrive at the current RAB values for Queensland Urban Utilities.

The WACC and the roll forward of the RAB are discussed in further detail below.

6.1.2.1 RAB roll forward

The opening RAB values for 2013/14 are $1,887 million for water and $2,854 million for sewerage. The roll forward of the RAB for from the initial 1 July 2008 value is outlined in Table 6-2 and Table 6-3.

The RAB for these years is determined through a roll forward process which sees the following occur:

- Opening RAB value at beginning of year
  - **plus** capital expenditure/additions to the capital base
  - **less** depreciation/disposals
  - **plus** indexation of the asset base to maintain its real value in nominal terms
  - **equals** closing RAB value at the end of the year.

6.1.2.2 Capital expenditure and additions to the capital base

Capital expenditure is discussed extensively in Section 5 of this paper.

6.1.2.3 Depreciation and disposals

Queensland Urban Utilities calculates depreciation for regulatory purposes using the straight-line method. The RAB value is grouped by region and asset class and depreciated using the average remaining asset life for each group. Depreciation is calculated based on the opening RAB plus the addition of 50% of each year's 'as-commissioned' capital expenditure and following indexation.

Queensland Urban Utilities has continued to calculate depreciation using the nominal asset lives applied in the 2012/13 price monitoring submission. Disposals due to the January 2011 flood have been included in 2010/11 at the financial asset register written down value (WDV) – which is based on the 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.

6.1.2.4 Indexation of the asset base

The indexation used to roll forward the RAB is outlined in Table 6-1 below and follows the SEQ Interim Price Monitoring information requirements in relation to 2008/09 and 2009/10 and the forecast years.

Table 6-1 – Indexation rates for roll-forward of RAB

Year	Index	Source
2008/09	2%	ABS Brisbane All Groups CPI June to June
2009/10	3.2%	ABS Brisbane All Groups CPI June to June
2010/11	3.6%	ABS Brisbane All Groups CPI March to March
2011/12	1.3%	ABS Brisbane All Groups CPI March to March
2012/13	2.1%	ABS Brisbane All Groups CPI March to March
2013/14	2.5%	Mid Point of RBA target
2014/15	2.5%	Mid Point of RBA target

6 Revenue requirement

6.1.2.5 RAB roll forward

Table 6-2 – Roll-forward of Water network RAB

	Roll-forward of water RAB ($'000)						
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Opening RAB	$1,560,327	$1,641,670	$1,733,817	$1,806,098	$1,852,117	$1,887,762	$1,948,631
Net additions[1]	$90,918	$61,156	$58,907	$74,836	$52,090	$44,289	$51,240
Under recovery						$28,925	
Indexation	$32,118	$53,512	$63,481	$23,966	$39,444	$48,116	$49,392
Depreciation	-$41,692	-$42,933	-$50,107	-$52,784	-$55,889	-$60,461	-$65,122
Establishment costs	$0	$20,412	$0	$0	$0	$0	$0
Closing RAB	$1,641,670	$1,733,817	$1,806,098	$1,852,117	$1,887,762	$1,948,631	$1,984,141

Notes 1: Net additions include capital expenditure 'as-commissioned' and disposals. From 2013/14 forward it also includes the offset of capital revenues.

Table 6-3 – Roll-forward of sewerage network RAB

	Roll-forward of sewerage RAB ($'000)						
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Opening RAB	$2,384,723	$2,408,830	$2,529,566	$2,585,108	$2,609,610	$2,854,840	$2,967,596
Net additions[1]	$71,476	$122,691	$73,280	$104,440	$310,581	$125,991	$218,174
Under recovery						$49,139	
Indexation	$48,485	$79,074	$92,495	$34,285	$58,060	$73,557	$76,976
Depreciation	-$95,855	-$99,733	-$110,233	-$114,223	-$123,411	-$135,931	-$146,468
Establishment costs	$0	$18,704	$0	$0	$0	$0	$0
Closing RAB	$2,408,830	$2,529,566	$2,585,108	$2,609,610	$2,854,840	$2,967,596	$3,116,279

Notes 1: Net additions include capital expenditure 'as-commissioned' and disposals. From 2013/14 forward it also includes the offset of capital revenues.

6.1.2.6 Weighted average cost of capital (WACC)

Consistent with the requirements set out in the Ministers' Referral Notice, the QCA has set a benchmark WACC of 6.57% for the two-year regulatory period. The Ministerial Directions Notice allows for the regulated businesses to submit alternative WACC estimates if they desire.

