QUEENSLAND
UrbanUtilities

QCA INTERIM PRICE MONITORING

INFORMATION RETURN 2012/13

31 AUGUST 2012


Urban Utilities
QUEENSLAND
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3. Background

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Urban Utilities

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Part A – Value for money services

A.1 Overview

Queensland Urban Utilities is a statutory body, created on 1 July 2010 as a result of changes to the way water is managed in South East Queensland. Our primary role is to deliver drinking water, recycled water and sewerage services to the cities and townships within the boundaries of Brisbane, Ipswich, Lockyer Valley, Scenic Rim and Somerset local government areas.

Last year we supplied around 125,000 mega litres (ML) of tap water and 10,000 ML of recycled water to the residents and businesses within our service area. We also removed and treated the sewage and trade waste generated by 1.3 million residents and 5,028 trade waste customers.

We provide these services and related business functions according to our purpose, vision and objectives, which are shown on Figure A-1.

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

This two-part document details the services we provide, how we provide them, and how prices are set. It also responds to the QCA's information requirements for 2012/13. ***Part A*** introduces our business by describing the urban water cycle and the work that goes on behind the scenes in delivering water and sewerage services to homes and businesses. ***Part B*** goes into the detail necessary to allow the QCA to fulfil its price monitoring role.

Figure A-1 Queensland Urban Utilities' purpose, vision and objectives

A.2 Your urban water cycle

We all use water everyday in many capacities, from cleaning our teeth and flushing the toilet, to cooking meals and cleaning the house. Regardless of the purpose, there's no denying that water plays an integral role in enriching the quality of our daily lives.

Today, we are afforded the convenience of having our water and sewerage services available at the turn of a tap or touch of a button. However, it is this convenience that often disguises the hard work that goes on behind the scenes to deliver such vital services.

Figure A-2 Relationship with the other participants of the South East Queensland Water Grid

Part A – Value for money services

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

Bulk Water – Our relationship with the SEQ Water Grid

Queensland Urban Utilities is one of the original three water distributor-retailer businesses specifically formed to service regions within South East Queensland as part of an integrated water grid framework.

The SEQ Water Grid was legislatively endorsed in 2009 to secure the continuous supply of water to the region. Queensland Urban Utilities' role within this water management network and supply chain can be seen in Figure A-2.

Distribution-Retail – Queensland Urban Utilities' Role

Water supply

Queensland Urban Utilities receives bulk water from the SEQ Water Grid and distributes it to our customers via a network of reservoirs, pipelines, pumps, valves, meters and disinfection facilities.

Our 122 reservoirs help the water supply network cope with large changes in hourly water demand by temporarily storing water for later distribution to households while, at the same time, helping to manage water pressure so that water flows out of taps at the speed people expect.

Reservoirs are generally placed on high ground so that gravity will help provide enough pressure to push the water through the pipes. To get water into these elevated reservoirs, we maintain a total of 39 water supply pump stations, while an additional 107 water booster pump stations are used to push water to houses that are higher than the reservoirs.

At selected locations across our network we disinfect using chlorine to ensure that microorganism levels within the water remain within drinking water limits. This typically occurs where the network length means that it is likely to have been some days since the original disinfection at a water treatment plant. Disinfected water is then distributed between reservoirs and to our customers via an 8,800 km network of pipes that are comprised of a range of materials, diameters, depths and ages.

Sewerage

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

Our sewerage network uses 336 sewage pump stations and more than 9,000 km of pipeline to transfer the sewage and trade waste of nearly half a million customers to one of our 28 sewage treatment plants. Having reached this point, the raw sewage is treated to minimise potential impacts on public and environmental health. Our 28 plants range from advanced sewage treatment plants to small-scale package plants. Elements that are typical to most treatment facilities include pre-treatment – to remove large solid items that enter the sewerage network (e.g. rags, nappies, plastic bags) – followed by primary and secondary treatment stages before final clarification or settling and disinfection. Sludge generated as part of the treatment process is treated further prior to disposal. We also apply controls to minimise odours.

Operating the network

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

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

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

A.3 Investing in our services

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

Operating expenditure

Since our formation in 2010 we have worked hard to keep our costs down and wherever possible, to deliver our services more efficiently. Over the last two years, Queensland Urban Utilities has delivered $62.9 million in budget reductions.

Our operating costs to 2014/15 are shown on Figure A-3 and cover key categories such as bulk water, chemicals, labour, sludge handling and electricity. This figure shows that the State Government's bulk water charge is the major contributor to operating cost increases over this period.

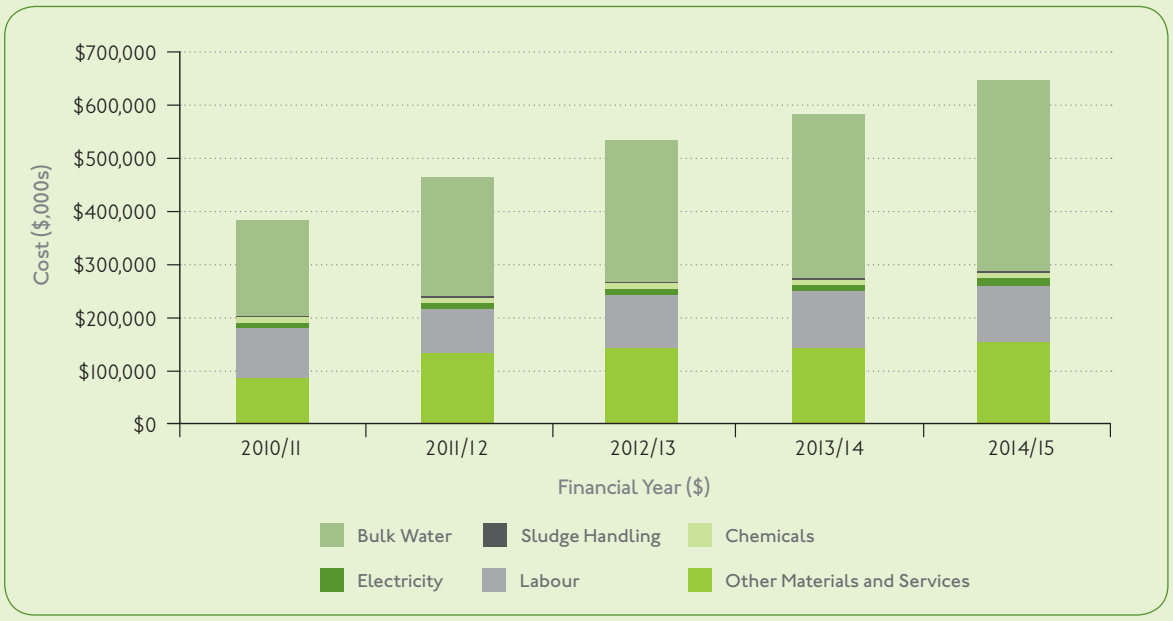


Figure A-3 Operating cost breakdown – 2010/11 to 2014/15

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

Figure A-4 shows the relative contributions of key operating cost drivers for 2012/13.

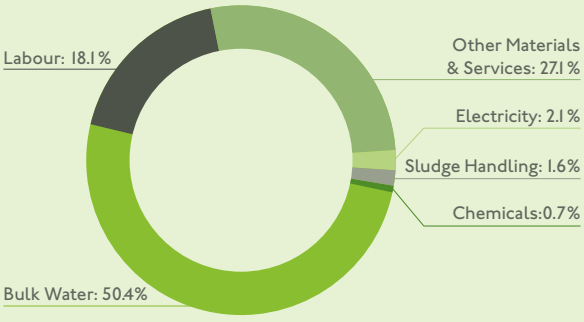


Figure A-4 Relative contributions to operating cost increases – 2012/13

Part A – Value for money services

Capital expenditure

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

Through our capital investment program we provide extra network capacity to supply services to new customers, while also ensuring that our existing assets remain fit for purpose through asset replacement and renewal works.

We also respond and invest in infrastructure in order to meet changing regulatory standards (e.g. higher quality environmental discharges from sewage treatment plants) and changing customer preferences.

The primary drivers of our capital investment program are typically population growth and asset renewal as shown on Figure A-5. In 2012/13 in particular the growth and asset renewals drivers reflect 92% of our capital expenditure program (Figure A-6).

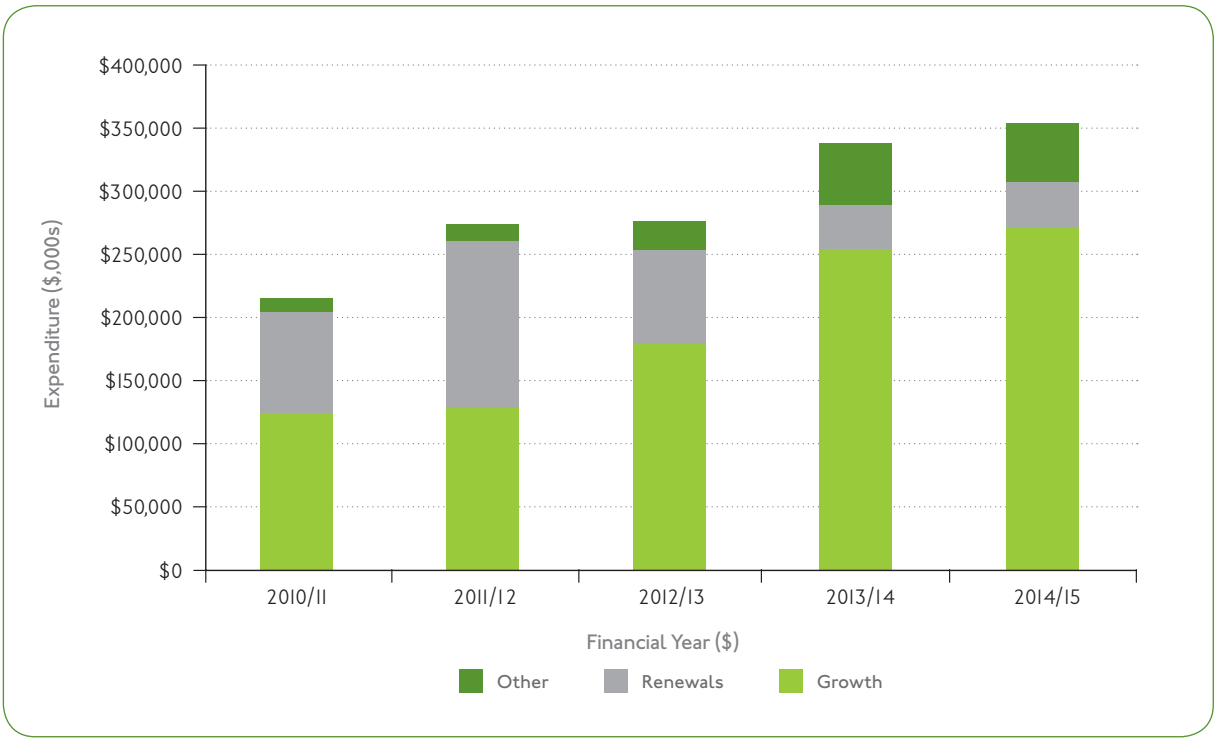


Figure A-5 Capital Expenditure (as incurred) by Driver – 2010/11 to 2014/15

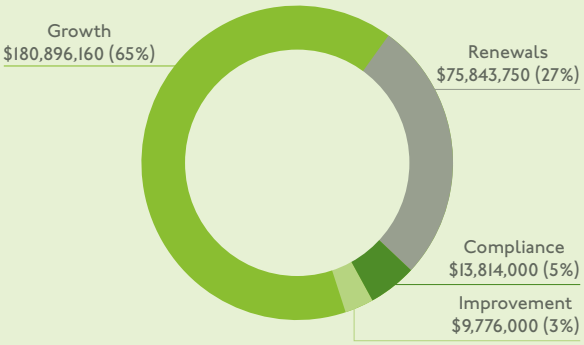


Figure A-6 Capital expenditure (as incurred) budget by driver – 2012/13

Expenditure on the renewal of existing assets and provision of new capacity (i.e. growth) in 2012/13 (Figure A-6) respectively corresponds to 1.6% and 4.0% of the value of our $4.5 billion asset base. Overall the growth category represents the largest component of our expenditure over the next few years as our regional population continues to expand. The asset replacement and rehabilitation work required to maintain desired levels of service for our existing customers (i.e. renewals) is also expected to drive a large proportion of capital expenditure over this period.

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

Part A – Value for money services

A.4 Our customers

Queensland Urban Utilities provides services to 1.3 million customers within a territory of 14,384 square kilometres (refer to Figure A-7).

We are proud to provide services to approximately two-thirds of South East Queensland (one of Australia's fastest growing regions); almost double the combined service territories of our fellow distributor-retail service providers. Our area stretches from Cape Moreton in the east, to the outskirts of Toowoomba in the west, and from the Yabba State Forest in the north, to the New South Wales border along the Scenic Rim in the south.

Our water services are provided to over 515,000 residential and 29,000 non-residential connections, while 491,000 residential and 27,000 non-residential connections allow our customers to take advantage of our sewerage services. We also service 5,028 trade waste and 225 recycled water customers.

Queensland Urban Utilities' Customer Charter outlines our commitment to delivering water and sewerage services to our customers.

The charter describes how we will:

- deliver a safe and reliable water supply to our customers
- maintain a rigorous water quality monitoring program
- ensure our meter readings are accurate and our customers are charged correctly
- protect public health and the environment through the provision of reliable residential and commercial sewerage services
- understand and respond to the needs of our customers.

The charter also describes our customers' rights and obligations. It is available on our website **www.urbanutilities.com.au** or by calling **13 26 57**.

Figure A-7 Our service area

Part A – Value for money services

A.5 Our prices

Under the current regulatory framework Queensland Urban Utilities sets prices in order to recover a regulated return, known as the Maximum Allowable Revenue (MAR). The MAR represents the maximum return that a distributor-retailer is allowed to earn on its assets, and this is calculated using the regulatory building block approach outlined on Figure A-8.

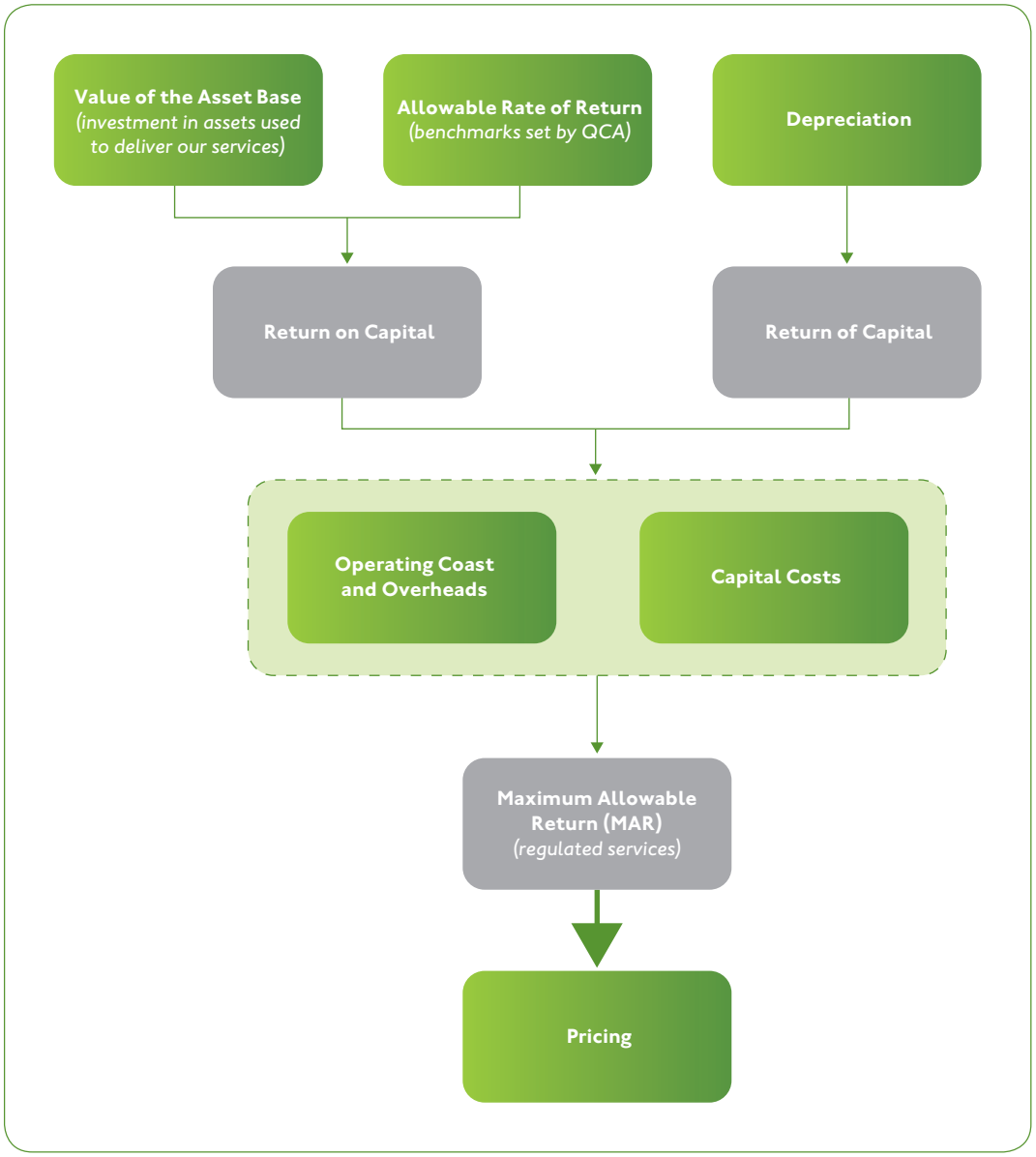


Figure A-8 Regulatory Building Block Approach to Revenue

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

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

Estimated MARs for water and sewerage services for the 2010/11 to 2014/15 period are shown on Figure A-9 and Figure A-10 below, showing forecast changes over this period.

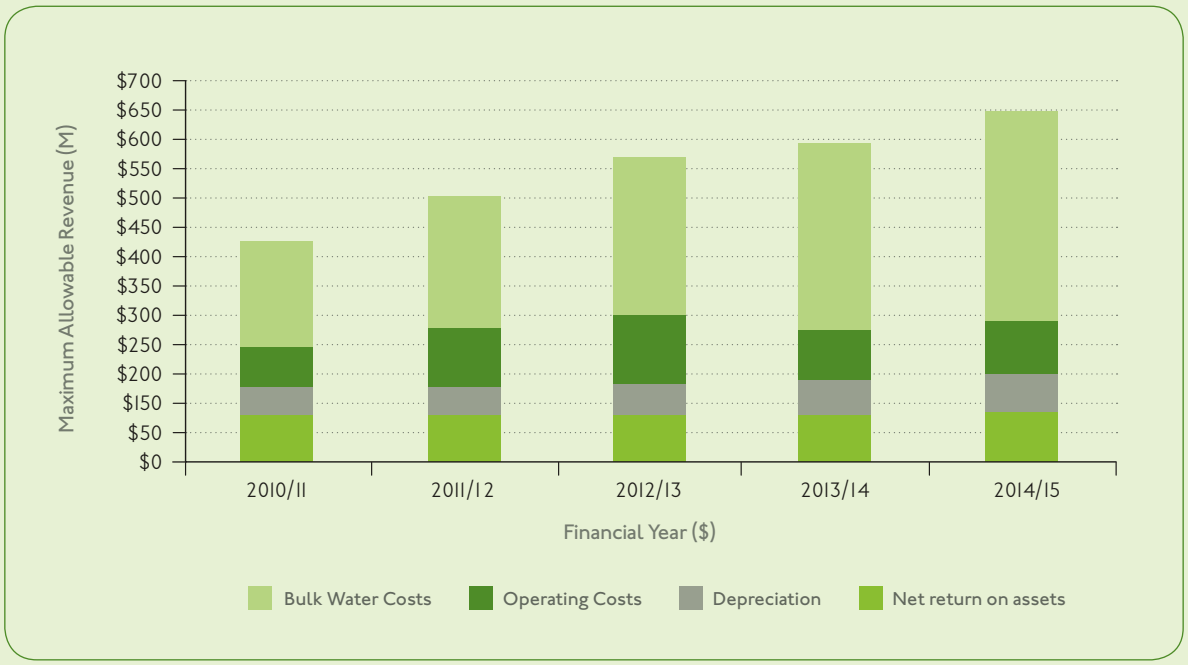


Figure A-9 Building Block MAR for Water Services – 2010/11 to 2014/15

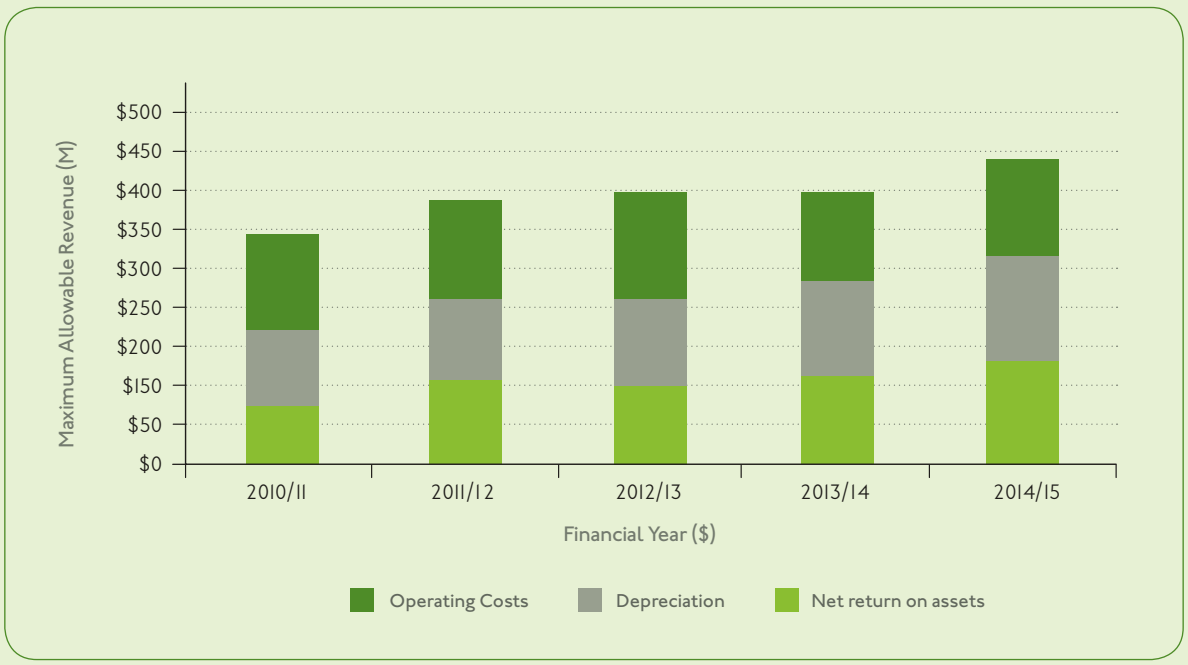


Figure A-10 Building Block MAR for Sewerage Services – 2010/11 to 2014/15

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

Part A – Value for money services

A.6 Pricing structure 2012/13

Our pricing structure for 2012/13 was published on 13 June 2012 whereby prices for residential water and sewerage services for 2012/13 were frozen. This decision was undertaken to provide relief for households within the Queensland Urban Utilities service area. For non-residential customers, water and sewerage prices have been increased by 1.3%. This increase reflects the increase in inflation for the past year.