Queensland Urban Utilities has previously noted its concern in the approach the QCA uses to calculate the WACC and considers that a longer-term approach that reduces the volatility for both the businesses and customers would be the most appropriate approach to the calculation.

The current approach adopted by the QCA has a short-term approach that does not appropriately reflect the nature of the business, or industry, and its investments. In addition to this, the process of applying a short-term average of the spot price prior to the regulatory period to determine the risk-free rate and debt premiums can result in material shocks in the WACC estimate between periods, and ultimately prices (for both customers and the businesses).

While the businesses are free to propose a different WACC, it is not clear in the regulatory framework how this alternative WACC would be used in relation to the QCA's determination of monopoly power, or its use in the calculation of any Unders and Overs Mechanism.

Therefore Queensland Urban Utilities has decided to adopt the QCA Benchmark WACC of 6.57% in calculating its MAR for the regulatory period of 2013/14 – 2014/15. Queensland Urban Utilities' concerns with the calculation approach adopted by the QCA will be addressed in the concurrent industry-wide review of the cost of capital methodology being undertaken by the QCA.

6.1.3 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/Federal Governments (through subsidies or grants), should therefore not be included in costs to be recovered from customers.

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 revenue 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.

Each of these methods result in the same revenue impact in the long-term for the business and therefore the decision of which to apply is left to the regulated business. In addition, there is no direct accounting or cash flow impact from the choice of approach. There is however a short-term impact on the calculation of the MAR, as the offsetting is completed at different stages of the calculation.

Since the inception of Queensland Urban Utilities, revenue from capital contributions (either through developer charges or donated assets) has been offset against the calculated MAR within the year in which it was received (revenue-offset approach). This approach was adopted by Queensland Urban Utilities as it was the approach undertaken by the respective councils prior to Queensland Urban Utilities' formation.

For this regulatory period, Queensland Urban Utilities has adopted the asset-offset approach to treating capital revenue. The asset-offset approach impacts on the RAB, and therefore the level of the forecast in capital revenue and the volatility involved in these forecasts does not have as great an impact on the MAR within that year. Forecasting capital revenue is quite difficult, especially over multiple years, as it involves a number of different economic variables and can therefore fluctuate significantly between years. The fact that Queensland Urban Utilities was required to put forward two years' worth of information and the impact of any variations in forecasts through the revenue-offset approach, we considered it was prudent to move towards an asset-offset approach and remove some of this volatility.

We acknowledge that once the asset-offset approach is adopted, there is no ability to revert back to the revenue-offset approach.

6 Revenue requirement

6.1.4 Capital revenues

6.1.4.1 Donated assets

The donated asset forecasts are based on historic data adjusted for cost inflation and expected growth. The forecast model used was the same as that used for the 2012/13 price monitoring submission.

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.

The differences between the 2011/12 forecast donated assets and the actual donated assets is due to the actual donated assets being attributable to all regions except Scenic Rim, which ended up being slightly higher. The majority of the $9 million shortfall was in the Brisbane region.

For the 2012/13 year, no adjustment has been made due to the fact that the donated assets received are currently 1% over budget at the end of the 3rd quarter.

Actual, budget and forecast donations are presented in Table 6-4 below.

Table 6-4 – Forecast donated assets for 2013/14 and 2014/15

Region	Service	Actual, Budget and Forecast Donations ($'000)						
		2010/11[a]	2011/12[f]	2011/12[a]	2012/13[b]	2012/13[f]	2013/14[b]	2014/15[f]
Brisbane	*Water*	$12,772	$19,019	$15,253	$19,752	$19,752	$21,591	$23,407
	Sewerage	$28,310	$13,279	$10,757	$20,138	$20,138	$21,447	$22,555
Ipswich	*Water*	$5,776	$8,147	$10,639	$5,259	$5,259	$5,995	$6,575
	Sewerage	$8,606	$7,275	$3,745	$7,070	$7,070	$7,820	$8,777
Lockyer Valley	*Water*	$0	$905	$1,155	$652	$652	$690	$679
	Sewerage	$0	$741	$0	$499	$499	$425	$398
Scenic Rim	*Water*	$0	$730	$482	$414	$414	$449	$494
	Sewerage	$0	$597	$1,071	$339	$339	$368	$404
Somerset	*Water*	$33	$1,194	$746	$814	$814	$884	$974
	Sewerage	$0	$977	$0	$666	$666	$723	$797
	Total	**$55,498**	**$52,865**	**$43,849**	**$55,604**	**$55,604**	**$60,393**	**$65,062**