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

Table A-1 Residential water and sewerage prices 2012/13

Bill Component		Brisbane City	Ipswich City	Lockyer Valley	Scenic Rim	Somerset
Bulk Water	($/kL)	$2.057	$1.993	$2.250	$2.358	$2.627
Water Access	($/qtr)	$41.79	$70.00	$70.00	$70.00	$70.00
Water Usage Tier 1	($/kL)	$0.66690 (≤255 kL)	$0.81054 (≤320 kL)	$0.22572 (≤300 kL)	$0.83106 (>0 kL)	$0.23598 (≤300 kL)
Water Usage Tier 2	($/kL)	$0.70794 (256-310 kL)	$1.29276 (321-480 kL)	$1.08756 (>300 kL)	-	$0.54378 (>300 kL)
Water Usage Tier 3	($/kL)	$1.26198 (>310 kL)	$1.64160 (>480 kL)	-	-	-
Sewerage Access	($/qtr)	$118.98	$137.50	$105.21	$125.00	$125.00[A] $99.60[B]

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

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

Part B – Queensland Urban Utilities information return 2012/13B

1 Introduction

Queensland Urban Utilities was created as a result of the Queensland Government's structural reforms of the South East Queensland (SEQ) water sector. As one of the distributor-retailers created to service the growing population of SEQ, Queensland Urban Utilities is responsible for delivering drinking water, recycled water and sewerage services to the cities and townships within the boundaries of the Brisbane and Ipswich City Councils, as well as the Lockyer Valley, Scenic Rim and Somerset Regional Councils.

As part of the reform process the prices charged by the distributor-retailers are formally monitored by the state's economic regulator – the Queensland Competition Authority (QCA).

1.1 Our regulatory framework

1.1.1 The Queensland Competition Authority

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

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

1.1.2 Price monitoring

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

The price monitoring process assesses whether or not capital expenditure is prudent (i.e. necessary) and efficient and whether or not operational expenditure is reasonable. This process is designed to ensure that monopoly providers are not charging prices in excess of efficient costs.

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

In early January 2012 the (then) Minister for Energy and Water Utilities wrote to the distributor-retailers to outline the regulatory arrangements to apply from 1 July 2013. The Minister confirmed that price monitoring regulation would continue with the review period to extend from the current annual process to a three year period commencing 1 July 2013 and thereafter five yearly from 1 July 2016. These arrangements are expected to be formalised through the issuing of Direction Notices.

1.2 QCA information requirements 2012/13

This document addresses the QCA's information requirements for 2012/13 and outlines the manner in which Queensland Urban Utilities fulfils its service obligations (and sets prices for those services).

To the extent that this document supports the 2012/13 price monitoring submission to the QCA it should be read in conjunction with the QCA data template (provided separately).

Every effort has been made to complete the QCA data template as required. A copy of the QCA's information requirements for 2012/13 is provided as *Annex A*.

1 Introduction

1.2.1 Information requirements

Table 1-1 identifies the requirements set out in ***Section 5*** of the QCA's Information Requirements for 2012/13, and details Queensland Urban Utilities' response to each of these.

Table 1-1 QCA information requirements.

QCA Ref	Requirement	Response to information requirement
5.1	Statutory accounts and budget	Key financial and accounting policies are described in ***Section 7.1***. The budget process is also discussed here.
5.2	Revenue	Revenue requirements and forecasts are presented in ***Section 8***.
5.3	Service standards	Our relationship with our customers is described in ***Section 4*** and our service standards are discussed in greater detail in ***Section 3.1***. Queensland Urban Utilities' Customer Charter and Customer Service Standards are presented in ***Annex C***.
5.4	Demand	Demand is discussed in ***Section 6***, including consideration of per capita demand assumptions and population growth.
5.5	Regulatory asset base	The regulatory asset base (RAB) is addressed in ***Section 8.2***.
5.6	Capital expenditure	Capital expenditure processes are outlined in ***Section 7.5***, and the capital expenditure budgets and forecasts for the development of the RAB and maximum allowable revenue (MAR) forecasts are presented in ***Section 8.6***.
5.7	Contributed, donated and gifted assets	Contributed, donated and gifted assets are described in ***Section 8.5***.
5.8	Depreciation	Our treatment of depreciation is described in ***Section 8.2.3***.
5.9	Indexation	Indexation is outlined in ***Section 8.2.1*** (RAB), ***Section 8.3.1*** (Operating Expenditure) and ***Section 8.6*** (MAR).
5.10	Return on capital	***Section 8.4*** addresses return on capital.
5.11	Operating costs	***Section 7.4*** describes our operating and maintenance approach while ***Section 8.3*** presents the operating costs relevant to the development of the MAR.
5.12	Third party transactions	Third and related party transactions are presented in the QCA's data template, while a brief discussion is presented in ***Section 7.2***.
5.13	Related party transactions	
5.14	Non-regulated services	Non-regulated services are addressed in ***Section 5.4***.
5.15	Tax	Refer ***Section 8.4***.
5.16	Maximum allowable revenue	Maximum allowable revenue is addressed in ***Section 8.6***.

1.3 Document structure

The remainder of this document is structured as follows:

Section 2 About Queensland Urban Utilities

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

Section 3 Our services

Summarises Queensland Urban Utilities' service offerings and customer service standards.

Section 4 Our customers

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

Section 5 Our prices

Outlines Queensland Urban Utilities' pricing principles and its approach to pricing for its services.

Section 6 Demand forecasting

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

Section 7 Prudent and efficient expenditure

Outlines the process through which budgets are developed and addresses the practices and procedures that govern the management, maintenance and renewal of existing assets as well as planning for new capital assets.

Section 8 Revenue requirement

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

Section 9 Conclusion

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

Section 10 Abbreviations, acronyms and glossary

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

2 About Queensland Urban Utilities

2.1 Who we are

Queensland Urban Utilities is a statutory body providing integrated distribution and retail water and sewerage services to customers within the Brisbane City, Ipswich City, Lockyer Valley, Scenic Rim and Somerset local government areas. We are owned by the Brisbane and Ipswich City Councils, as well as the Lockyer Valley, Scenic Rim and Somerset Regional Councils and governed by an independent board. Our shareholding councils are often also referred to as the 'Participating Councils'. Our primary role is to deliver drinking water, recycled water and sewerage services to the cities and townships within the boundaries of these five councils.

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

2.2 Our relationship with the Councils

As outlined above, Queensland Urban Utilities was formed following the merging of the water and sewerage businesses of our five Participating Councils. While Queensland Urban Utilities functions under legislation and operates independently, we retain and embrace a number of the key philosophies of our Participating Councils including:

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

As required by the DRR Act and as determined by the Queensland Urban Utilities Board and in accordance with the Participation Agreement, our Participating Councils receive regular dividend payments. The Participation Agreement was signed by the responsible Minister on 25 June 2010, and outlines and formalises our relationship with the councils.

2.3 Our corporate objectives

Section 15 of the DRR Act defines Queensland Urban Utilities as a statutory body for the purposes of the *Financial Accountability Act 2009*. Under s9 of the *Financial and Performance Management Standard 2009* Queensland Urban Utilities is required to have a corporate plan (also known as a strategic plan). Queensland Urban Utilities' Corporate Plan 2011-2016 sets out the following corporate objectives:

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

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

2.4 Governance

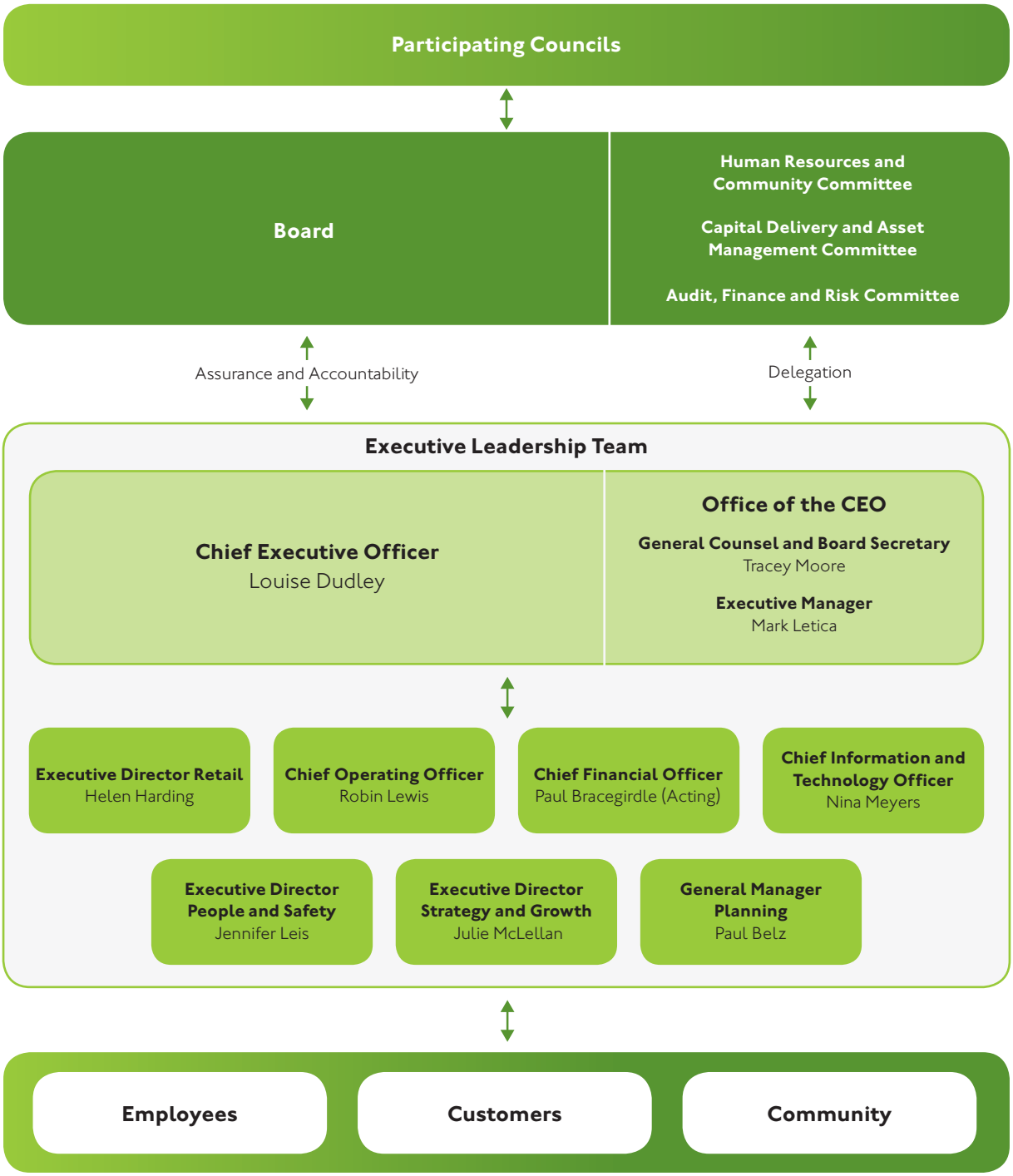
Queensland Urban Utilities is governed by an independent Board, which was appointed by the Participating Councils. The Board may delegate any of its functions to a committee of members of the Board or Chief Executive Officer (CEO), in accordance with the provisions of the DRR Act.

As shown on Figure 2-1 the Human Resource and Community Committee, Capital Delivery and Asset Management Committee and Audit, Finance and Risk Committee have been established to endorse strategies and make recommendations to the Board. The CEO and the Executive Leadership Team (ELT) are accountable for service delivery and performance of functions within their portfolios and for decisions made jointly within the ELT.

Our governance structure is outlined on Figure 2-1, and our Board members are introduced in ***Annex B***.

2 About Queensland Urban Utilities

Table 2-1 Queensland Urban Utilities' governance structure



3 Our services

3.1 Setting the standard

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

3.1.1 Legislative framework

Our service standards reflect a range of legislative requirements that govern the development, planning and delivery of our services. Key items of legislation and their requirements are presented in Table 3-1.

Table 3-1 Summary of Key Statutory Planning Requirements

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

3 Our services

3.1.2 Water Netserv Plan

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

The Water Netserv Plan will become a key tool for the strategic operation of the business. It will replace the current strategic asset management plan (SAMP) and perform a similar role as the local governments' priority infrastructure plans (PIPs) undertaken in accordance with the *Sustainable Planning Act 2009 (SP Act)*.

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

Our draft *Water Netserv Plan* consists of two parts. Part A is a public document that broadly deals with strategies, infrastructure, planning, service standards, connections, and charging, while Part B is a confidential document that focuses on operating frameworks, management functions and key actions.

Part A was released to the public for consultation from 6 May 2011 to 24 June 2011. Comments were received, considered and addressed in the final draft document. Part A was approved by the Board in October 2011 and submitted for endorsement by our Participating Councils and the Queensland Government Minister for Planning. Currently all five Participating Councils have endorsed Part A of our *Water Netserv Plan*. Part B was approved by the Board in November 2011.

3.1.3 Transitional arrangements

As outlined in Table 3-1 the *Water Supply (Safety and Reliability) Act 2008* requires water service providers to have a SAMP, Drinking Water Quality Management Plan (DWQMP) and prepare customer service standards for the supply of its registered service.

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

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

Queensland Urban Utilities' DWQMP was prepared and submitted to DERM in May 2011. Following receipt of a Notification for the Request for Additional Information from DERM in December 2011, the DWQMP was updated and resubmitted to DERM in May 2012. The DWQMP details Queensland Urban Utilities' drinking water risk assessment, monitoring program and documents a risk management improvement plan that must be implemented by QUU.

3.1.4 Customer Service Standards

Queensland Urban Utilities' Customer Service Standards ***(Annex C)*** were developed on the basis of continuing at a level equal to, or better than, those existing before the formation of Queensland Urban Utilities. Prepared in late 2010 the Customer Service Standards ensure consistency and transparency throughout our operational area.

The standards include the majority of the minimum performance indicators required in the SAMPs with the remainder, related to continuity of service in the long-term, as reported in the National Performance Report.

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

Further discussion of customer service standards is provided in ***Section 4***, which outlines the relationship between service standards and the Customer Water and Wastewater Code.

3.2 What we do

3.2.1 Our services

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

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

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

3 Our services

3.2.2 *Our service area*

Queensland Urban Utilities' service area (Figure A-7) encompasses the 14,384 square kilometres contained by the local government boundaries of our Participating Councils. Our service area covers the Brisbane, Ipswich, Lockyer Valley, Scenic Rim, and Somerset local government areas. This area stretches from Cape Moreton in the east to the foot of the Toowoomba range in the west, and from the Yabba State Forest in the north to the New South Wales border in the south.

Our water and sewerage infrastructure networks service the cities and townships shown in Table 3-2. Through our infrastructure network we provide services to a range of customer types, ranging from single-person dwellings to large industrial customers.

Table 3-2 Cities and Townships Serviced by Queensland Urban Utilities

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

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

4 Our customers

Queensland Urban Utilities' Customer Services 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. Regulatory-driven initiatives are based on the legislation and regulations set by the state agencies that govern our operations. We work closely with these agencies to ensure those policies do not place unreasonable pressure on our business or on our customers.

The Customer and Community Reference Group (CCRG) assists 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.

4.1 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 and presented in ***Annex C***.

4.2 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.

4.3 Vulnerable customer support

4.3.1 Financial hardship policy

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

A customer in hardship is defined as one who is willing but unable to meet their financial commitments to Queensland Urban Utilities. Short term financial hardship is often due to an unexpected change in circumstances. This could include but is not limited to, loss of employment, onset of illness, relationship changes and other unexpected financial constraints.

Long-term financial hardship is often due to customers experiencing short-term impacts which continue for a lengthy period of time; e.g., 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.

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.

4.3.2 Pensioner rebates

Queensland Urban Utilities facilitates pensioner rebate arrangements provided by Participating Councils and the State Government. This includes:

Brisbane City Council's pensioner remission (2012/13):

- 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 (2012/13):

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

4.3.3 Dialysis patient policy

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

5 Our prices

A number of factors, such as pricing principles and legislative and regulatory constraints, are taken into account when setting prices for both regulated and non-regulated services.

5.1 Pricing Principles

Prior to the establishment of Queensland Urban Utilities the Participating Councils agreed to a set of pricing principles as outlined in Table 5-1 below. Queensland Urban Utilities then applied these principles.

Table 5-1 Pricing principles

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

5 Our prices

5.2 Price setting process

Under the current regulatory framework for the interim price monitoring period the QCA has established a revenue cap on the distributor-retailers, known as the maximum allowable revenue (MAR). Taking into account the pricing principles outlined in ***Section 5.1***, Queensland Urban Utilities' prices are set within the boundaries of this regulatory framework using a process that includes consideration of the MAR, forecast demand, and potential customer impacts.

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

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

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

The MAR is then separated into two separate components:

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

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

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

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

Prices for 2012/13 are presented in ***Part A***.

5.3 Pricing constraints

In 2011 the ability of distributor-retailers to set prices was restricted by amendments to the DRR Act, which imposed a ceiling on retail and small business prices for a two year period ending 30 June 2013. The changes also require that each Participating Council:

- prepare a price mitigation plan for the five year period commencing 2013/14; and
- adopt by resolution a written final price path for the five year period commencing 2013/14.

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

5.3.1 Interim price cap

In relation to prices for the 2011/12 and 2012/13 financial years the amended DRR Act places a ceiling on prices (excluding the State Government's bulk water charge) that can be charged to retail and small business customers. For 2012/13 the ceiling limits potential price rises to not more than 1.3% above the base charge for 2011/12 (net of any rebate or subsidy provided).

On 13 June 2012, the Queensland Urban Utilities' Board announced that it would freeze prices for the distribution – retail component of residential water and sewerage services for 2012/13. This decision was undertaken to provide relief for households within Queensland Urban Utilities' service areas. Further discussion of the 2012/13 prices is contained within ***Part A***.

5.3.2 Development of a Price Mitigation Plan

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

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

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

5.3.3 *Development of a final price path*

Before 1 March 2013, Queensland Urban Utilities will prepare a path for charges within its service area that relate to the period 1 July 2013 to 30 June 2018.

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

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

Price path development

Four phases have been identified in the development and adoption of the Price Path. Each phase has a specific objective, as identified below:

Phase	Objective	Timing
1 Identify issues and develop preliminary position	Reach agreement among Participating Councils on utility charges pricing aspirations, objectives and items to be priced in order to identify impacts, issues and options.	July 2011 to December 2011
2 Develop and assess alternatives / options	Identify and assess customer and other impacts for a number of options, which may be refined to a preferred position.	December 2011 to June 2012
3 Refine and approve	Refine and confirm preferred position. Achieve in-principle approval of preferred position, and address legislated requirements for the approval of a price path.	July 2012 to October 2012
4 Announce and implement	Promote – to all stakeholders – Queensland Urban Utilities and the Participating Councils' commitment to managing customer impacts associated with the introduction of the price path.	November 2012 to June 2013

Phase 1 Identify issues and develop preliminary position

Consideration of revised pricing principles

As part of working with our Participating Councils to meet these requirements an independent consultant was commissioned to investigate and recommend for further investigation a set of revised pricing principles, tariff structures and level of service disaggregation.

The investigation considered:

- current pricing practice at similar utilities;
- latest preferred pricing practices of the National Water Initiative, National Water Commission, Productivity Commission and the Essential Services Commission of Victoria;

Investigation findings

Key findings from the final report received in March 2012 include:

1. There is an inherent requirement for trade-offs to be made between pricing principles, including:
   a. equitable pricing through cost reflective pricing (economic equity) versus postage stamp pricing (horizontal equity); and
   b. revenue adequacy and customer control, with lower variable charges provide greater stability of revenues but reduces customer's ability to reduce their costs (reduced ability of price to influence behaviour).

2. Customer groups can be disaggregated into different tariff levels in multiple ways, including by land use (i.e. residential or non-residential), pipe diameter or geographic location.

The level of disaggregation is influenced by views on relative importance of economic and horizontal (i.e. consistency between similar users) equity.

3. Recognition that the continuation of inclining block tariffs is influenced by trade-offs between the pricing principles of simplicity of design; cost reflective pricing and sustainability.

Prioritised draft revised key pricing principles were developed for further consultation with Participating Councils and other stakeholders.

These principles were finalised based on this consultation and will underpin the analysis of financial and customer impacts arising from possible tariff changes to the level of disaggregation of customer groups.

5.4 Non-regulated services

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

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

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

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

The services found to be open to competition, and therefore non-regulated are described in Table 5-2.

Table 5-2 Non-Regulated Services

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

6 Demand forecasting

6.1 Overview

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

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

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

Queensland Urban Utilities has developed a *User Guide – Short-Term* and *Long-Term Demand Forecasting* policy document. This document sets out the processes undertaken by Queensland Urban Utilities in forecasting demand for the different aspects of the business as required by Queensland Urban Utilities.