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

6.1.4.2 Developer cash contributions

Queensland Urban Utilities currently receives developer cash contributions from two different sets of charges. The two sets of charges are based on:

1. Planning scheme policy (PSP) charges for approvals pre 1 July 2011; and

2. Maximum allowable charges (MAC) for approvals post 1 July 2011.

Under the previous State Government, Queensland Urban Utilities was due to change to a utility based model for development assessment with separate water and sewerage developer charges from 1 July 2013. The expected date of the change over is now 1 March 2014, however the charging regime associated with this change has not yet been determined.

Given this uncertainty Queensland Urban Utilities has continued to forecast developer charges using similar assumptions to those submitted to the QCA for the 2012/13 price monitoring submission.

The 2011/12 budget was reforecast downward in October 2011, February 2012 and May 2012 due to lower than expected activity. At the end of 2011/12 however, the actual contributions received were 30% above forecast. This was primarily attributed to the higher than expected impact from the subsidy expiration in Brisbane.

At the end of the third quarter for 2012/13, developer cash contributions were 13% below the forecast. In the third quarter forecast, developer cash contributions were reduced by $20 million, which was applied across all regions.

Although no subsidies are applicable in the 2012/13 year, the impact of the Brisbane subsidy expiration in May 2012 is likely to show as lower revenue in the current year than actually received last year as some element of the May and June 2012 revenue is a prepayment. Quantifying the prepayment is difficult as the separation of the subsidy, indexation and or tax impact is difficult. However, analysis of the larger developer payments in the last 2 months of the 2011/12 indicates an impact of more than $10 million.

Other negative impacts in the current 2012/13 year are:

- the introduction of the Maximum Adopted Charges regime from July 2011 is likely to be impacting across all regions
- an increase in Infrastructure Agreement offsets i.e. developer constructed assets offset against developer revenue.

Actual, budget and forecast developer cash contributions are presented in Table 6-5 below

Table 6-5 – Forecast developer cash contributions

Region	Service	Actual, Budget and Forecast Cash Contributions ($'000)						
		2010/11[a]	2011/12[f]	2011/12[a]	2012/13[b]	2012/13[f]	2013/14[b]	2014/15[f]
Brisbane	*Water*	$22,787	$14,228	$17,295	$20,940	$15,940	$19,798	$19,507
	Sewerage	$51,445	$37,449	$57,635	$44,441	$35,101	$46,592	$40,047
Ipswich	*Water*	$3,317	$2,980	$1,698	$3,971	$1,971	$2,880	$6,025
	Sewerage	$5,519	$2,788	$3,027	$5,536	44,036	$5,419	$9,927
Lockyer Valley	*Water*	$960	$880	$550	$1,841	$1,641	$1,844	$2,785
	Sewerage	$147	$720	$121	$1,226	$1,026	$2,305	$2,529
Scenic Rim	*Water*	$63	$990	$152	$752	$492	$781	$701
	Sewerage	$51	$810	$249	$1,660	$660	$879	$2,819
Somerset	*Water*	$1,350	$1,210	$384	$522	$222	$452	$437
	Sewerage	$1,393	$990	$725	$1,194	$994	$2,038	$2,139
	Total	**$87,034**	**$63,046**	**$81,838**	**$82,085**	**$62,085**	**$82,987**	**$86,916**

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

6 Revenue requirement

6.1.5 Treatment of historical under and over-recoveries

Previous reviews by the QCA have outlined that it supports a net present value (NPV) neutral glide path to achieve full cost recovery wherever possible. The QCA also stated that any mechanism to recover under-recoveries should be based on actual information rather than forecast information. Queensland Urban Utilities now has actual information for 2011/12 and is therefore proposing to capture its actual under-recovery from 2011/12.

For Queensland Urban Utilities, pricing for 2011/12 and 2012/13 has been impacted by the State Government's decision to adopt a CPI-based price cap for the distribution-retail component of the water and sewerage charges. This policy of imposing a cap created a unique situation whereby a policy decision has led to the business under-recovering in relation to MAR for these two years.

We are proposing to capture and capitalise the price cap under-recovery that has related to these two years. Given the unique situation of the price cap, the proposed treatment is quite specific and is proposed only in relation to the years of the price cap.