The process for developing (or revising) demand forecasts across the different parts of the business does differ – reflecting the requirements regarding the application of the demand forecast. Queensland Urban Utilities currently develops separate demand forecasts for pricing and capital planning purposes. This process is managed across a range of teams within the business, including:

- Financial Planning team (Finance, Risk and Procurement Division), responsible for developing short-term demand forecasts, primarily to guide revenue, pricing and operating cost forecasts
- Feasibility team (Operations Division), responsible for using, and in some instances revising, demand forecasts to guide the assessment of optimal investment in proposed capital investment due for construction within three to five years
- Strategic Infrastructure Planning; Infrastructure Co-ordination; and Development Assessment and Land-Use Planning team (Operations Division), responsible for developing long-term demand forecasts which are used to underpin Queensland Urban Utilities' master planning process and broader infrastructure planning activities.

The remainder of this section provides an overview of some of the issues faced, and processes used, in developing demand forecasts for Queensland Urban Utilities. Further information on the processes undertaken by Queensland Urban Utilities to forecast demand is contained within its User Guide policy document.

6.2 Resident population

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

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

Population projections presented in Queensland Urban Utilities' Netserv Plan show that over the next 20 years, the population within Queensland Urban Utilities' service area is forecast to increase by approximately 38%. The high level population projections presented in the Netserv Plan draw upon the latest estimated resident population figures from the Australian Bureau of Statistics, the SEQ Regional Plan 2009-2031 population targets and Demography and Planning projections.

6 Demand forecasting

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

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

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

Source: After SEQ Regional Plan 2009-2031.

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

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

6.2.1 *Developing serviced population forecasts*

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

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

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

While residential population only includes people living in private dwellings (houses, units, flats), estimated resident populations include people living in other types of accommodation (retirement villages, nursing homes, boarding houses, colleges, caravan parks etc). These people are taken into account via the non-residential population component.

3. Development of projections appropriate to the distribution network planning level. Street level water reticulation planning and sewerage catchment planning typically require the population distribution to be estimated at an individual property level.
4. Consideration of population projections across an appropriate asset service life. Current population projections extend only as far as 2031. Water and sewerage pipeline infrastructure with a service life in excess of 80 years requires consideration of growth beyond 2031.

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

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

Serviced equivalent population (EP) projections combined with the adopted planning and design standards define the future capacity requirements of the system. Further processes adopted to determine the network serviced EPs are illustrated in Figure 6-1.

Notes	Inputs	Outputs
Inputs are the base information that goes into developing the forecasts, of which the Demography and Planning projections is one of several items. The level of advice received from local government varies from district to district. Brisbane and Ipswich City Councils provide greater detail than the three regional council, including property level dwelling and poulationprojections for existing and intermediate years.	**Customer database** • Property level information • Existing land use (customer sector) • Water consumption • Trade waste information **Census Information** • Residential occupancy rates for detached and attached dwellings at CCD or Statistical Local Area level.	Existing Serviced Population (EP)
The majority of analysis required to produce the non-residential component of projections undertaken by Queensland Urban Utilities as employment numbers do not necessarily correlate well with water demand and sewage load. The main inputs to non-residential projectionsare the customer database, plannig schemes and density assumptions. The employment forecasts give guidance to intermediate year equivalent populations.	**Demography and Planning Projections** • ERP growth rates at local government area level **Local government advice** • Developing sequencing • Employment forecasts	Intermediate Years serviced population (EP) (5 yearly for at least 20 years)
The outputs are the EP projections. The existing serviced populations is determined first and represents the baseline. The ultimate serviced population is determined next and represents the EP capacity under current planning schemes.	**Planning schemes (local government, ULDA, BAC, PBC)** • Ultimate land use **Assumptions** • Planned densities (EP/ha) for various land uses • Redevelopment take-up • Scope for expansion of existing uses	Ultimate Serviced Population (EP) (based on current planning schemes)
Land use planning is continuously evolving, with changes occurring regularly as local planning and strategic planning is undertakenand reviewed. Therefore, the ultimate population represents the best estimate that can be made at a point in time, recognising that it will change (typically increase) in future.		

Figure A-10 Building Block MAR for Sewerage Services – 2010/11 to 2014/15

6 Demand forecasting

6.2.2 *Developing property growth forecasts*

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

Queensland Urban Utilities used the OESR Demography and Planning facet's forecast data as the basis for dwelling growth. Currently SEQ 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 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 geographic area. The growth rates are applied to the properties in the billing system. Table 6-2 shows the growth rates used in forecasting revenue and operating costs over the period 2012/13 to 2014/15.

Table 6-2 Financial Forecast Annual Growth Rates – 2012/13 to 2014/15

	Region				
Growth Parameters	**Brisbane City**	**Ipswich City**	**Lockyer Valley**	**Scenic Rim**	**Somerset**
Residential property growth	1.2%	4.0%	3.4%	4.6%	3.8%
Non-residential property growth	1.2%	4.0%	3.4%	4.6%	3.8%

6.3 Per capita demand

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

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

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

6.3.1 *Water Restrictions and Water Efficiency*

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

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

6.3.2 *Demand Management Planning*

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

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

6.3.3 *Per Capita Demand Forecasting*

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

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

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

Short-term or current per capita demand;	This measure reflects current levels of per capita demand (typically averaged to take into account seasonal fluctuations in demand) and is used for: • preparation of usage dependent operational expenditure budgets (e.g. electricity and chemical usage); • setting of prices to recover costs; and/or • analysis of current network capacity for use in the prioritisation of the five year capital investment program. Long-term usage targets are not appropriate for forecasting short term financial metrics.
Long-term average per capita demand;	• This measure is essentially a long-term design parameter, which reflects the long life of our pipeline and other infrastructure assets. Assets with high capital costs and long lives are, therefore, planned around an underlying long-term average per capita demand. Other key design parameters are discussed in ***Section 6.4***. • As outlined above, 200-230 L/p/d has been incorporated into infrastructure design standards.

Per Capita Demand – Key Financial Assumptions

Consumption in 2011/12 was influenced by high rainfall and there is a reasonable likelihood that 2012/13 will be a drier year with higher consumption. Queensland Urban Utilities has applied a slightly higher forecast per capita demand to 2012/13 than current recorded levels of demand (Table 6-3).

Queensland Urban Utilities has estimated that per capita demand will increase by 5 L/p/d (from the current average consumption volume in each Council district). This growth factor will be applied up to a maximum of 200 L/p/d.

For non-residential customers, Queensland Urban Utilities estimates consumption per property will increase by 0.5 percent per annum. This is a conservative growth estimate as production demand is currently reasonably static and water substitutes (i.e. recycled water), which are commonly used by non-residential customers, tends to offset potable water demand growth. Queensland Urban Utilities is also of the view that water saving practices and Water Efficiency Management Plans (WEMPs) have been ingrained into the non-residential customer base, reduces the likelihood of significant growth in consumption per property.

Table 6-3 Per Capita Demand – Key Financial Assumptions

Expense Group	Region				
	Brisbane City	Ipswich City	Lockyer Valley	Scenic Rim	Somerset
Residential demand 2011/12 (L/p/d)[1]	170	169	146	155	160
Residential demand 2012/13 (L/p/d)	175	175	150	160	165
Non-residential demand	0.5% increase on 2011/12 consumption				

Note 1: Based on recorded 2011/12 demand to the end of March 2012.

6 Demand forecasting

6.4 Design standards

Water supply

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

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

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

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

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

Sewerage

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

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

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

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

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

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

Table 6-4 Key Sewerage Design Parameters

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

6 Demand forecasting

6.5 Non-revenue water

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

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

Table 6-5 Non-Revenue Water – Major Components

Component	*Description*
Background leakage	This major component of NRW relates to the nature and history of the infrastructure and technology used in water supply networks. The ability to reduce NRW is limited by rising costs against declining benefits. Leakage reduction efforts eventually reach a point where the costs associated with reducing leakage by 1 ML are greater than the revenue to be gained by selling the volume saved. Background leakage that is currently undetectable is referred to as 'unavoidable background leakage'. Recent sustained efforts into leakage reduction by the Australian industry has indicated that, even with the latest leakage management techniques, unavoidable daily background leakage is currently in the order of 50–80 L/connection. *Management/Reduction Measures* In 2006, the State Government mandated the implementation of the SEQ Pressure and Leakage Management Program. At the end of 2009/10, the program had seen reductions in NRW for Queensland Urban Utilities of approximately 29 ML/day, or 22 L/p/d. The program, having principally met its objectives, is due to end between 2010 and 2012.
Water for fire fighting and other community purposes	Water that is legally used but is not paid for by customers, such as water provided to fire fighting systems and used in fire fighting. Under s144 of the Water Supply Act, water service providers must provide this water for free. Water used in fire fighting systems may be used for testing the system. Also includes water used by Queensland Urban Utilities itself, primarily during construction of assets and for clearing and cleaning its networks.
Illegal unpaid for water	Water that is illegally taken from the network in the form of illegal connections and/or direct theft. Improved focus on NRW reductions as a result of drought and other improvements to network services has resulted in a decline in the number of illegal connections. Anecdotally, direct theft of water mostly occurs in the form of water carriers (tankers) removing water from the network from fire hydrants, rather than travelling to Queensland Urban Utilities' supply points, as the time and fuel costs of such travel are sometimes perceived as substantial. The quantities of stolen water are estimated to increase significantly during periods of high restrictions on water usage when use of carried water increases.
Customer meters	Meter limitations also add to the total of non-revenue water. Studies have shown that under very low flows, meters may under-report or not report at all, as the flow is unable to overcome the natural friction in the meter. Such low flows often occur as a result of a minor leak within a property's plumbing system. Queensland Urban Utilities has an extensive meter maintenance and replacement program which seeks to minimise the quantity of consumption that goes unrecorded.

7 Prudent and efficient expenditure

7.1 Budget process and key financial and accounting policies

The Budget Framework for 2012/13 was approved by the Chief Financial Officer (CFO) in November 2011 and provided to the ELT and Business Unit Managers in the form of the Queensland Urban Utilities Budget Guideline – 2012/2013 (the Budget Guideline).

Following confirmation from each manager that the 'business-as-usual' budget was developed in accordance with those guidelines the budget was further reviewed and refined by the ELT. This involved a functional and account level review, including comparison against the historical trends and forecasts for the 2011/12 year, consideration of the requirements of the Corporate Plan (new initiatives) and previously announced efficiency targets.

The process for developing the 2012/13 operational budget is established in the Budget Guideline, which promotes responsible planning and budget consistency within Queensland Urban Utilities and includes:

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

Key assumptions relating to the 2012/13 budget are presented in Table 7-1.

Table 7-1 Key 2012/13 Budget Parameters

Key Parameter	*Assumption*	*Basis*
Economic Indices		
Inflation Forecast	2.5%	Mid-point of Reserve Bank of Australia target
Wages Growth	4.5%	Based on Brisbane City Council enterprise bargaining agreement
Long-term interest rates	6.79%	Current rate, monthly payments
Weighted Average Cost of Capital	9.35%	QCA benchmark published in IPM Report 2010/11
Tax Expense	30% of profits	The 2012/2013 budget includes the tax calculations including Deferred Tax Expenses for Donated Asset Revenues.
Transition Services Agreements	Increases based on individual contracts	

Major milestones in the 2012/13 operational budget development and approval process included:

- Preparation of 'business-as-usual' budgets by service area (Dec 2011)
- Presentation of budgets to ELT (Jan 2012)
- CEO/CFO sign off (Feb 2012)
- Presentation of budget to Board (Mar 2012)
- Budget approval by the Board (June 2012)

An overview of the key milestones in the capital budget development and approval process is presented as Figure 7-1. Each of these stages represents a continuing review and improvement process with the potential to feed back into earlier stages and result in further review and refinement of the program. No external review of major capital projects was conducted this year due to most 2012/13 major projects having commenced in earlier periods.