We believe this capturing and treatment of the price cap under-recovery reflects an NPV neutral outcome and will ensure that any recovery through future price setting will not have a significant impact on customers.

6.1.5.1 Capitalisation of price cap under-recovery

In both 2011/12 and 2012/13, we announced price increases for our residential customers below the imposed price cap. These decisions were made after considering a number of factors (principles are outlined below) and included a consideration of the total impact on customers including the bulk water price increases being implemented at that time.

We are proposing to capture the under-recovery that is in excess of the imposed price cap – i.e. the amount that was completely attributable to the price cap.

To calculate the price cap under-recovery, we have adjusted our actual revenue for 2011/12 to the upper limit of the price cap.

This resulted in foregone revenue for Queensland Urban Utilities of $9.5 million (see Table 3). The level of increase required varied in different regions due to the alignment of some tariffs for different council regions in 2011/12.

Queensland Urban Utilities is proposing to capitalise this under-recovery for a period of 10 years to ensure that the under-recovery is spread out over time and that any decision to incorporate the under-recovery will not have a significant impact on customers. As outlined above, the QCA will only consider the treatment of any under-recoveries when actual information is available, therefore we have only capitalised the under-recoveries up to the end of 2011/12.

Prior to the establishment of Queensland Urban Utilities, the Participating Councils agreed to a set of pricing principles for it to abide by. Therefore in making any decisions on price, Queensland Urban Utilities is cognisant of the following – efficient pricing, revenue adequacy, equity and social welfare, environmental and resource impact, administrative practicality and ease of understanding. The capitalisation of the price cap under-recovery itself therefore does not necessarily mean that Queensland Urban Utilities will recover the under-recovered costs from its customers. While it will be considered in determining the appropriate MAR for Queensland Urban Utilities, this is one aspect of the pricing decision, along with the principles outlined above.

6.1.5.2 Future treatment of under-recovery amounts

The regulatory framework beyond 2014/15 is currently unknown. It is expected that work will be undertaken in the near future to develop a framework to apply from 2015/16.

The development of this framework is likely to consider a wide range of issues. We will undertake consultation with our key stakeholders to determine and propose the most appropriate approach for both the framework and the underlying parameters.

Given that the QCA does not consider the treatment of any under-recovery of MAR until actual information is available, it is proposed that the treatment of any under-recoveries from 2013/14 and 2014/15 be treated consistently with the new regulatory framework.

6.1.5.3 2011 flood-related under-recovery

As stated in previous submissions, Queensland Urban Utilities has delayed the decision on how to treat the recovery of 2011 flood-related expenditure until it is known whether there would be a material difference between the costs incurred and the revenue received to cover these costs.

Given the proposed introduction of the treatment of under-recoveries from 2011/12 and the ongoing uncertainty in relation to flood recovery, we are proposing to incorporate the flood under-recovery in the capitalised under-recovery from 2011/12.

Any revenue that is received through insurance and/or National Disaster Relief and Recovery Arrangements (NDRRA) funding will be provided back to customers through this same mechanism. Therefore, no capital investments would be 'double-counted' – i.e. the cost of the investment would not be recovered through both the RAB and insurance. Table 6-6 outlines the flood-related expenditure for Queensland Urban Utilities.

Table 6-6 – Flood-related under-recovery

	Water ($'000)	Sewerage ($'000)	Water ($'000)	Sewerage ($'000)
	2010/11		2011/12	
Flood revenue	-$849	-$9,755	$0	$74
Flood operating expenditure	$1,196	$14,821	$1,579	$2,003
Flood disposal	$991	$24,566	$0	$0
Flood under recovery	$1,338	$29,631	$1,579	$2,077

6 Revenue requirement

6.1.5.4 Calculating the under-recovery

In order to determine the true price cap under-recovery, some adjustments need to be made to ensure that a like-for-like comparison is undertaken. These adjustments are in the form of the variance between forecast demand and the actual demand that was experienced and the variance between forecast and actual capital revenue (this is due to the fact that Queensland Urban Utilities was applying the revenue-offset for capital in 2011/12).

Queensland Urban Utilities has adjusted the bulk water allowance from the 2011/12 QCA-determined MAR to reflect the actual demand that occurred during 2011/12. Other operating expenditure – such as chemicals and electricity – would also vary from changes to demand, however the impact of adjusting these expense items for changes in demand would be immaterial. It is proposed that this process will also occur once actual information is known for the 2012/13 price cap under-recovery.

The actual revenue received for 2011/12 has also been adjusted as if Queensland Urban Utilities had increased prices in 2011/12 for the full price cap (as outlined above). The following tables outline the adjustment processes that have taken place in the calculation and also the resulting price cap under-recovery.

Table 6-7 – Calculation of adjusted MAR for under/(over)-recovery in 2011/12

	Water ($'000s)	Sewerage ($'000s)
QCA MAR	$425,800	$380,880
QCA bulk water allowance	-$219,760	$0
Actual bulk water expenditure	$224,192	$0
Bulk water adjusted QCA MAR	$430,232	$380,880
QCA capital revenue allowance	$56,560	$81,850
Actual capital revenue received	-$48,356	-$77,331
Revised QCA MAR	$438,436	$385,399

Table 6-8 – Calculation of price cap under-recovery in 2011/12

	Water ($'000s)	Sewerage ($'000s)
QUU actual revenue	$460,103	$445,225
Adjustment of revenue to price cap*	$7,056	$2,506
Non-recurrent revenue (flood)	$0	$74
Actual capital revenue received	-$48,356	-$77,331
QUU utility and sundry revenue	$419,484	$370,923
Revised QCA MAR	$438,436	$385,399
Price cap under/(over)-recovery	$18,953	$14,923

*This adjustment is to reflect that Queensland Urban Utilities set prices for 2011/12 that were below the 2011/12 CPI-based price cap.

Table 6-9 – Calculation of total under-recovery for 2011/12

	Water ($'000)	Sewerage ($'000)	Water ($'000)	Sewerage ($'000)
	2010/11		2011/12	
Flood under/(over)-recovery	$1,338	$29,631	$1,579	$2,077
Price cap under-recovery			$18,953	$14,923
Flood under/(over)-recovery	$1,338	$29,631	$20,532	$17,000

The total amount of $68.5 million has been added to the RAB (as outlined above) and is incorporated in Queensland Urban Utilities' calculation of MAR for this regulatory period.

6.1.6 Forecast maximum allowable revenue

As indicated in Table 6-10 and Table 6-11, Queensland Urban Utilities' combined MAR for our water and sewerage networks is $975.9 million and $1,049.7 million for 2013/14 and 2014/15, respectively.

Table 6-10 – Forecast water network MAR for 2013/14 and 2014/15

	MAR building blocks – water ($'000)	
	2013/14	2014/15
Return on assets	$126,431	$129,708
Indexation	-$48,116	-$49,392
Depreciation	$60,461	$65,122
Operating costs	$114,884	$118,841
Non-recurrent costs	$0	$0
Bulk water costs	$309,281	$352, 316
Net tax	$1,876	$2,073
MAR	**$564,817**	**$618,668**

Table 6-11 – Forecast sewerage network MAR for 2013/14 and 2014/15

	MAR building blocks – sewerage ($'000)	
	2013/14	2014/15
Return on assets	$193,316	$202,138
Indexation	-$73,557	-$76,976
Depreciation	$135,931	$146,468
Operating costs	$148,351	$151,757
Non-recurrent costs	$0	$0
Net tax	$7,019	$7,644
MAR	**$411,060**	**$431,031**

6 Revenue requirement

6.2 Forecast utility revenue

Utility revenues cover those received from recurrent operations excluding capital and financing revenues and some non-regulated services revenue. Revenue forecasts for 2013/14 are based on the increases that have previously been announced by Queensland Urban Utilities for its utility charges.

For 2014/15, we have a target revenue forecast that is based on an organisation-wide basis rather than a revenue forecast that is based on individual prices. This is because Queensland Urban Utilities intends to rationalise some of our tariffs during 2013/14 for the 2014/15 year, however the individual tariffs to be rationalised have not yet been identified. The prices for 2014/15 will be a reflection of the set of rationalised tariffs and the targeted revenue that is outlined below.

Table 6-12 show the actual, forecast and budget revenues for the water and sewerage activities undertaken by Queensland Urban Utilities from 2010/11 to 2014/15.