7 Prudent and efficient expenditure

Figure 7-1 2012/13 Capital Budget Process – Overview Schematic

7.1.1 Capitalisation policy

Queensland Urban Utilities currently uses the capitalisation policy as summarised in Table 7-2. This policy was formalised as part of the 2010/11 financial statements and is reviewed annually with the financial statements.

Table 7-2 Capitalisation Policy

Category	Policy Summary
Recognition	Items of property, plant and equipment with a total value of less than $10,000, except for network assets, are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised except where stated. All network assets, including those with a value of less than $10,000, are capitalised. The term 'network asset' is applied to an accumulation of individual items or components operating as a cohesive whole in the provision of a particular service. Computer equipment is not treated as a network asset. Interconnected infrastructure assets are treated as a network asset.
Expenditure Capital & Operating	Direct labour and materials expenditure incurred in the purchase or construction of assets is capital expenditure. Expenditure necessarily incurred in either maintaining the operational capacity of assets or ensuring that their original life estimates are achieved, is considered maintenance and is treated as an expense as-incurred.
Acquisition	Acquisitions of property, plant and equipment are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration (purchase price) plus costs incidental to the acquisition, including architects' fees, engineering design fees and all other establishment costs. Donated items of property, plant and equipment except reserve land are recognised as assets and revenue at fair value. Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Intangible Assets	Amounts paid for computer software in excess of the recognition threshold of $10,000 are capitalised and then amortised on a straight-line basis over the expected period of benefit (3-20 years). Useful lives are reviewed annually to ensure these reflect the probability of continuing future benefits. Intangible assets are also assessed for impairment. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Statement of Comprehensive Income as incurred. Amortisation is based on the cost of an asset less its residual value.

7.1.2 Taxation Policy

Queensland Urban Utilities is subject to a number of direct and indirect taxes. Our treatment of these taxes to ensure compliance with various regulatory and taxation obligations is addressed in the Taxation Policy approved by the Board in May 2011.

Direct taxation includes:

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

Indirect taxation is paid to the Participating Councils under the Local Government Tax Equivalents Regime and includes income, land and duties tax. These payments are made in accordance with the rights percentages established in the participation agreement. Following the completion of land valuations, which had not been completed at the time of the 2011/12 Information Return submission, annual land tax costs of $2.1 million have been included in the final 2011/12 forecast and the 2012/13 budget.

7 Prudent and efficient expenditure

7.1.3 *Financial system cost allocation*

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

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

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

Accounting cost structure

Costs are captured in responsibility centres that reflect the organisation structure. The organisation structure shown on Figure 2-1 covers the divisions of CEO's Office, Operations, Retail, Information Communications and Technology, Corporate Services, Human Resources and Finance.
Each division contains up to three other levels. Work orders are also used to capture costs for specific activities or projects across the organisation. Accounting codes capture costs according to the nature of the expenditure.

The example presented as Figure 7-2 shows the hierarchy down through the Operations, Service Delivery East, and Responsive Maintenance area to the four teams each with an individual responsibility centre established to track costs.

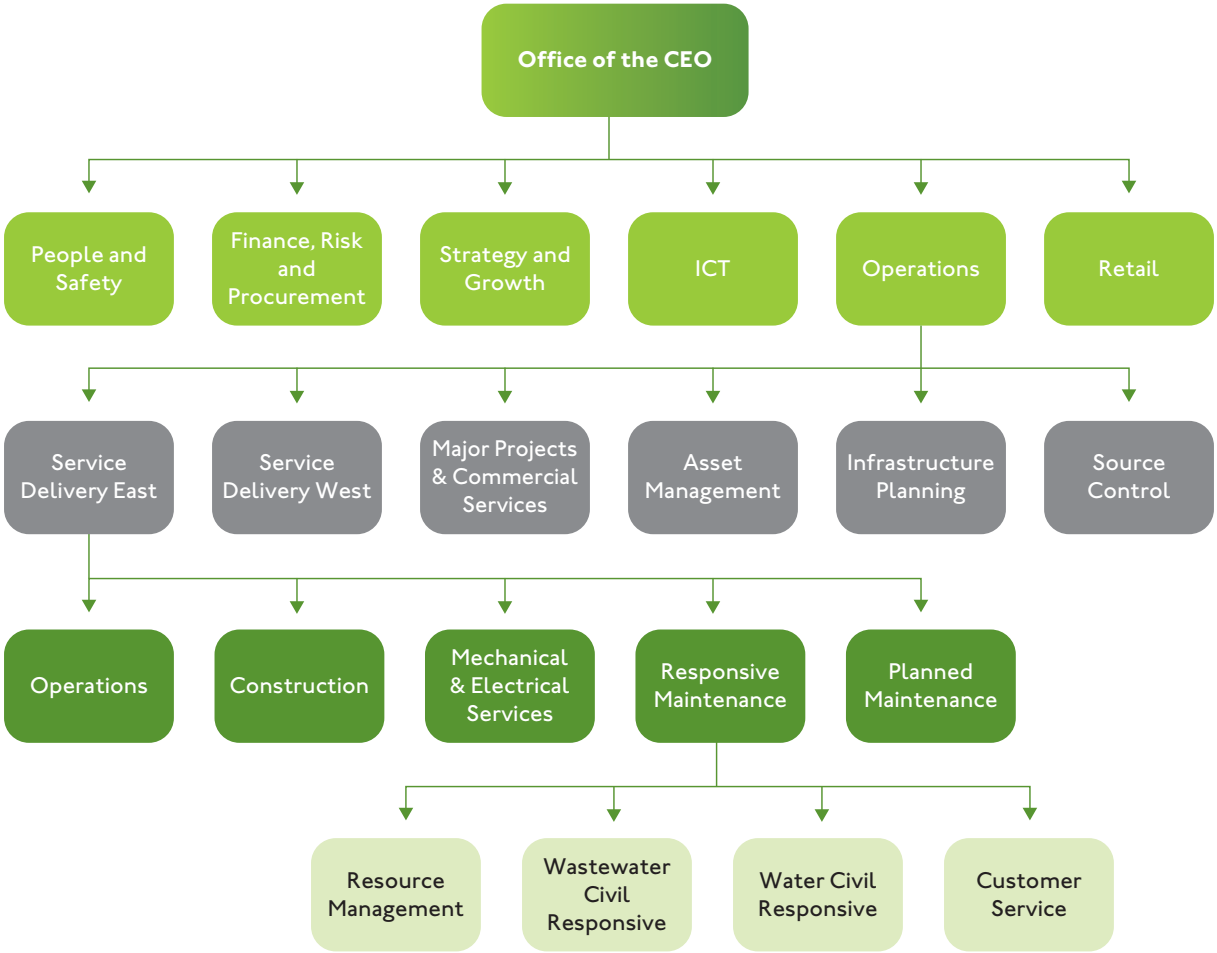


Figure 7-2 Responsibility Centre Heirarchy

Activity codes (QUU Product Codes)

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

Support cost allocations

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

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

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

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

7.1.4 Statement of accounting principles and policy

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

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

Both the *Financial and Performance Management Standard 2009* and the Queensland Urban Utilities participation agreement require that a Financial Management Practice Manual (FMPM) be prepared. The draft FMPM was presented to the Audit, Finance and Risk Committee on 6 December 2010 and approved by the Board on 17 January 2011. The FMPM is reviewed annually, or earlier when a trigger for review occurs. Any significant changes to the FMPM are submitted to the Board for approval.

A 'summary of significant accounting policies' disclosure note is included with the annual financial statements and reviewed annually. The draft for 2011/12 was presented to the Audit, Finance and Risk Committee and Queensland Audit Office (QAO) in February 2012, prior to inclusion in the audited financial statements in August 2012.

7.2 Efficient service delivery

7.2.1 Achievements to date

We share our owners' determination to deliver services to our customers with the greatest level of efficiency, and to help reduce pricing pressures that are within our control. Each year we diligently review and refine operational and capital budgets to deliver on this commitment.

The $50 million budget reduction we achieved in 2010/11 was followed by a $12.9 million budget reduction from business-as-usual in 2011/12.

Queensland Urban Utilities is committed to the delivery of services that are valued and trusted by our customers and the community, while limiting water price increases through the identification and extraction of ongoing efficiencies.

7.2.2 Budgeted operating efficiencies (2012/13)

Queensland Urban Utilities has delivered $62.9 million in budget reductions since our inception, and is targeting further efficiencies in 2012/13 and beyond. The 2012/13 budget identifies a total of $8.2 million (or 3.2% of non-bulk business -as-usual costs) in efficiency gains in business-as-usual costs.

To aid in the identification and development of opportunities for business improvement and efficiency Queensland Urban Utilities commissioned a review by an independent consultancy, Third Horizon, which included the development of a recommended organisational 'day two' business model.

The efficiency review was undertaken in two stages, with stage one focusing on a review of existing practices, identification of preliminary improvement opportunities and prioritisation of stage two works. Stage two of the review included a rigorous validation of prioritised opportunities, development of high level business cases, and implementation recommendations.

7 Prudent and efficient expenditure

Table 7-3 presents areas where the efficiency gains were found. These gains in the 2012/13 budget are compared against the efficiency review targets which identified areas of opportunity.

Table 7-3 Operating Efficiency Gains 2012/13

Efficiency	*2012/13[b]*	*Efficiency Review Target 2012/13*
Procurement initiative	$3,200,000	$3,200,000
Increased vacancy rate	$1,910,000	$500,000
Defined benefit superannuation de-risked portfolio	$1,140,000	
Afternoon shift – changed conditions and productivity gain	$876,000	$800,000
Electricity management	$400,000	$400,000
Call centre – net efficiencies of transfer in-house	$387,000	
Reduction in management roles	$302,000	
Biosolids – strategy under development		$1,800,000
Total	***$8,215,000***	***$6,700,000***

Note b = budget

New Initiatives in 2012/13

The budget development for 2012/13 identified a number of specific new initiatives in order for the business to deliver on Queensland Urban Utilities' corporate objectives.

New initiatives are projects that represent step changes in expenditure from the previous year and usually are expected to be operational for a limited number of years.
New initiatives form two functions; firstly, where investment is required prior to achieving efficiency gains (for example the Call Centre where extra costs are included in the 2011/12 forecast)and secondly, when Queensland Urban Utilities initial 2010/11 budget excluded projects later found to be necessary to maintain customer service levels or regulatory requirements. The new initiatives were split out from the business-as-usual and efficiencies budgets to allow true year-on-year comparisons of budget cost drivers.

The total cost to deliver these new initiatives in 2012/13 is $37.4 million. Table 7-4 presents both the major individual items over $500,000 for 2011/12 and 2012/13.