Table 6-12 – Forecast Queensland Urban Utilities utility revenue

Region	Service	Actual, Budget and Forecast Cash Contributions ($'000)						
		2010/11[a]	2011/12[f]	2011/12[a]	2012/13[b]	2012/13[f]	2013/14[b]	2014/15[f]
Brisbane	*Water*	$278,944	$328,368	$332,181	$364,996	$372,963	$407,532	$449,798
	Sewerage	$300,047	$316,435	$315,998	$324,289	$319,477	$334,244	$352,814
Ipswich	*Water*	$57,525	$63,122	$61,123	$70,016	$66,129	$77,035	$86,314
	Sewerage	$42,846	$44,558	$44,508	$46,648	$45,055	$45,564	$49,324
Lockyer Valley	*Water*	$6,466	$8,782	$7,903	$8,342	$8,025	$8,740	$9,738
	Sewerage	$2,413	$2,387	$2,544	$2,670	$2,660	$2,749	$2,962
Scenic Rim	*Water*	$5,779	$6,185	$5,829	$6,515	$6,454	$7,045	$7,936
	Sewerage	$3,048	$3,291	$3,103	$3,311	$3,188	$3,319	$3,610
Somerset	*Water*	$4,242	$5,000	$4,910	$5,764	$5,547	$6,073	$6,561
	Sewerage	$1,945	$1,922	$2,054	$2,120	$2,131	$2,253	$2,435
Total	*Water*	$352,957	$411,457	$411,947	$455,632	$459,118	$506,426	$560,346
	Sewerage	$350,299	$368,593	$368,207	$379,039	$372,510	$388,129	$411,145
	Total	**$703,256**	**$780,050**	**$780,154**	**$834,671**	**$831,628**	**$894,554**	**$971,491**

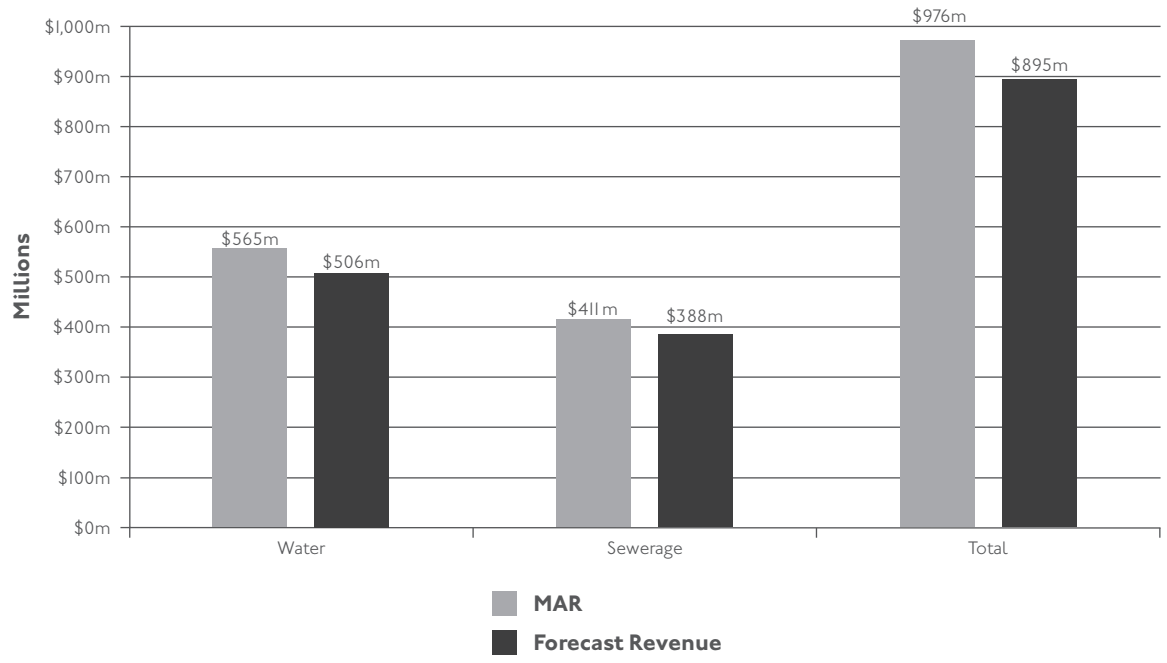
Notes: a = actual; b = budget; f = forecast

6.3 Forecast recovery against MAR

This section compares Queensland Urban Utilities' forecast revenues for 2013/14 and 2014/15 against the costs (MAR) of delivering these services in each year.

Total utility revenues for 2013/14 are forecast to be $894.6 million which is below the MAR of $975.9 million by $82.1 million. Queensland Urban Utilities is forecasting that we will under-recover by $58.4 million for water and $23 million for sewerage services in 2013/14.