Table 7-4 Major New Initiatives

Initiative	*2011/12[b]*	*2012/13[b]*
ICT Separation Program[#]		$11.0 million
Planned Maintenance – incremental increase		$7.8 million
Call Centre[1] – labour		$2.2 million
Utility Model Development		$0.78 million
Payroll Services Project		$0.6 million
ICT Investment Program2[#]	$6.0 million	$4.3 million
Sewerage Overflow Management	$3.3 million	$1.8 million
QCA Pricing Proposal Submission	$3.0 million	$1.8 million
Accommodation Relocation Projects	$0.95 million	$0.59 million
Safety Policies and Management System	$0.84 million	$1.1 million
Improved Customer Communications	$0.75 million	$0.22 million
Sewer Condition Testing	$0.67 million	$0.67 million

Note 1: Offset by removal of Call Centre transitional service agreement
Note 2: Management of purchase of new systems
Note #: These projects are included as expensed items from the capital program
Note b = budget

7.2.3 ICT Separation Program

In July 2010, Queensland Urban Utilities formally separated from Brisbane City Council (BCC) and became a separate corporate entity. Queensland Urban Utilities engaged BCC under a Transitional Services Agreement (TSA) for the delivery and management of ICT services until 30 June 2013. BCC does not intend to provide ICT or related services to Queensland Urban Utilities past the end of the current agreement.

As part of a joint program of work, Queensland Urban Utilities and BCC will design and initiate technical separation of technology and systems from BCC's ICT environment. This has led to the formation of Queensland Urban Utilities' ICT Separation Program. The objective of the program is to deliver technically separate ICT systems from BCC, with no on-going reliance on BCC technical resources for the delivery of ICT services.

To enable a path for full separation, BCC and Queensland Urban Utilities have determined the separation will be comprised of several programs addressing applications, software, data and infrastructure, forming a program of work comprising several streams incorporating similar programs. Each stream will concentrate on the planning required to enable technical separation of infrastructure and all Queensland Urban Utilities enterprise and legacy applications. BCC and Queensland Urban Utilities are working together to finalise a joint schedule, assumptions, constraints, future state and to identify inter-organisational program and program dependencies that may affect the program's critical path. In addition to the joint Queensland Urban Utilities/BCC activities, a number of other business critical "Queensland Urban Utilities-only programs/projects" have commenced as part of the separation program of work.

Appropriate Program Management Plans and Risk Management Registers have been established to ensure that the program and its risk are managed appropriately and assist in delivering the program on time and on budget. In meeting the timeframes and budget, Queensland Urban Utilities will use a combination of internal and external resources including contractors. BCC will also provide resources to enable separation on an as-needed basis to the program during its lifecycle.

Table 7-5 outlines the total cost involved in the ICT Separation Program. As can be seen from this, the largest year of expenditure for the program is 2012/13 which comprises around 70% of the overall program expenditure.

Table 7-5 ICT Separation Program

	2011/12[f]	2012/13[b]	2013/14[f]
Capital Expenditure	$1,370,000	$13,677,000	$1,960,000
Operating Expenditure	$6,764,000	$9,961,000	$386,000
Total ICT Separation	$8,134,000	$23,638,000	$2,346,000

Notes b = budget; f = forecast

7.2.4 Cumulative efficiency targets

The QCA in the 2010/11 Price Monitoring Report set QUU efficiency targets for 2011/12 and 2012/13, of $9.49 million in 2011/12 and $14.15 million in 2012/13, representing 4% and 6% respectively off Queensland Urban Utilities forecasts for those financial years.

Queensland Urban Utilities set efficiency targets in the 2011/12 budget of $12.9 million. The 2012/13 budget includes efficiency gains of $8.2 million. Table 7-6 shows that Queensland Urban Utilities is on target to achieve the 2011/12 efficiencies overall. These efficiencies when combined with 2012/13 budgeted efficiencies, a total of $21.1 million is well over the QCA target of $14.15 million.

Table 7-6 Performance against 2011/12 budgeted efficiencies

Single item efficiency reductions greater than $500,000	*2011/12[b] Efficiencies*	*2011/12[b1]*	*2011/12[f]*	*2012/13[b]*
Accommodation and rent reductions	$1,159,000	$5,427,505	$4,091,180	$4,857,416
Overtime management improvements (operations)[2]	$526,000	$5,566,635	$6,018,635	$5,337,356
Reductions in chemical usage (including polyelectrolyte)	$607,000	$4,604,102	$3,184,367	$3,588,869
Reduction in external consultancies (operations)	$923,000	$1,612,000	$1,476,800	$1,820,000

Note 1: Includes efficiencies

Note 2: While overtime efficiencies have not been met, labour overall is forecast at $85,242,090 slightly lower than the budget of $85,877,234.

Note b: budget

Note f: forecast

7 Prudent and efficient expenditure

7.2.5 Capital expenditure

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

Queensland Urban Utilities continues to explore opportunities to achieve of efficiencies through streamlining and standardising asset management, capital planning and capital delivery functions across its service area.

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

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

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

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

7.2.6 Efficiency in Procurement

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

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

Policy direction and procedures for procurement, contracting and tendering are outlined in the Queensland Urban Utilities Procurement Manual (June 2012). This document covers the procurement of goods, services and works and establishes minimum requirements for the procurement of goods with various set thresholds to take into account project size, scale and complexity.

Third party transactions

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

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

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

Queensland Urban Utilities is bound by the State Procurement Policy and has a detailed Procurement Manual that outlines the policy framework and procedures for procurement, contracting and tendering. Queensland Urban Utilities has a forward procurement planning process that identifies and plans for future procurement activity.

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

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

Related party transactions

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

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

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

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

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

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

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

During 2011/12 Brisbane City Council (BCC) advised Queensland Urban Utilities that it would not continue to supply many services past 30 June 2013, in particular ICT services. The transitional service agreements were set up for a three year term. This has resulted in a major program of projects being created to manage the separation of hardware infrastructure and software licensing from BCC to Queensland Urban Utilities. The operating expenditure procurement team plays a major role in facilitating this separation program, managing eight significant procurements.

7.2.7 Identifying new efficiencies

In addition to the efficiency gains for 2012/13 outlined above, for the 2014/15 and 2015/16 budgets Queensland Urban Utilities has targeted controlling fixed costs at 2012/13 levels, allowing for cost escalation.

Third Horizon identified further opportunities for efficiencies in 2013/14 these are currently being investigated and business cases prepared. The data template contains $3.1 million in current targeted savings.

7.3 Infrastructure planning

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

7.3.1 Statutory requirement

The Water Netserv Plan, as described in ***Section 3.1.2***, will become a key statutory tool for streamlined asset operations, bringing together a number of asset and planning related activities.

Transitional asset management and planning tools, such as SAMPs and the DWQMP are discussed in ***Section 3.1.3***.

7.3.2 Industry trends

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

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

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7.3.3 Community considerations

As outlined in ***Part A*** and ***Section 4*** Queensland Urban Utilities places great importance on engaging with stakeholders who rely on our services and contribute to the way we do business. Queensland Urban Utilities continues to strengthen current relationships with the community, industry and government bodies to improve outcomes. Relationships with developers, suppliers, and the CCRG allow collaboration at a local level to work towards common goals.

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

Customer Service Standards

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

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

7.3.4 Regional Considerations

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

In the regional context, Queensland Urban Utilities ensures:

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

7.3.5 Population growth

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

Queensland Urban Utilities seeks to effectively service anticipated growth by:

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

Areas of major growth over the next five years include:

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

7.4 Operating and maintaining our assets

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

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

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

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

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

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

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

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

7.4.1 Operational maintenance

The operational maintenance program has two main priorities:

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

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

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

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

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

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

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

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

7.4.2 Capital renewal/rehabilitation

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

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

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

Performance

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

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

Obsolescence/condition base

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

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

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

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

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

7.5 Capital planning

7.5.1 Capital planning approach

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

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

Strategic planning

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

Master planning

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

Integrated water management planning

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

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

- Specific integrated water management plans – these are detailed studies that consider integrated water management options for specific areas. Integrated water management plans have been completed for:
  - Rochedale Urban Community
  - Lower Oxley Creek
  - Australia Trade Coast.
- Broad scale integrated water management planning – this involves incorporating integrated water management options into network master plans on a broad scale to assess impacts on infrastructure requirements.

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

Local Government Priority Infrastructure Plans

Priority Infrastructure Plans (PIPs) are key tools for integrating land use and infrastructure planning which:

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

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

The SP Act requires that PIPs incorporate plans for Trunk Infrastructure, which outline the necessary sequence of trunk network augmentation required to maintain the nominated service standard as new development occurs.

Individual PIPs, which include the water supply and sewerage networks are being developed by Participating Councils using water supply and sewerage network planning information provided by Queensland Urban Utilities. Brisbane City Council and Ipswich City Council have adopted their PIP.

Prior to 1 July 2011, a PIP allowed councils to levy infrastructure charges as part of the development assessment process. This ensures that developers contribute their fair share of cost to support community infrastructure. The SP Act 2009 was amended to enable the introduction of a new standard infrastructure charges regime to replace the PIP Infrastructure Charges Schedules from 1 July 2011. Queensland Urban Utilities and the Participating Councils of Brisbane, Scenic Rim, Lockyer Valley, and Somerset have agreed on the proportion of the infrastructure charges for water and sewerage networks.

Developer constructed assets

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

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

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

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

7.5.2 Making the investment decision

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

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

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

Feasibility, business case and preliminary design

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

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

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

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

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

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

Table 7-7 Project Development and Cost Accuracy

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

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

Annual Prioritisation

To ensure that limited annual capital funds are directed to the highest priority works, a capital prioritisation model is used. A copy of the capital prioritisation model is included as ***Annex E***. The current process uses interviews with the project documentation authors and typically occurs in the third quarter of the preceding year.

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

The proposed 2012/13 capital program was prioritised, and this resulted in the limited capital funding being directed to the projects that will provide the most benefit for our customers.

7.5.3 Independent review

To ensure that proposed major projects were subject to a suitable amount of planning rigour, independent reviews of these projects are undertaken by a third party. The review evaluates projects on a range of criteria, including design standards, growth projections, project justification, project deliverability, and cost. As stated in ***Section 7.1*** no external review of major capital projects was conducted this year due to most 2012/13 major projects having commenced in earlier periods.

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

Gateway review program

Queensland Urban Utilities uses the Gateway Review Program, shown in Figure 7-3, to provide independent support to projects by having peers examine them at critical moments in their lifecycle.