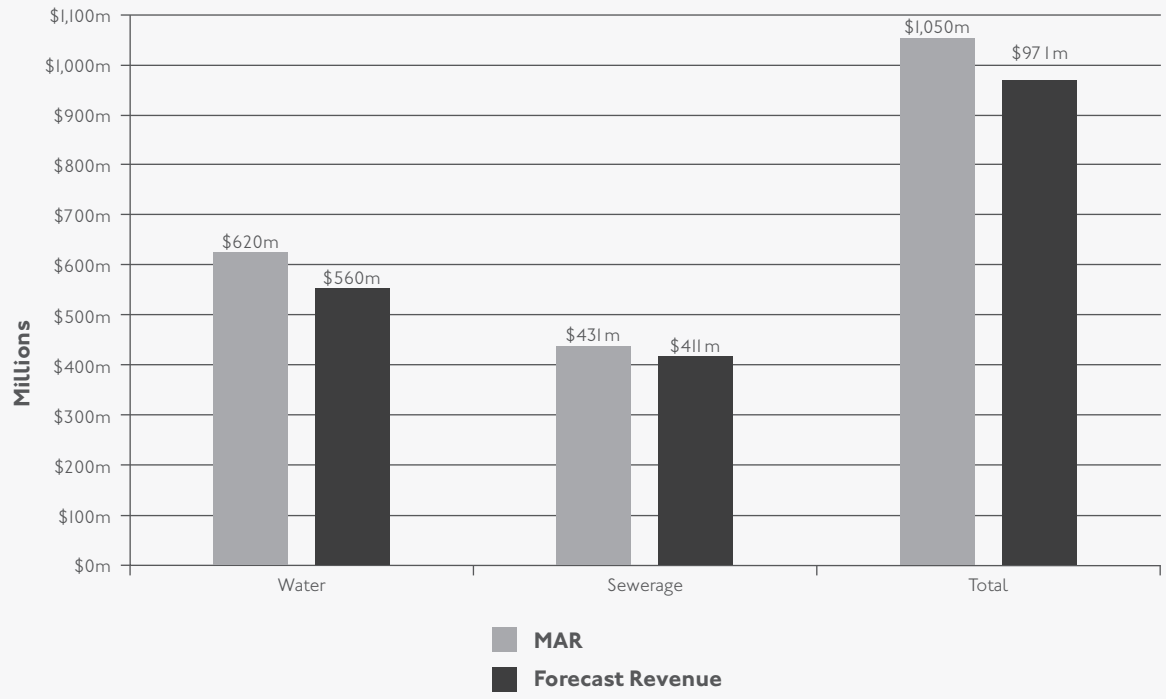
Figure 6-1 – Forecast recovery (by activity) v MAR – 2013/14



Utility revenues for 2014/15 are forecast to be $971.5 million which is below the MAR of $1,049.7 million by $79.2 million. Queensland Urban Utilities is forecasting that we will under recover by $58.3 million for water and $19.9 million for sewerage services in 2014/15.

6 Revenue requirement

Figure 6-2 – Forecast recovery (by activity) v MAR – 2014/15



7 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 Price Monitoring Information Requirements for 2013-15 issued by the Queensland Competition Authority, ("Information Requirements"):

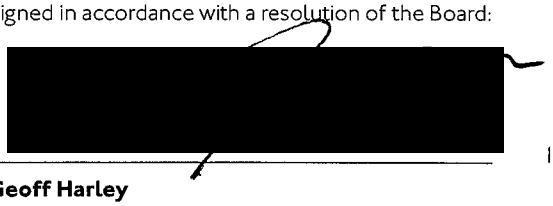
(i) the information required by the Information Requirements;

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

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

(b) 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:



17/06/2013

Geoff Harley
Chair

An extract of the Minutes of the Board Meeting resolving to sign the Director's Responsibility Statement is provided in Appendix A.

Appendices

Appendix A: Minute Extract

17 June 2013

Board Minute - QCA Interim Price Monitoring – Information Return 2013-15

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 2013-15 and a Data Template (and supporting documents).*
2. *ACKNOWLEDGED the auditor's report;*
3. *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 7 of the Information Return 2012/13.*

QUEENSLAND UrbanUtilities

TO REPORT A FAULT OR EMERGENCY
Contact us 24/7 on **13 23 64**

GENERAL ENQUIRIES
From 7am–7pm weekdays **13 26 57**

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