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

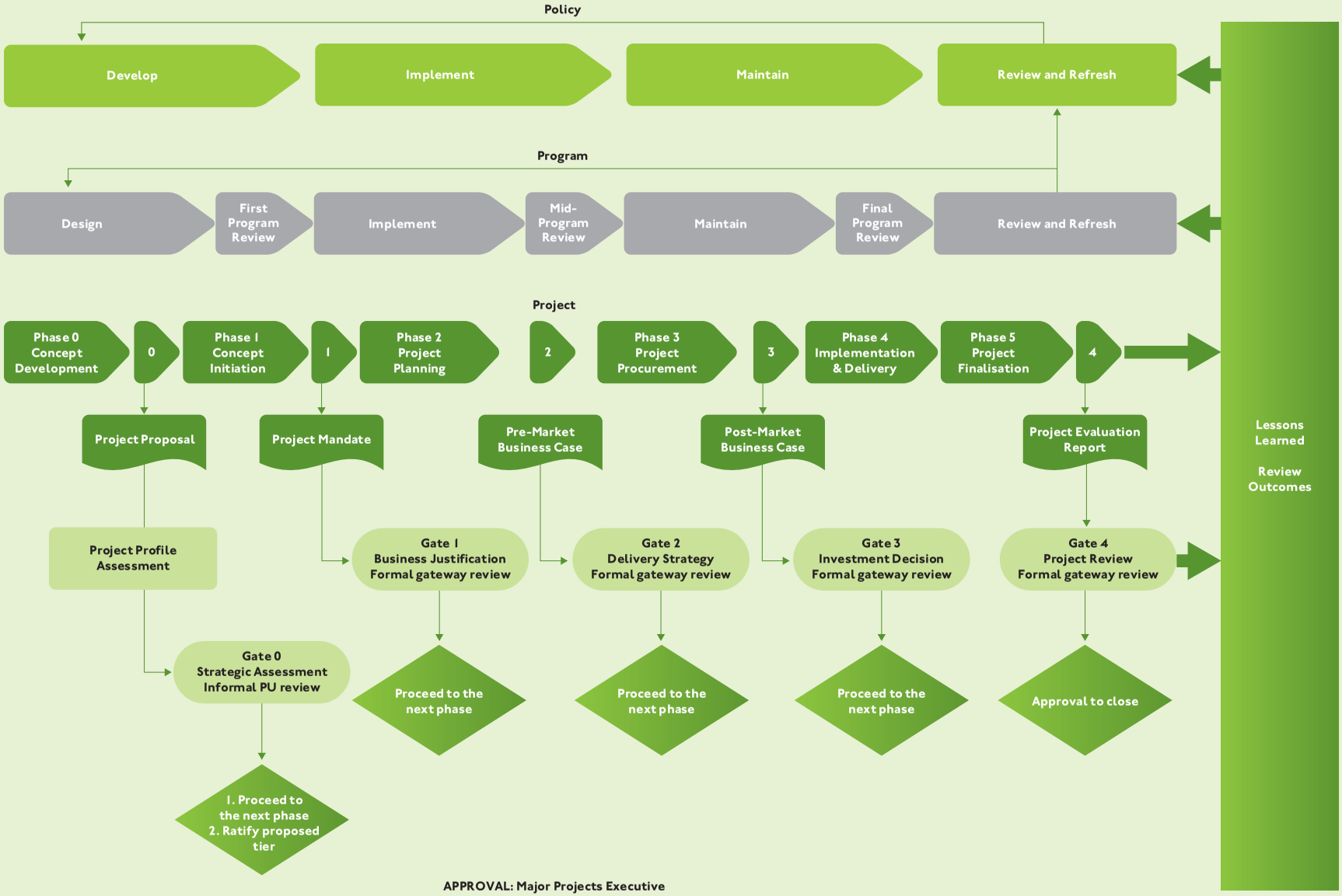

Figure 7-3 Gateway Review Process

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

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

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

7.5.4 Capital Investment by Driver

Growth (New Demand)

Capital expenditure under the growth driver is derived from the capital planning and investment decision processes outlined in ***Sections 7.5.1 and 7.5.2*** above. Before taking the decision to invest in new infrastructure, existing capacities are assessed to confirm whether or not shortfalls exist to the extent that design and service standards may be compromised. This process is used to confirm investment is necessary to ensure service standards are maintained as populations grow within a sewerage network catchment or water supply zone. Major growth projects for 2012/13 are shown in Table 7-8. The majority of these works relate to sewage transportation and treatment assets.

Renewals

As detailed in ***Section 7.4.2***, 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 sign 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. Queensland Urban Utilities' Major Projects and Commercial Services branch delivers these works.

Table 7-8 Key Projects 2012/13 – Growth

Project (by region)	*Proposed Investment*	*Total Project Cost*
Brisbane City		
Woolloongabba Sewer Catchment Augmentation	$16.2 million	$85.9 million
Bulimba Creek Trunk Sewer Upgrade - Padstow Road to Coora St	$15.8 million	$51.7 million
Water Distribution Minor Enhance Program	$3.3 million	Rolling
Gibson Island WRP - Sludge Dewatering Enhancement	$3.0 million	$4.8 million
Capital Planning and Design Program	$3.0 million	Rolling
Wastewater Transport Minor Enhance Program	$2.6 million	Rolling
Toowong Sewers Upgrade	$1.9 million	$5.2 million
Ipswich City		
Goodna WRP Upgrade Stage 4A - Regional Sewerage Scheme for Goodna and Wacol Catchments Phase 1	$14.0 million	$114.8 million
Woogaroo Creek (Goodna) Trunk Sewer Augmentation	$10.2 million	$65.7 million
Bundamba Creek Trunk Gravity Main Implementation - Stage 1a and 1b	$10.0 million	$15.3 million
Bundamba WRP Upgrade - Stage 5a	$3.7 million	$120.7 million
Rosewood WRP Upgrade - Stage 2a	$3.7 million	$8.8 million
Woogaroo Creek Trunk Sewer Railway Corridor Crossing	$2.5 million	$2.8 million
Wastewater Transport Minor Enhance Program	$2.0 million	Rolling
Water Distribution Minor Enhance Program	$2.0 million	Rolling
Capital Planning and Design Program	$2.0 million	Rolling
Lockyer Valley		
Lockyer Valley Regional Wastewater Transfer Scheme	$2.6 million	$63.1 million
Western Drive, Gatton Pump Station (SP411) & Rising Main Upgrade	$1.5 million	$3.8 million
Scenic Rim		
Water Distribution Minor Enhance Program	$0.8 million	Rolling
Somerset		
Fernvale WRP Implementation	$7.8 million	$63.4 million

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The capital works program for 2012/13 includes the major renewals projects / programs shown in Table 7-9.

Table 7-9 Key Projects 2012/13 – Renewals

Project (by region)	*Proposed Investment*	*Total Project Cost*[1]
All Regions		
Fleet Replacement Program	$6.2 million	Rolling
Brisbane City		
Sewer Trunk System Renewals Program	$16.5 million	Rolling
Water Reticulation System Renewals Program	$12.0 million	Rolling
Wastewater Treatment Flood Recovery	$7.3 million	Rolling
Sewer Rising Mains Renewals Program	$7.2 million	Rolling
Water Meters Renewals Program	$5.8 million	Rolling
Water Reservoirs Renewals Program	$5.8 million	Rolling
Sewer Reticulation System Renewals Program	$4.4 million	Rolling
Water Reclamation Plant Renewals Program	$4.4 million	Rolling
Sewer Pump Stations Renewals Program	$4.1 million	Rolling
Water Fire Hydrants Renewals Program	$4.0 million	Rolling
Water Trunk System Renewals Program	$3.7 million	Rolling
Sewer Creek and Waterway Crossings Renewals Program	$3.5 million	Rolling
Luggage Point WRP - Cogeneration Plant Replacement	$3.0 million	$4.6 million
S1 Main Sewer Rehabilitation, Eagle Farm PS to James St - Stage 1	$2.9 million	$26.7 million
Wacol WRP Inlet Screens Replacement	$1.6 million	$2.9 million
Ipswich City		
Water Reticulation System Renewals Program	$3.9 million	Rolling
Lockyer Valley		
Sewer Pump Stations Renewals Program	$0.3 million	Rolling
Scenic Rim		
Water Reticulation System Renewals Program	$2.3 million	Rolling
Somerset		
Water Reticulation System Renewals Program	$0.7 million	Rolling

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

Compliance

The capital works program for 2012/13 includes the major compliance projects/programs shown in Table 7-10.

Table 7-10 Key Projects 2012/13 – Compliance

Project (by region)	*Proposed Investment*	*Total Project Cost*[1]
Brisbane City		
Sewage Pump Station Reliability Improvement Program	$4.2 million	Rolling
Odour Compliance Program	$3.3 million	Rolling
Ipswich City		
Nil		
Lockyer Valley		
Lagoons Enhancements	$2.7 million	$3.2 million
Scenic Rim		
Lagoons Enhancements	$2.1 million	$2.6 million
Somerset		
Nil		

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

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

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

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

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

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

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Improvements

The capital works program for 2012/13 includes the major improvements projects / programs as shown in Table 7-11.

Table 7-11 Key Projects 2012/13 – Improvements

Project (By Region)	*Proposed Investment*	*Total Project Cost*[1]
All Regions		
ICT Separation Program	$23.6 million	$34.1 million
ICT Transformation Program	$5.9 million	Rolling
ICT Minor Investment Program	$1.5 million	Rolling
Brisbane City		
Oxley Creek WRP - Primary Digesters Environmental Improvements	$3.5 million	$6.4 million
Water Reclamation Plant Minor Enhance Program	$3.5 million	Rolling
Water Supply System Service Capacity Improvement Program	$3.1 million	Rolling
Sewer Overflow Management Works	$2.0 million	Rolling
Ipswich City		
Lower Cross St Connection and Surge Protection	$2.1 million	$2.1 million
Lockyer Valley		
Water Supply Contingency Improvement	$3.1 million	$3.1 million
Scenic Rim		
Control Systems Enhance Program	$0.8 million	Rolling
Somerset		
Control Systems Enhance Program	$0.8 million	Rolling

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

7.6 Capital delivery

7.6.1 Project delivery processes

Queensland Urban Utilities maintains a 5 year Capital Delivery program to manage the delivery of assets in the 5 service areas. Funding for the capital delivery program is based on approved forward estimates and is made available in the current financial year. The project then commences the project planning phase where the outcome is an approved Project Management Plan.

The Capital Delivery procurement is conducted as per the Queensland Urban Utilities Procurement Manual. Projects that are over $5 million will undergo 3 Gateway Reviews. The outcome from these Gateway Reviews is required for approval from the Queensland Urban Utilities' Board. In addition, these projects require a probity advisor as part of the market engagement and selection process. Project risks are managed through contingency which forms part of the project budget. The project risk assessment commences at the strategic planning stage and is carried through to the project planning and delivery phases. Contract contingencies are used to manage contracts and are reported on a monthly basis.

Upon awarding the contract, a superintendent representative will commence managing the contract with the contractor. In addition, the project manager will be supported by a communications consultant and an environmental officer and will have access to a Queensland Urban Utilities safety officer.

Upon project practical completion, operation staff will have the required training, pre defined spare parts and 'As Constructed' drawings as part of the handover package. The asset is then capitalised and depreciation can commence.

A formal project review is conducted and a process is undertaken to capture the lessons learned from the project. It is at this stage that the asset is then formally handed over to the operations unit of Queensland Urban Utilities. Built into the contract is a defect liability period for the asset which is concluded at final completion whereby the project is completed.

To realise further efficiencies, the Capital Delivery program has also implemented a common online document template repository. This has resulted in

- A single electronic source for document templates
- Documents with version control
- Documents periodically reviewed for currency by their respective owners
- User friendly access to 80% of the documents via 3 mouse clicks and 4 clicks for the remaining documents
- Users being fully compliant in using the proper document templates and document approvers ensuring compliance
- Users understanding the overall asset creation process via visual means

In addition, document templates are pre-formatted consistent with Queensland Urban Utilities' formatting standards so as to ensure that users focus their effort on content rather than formatting. This has resulted in a consistent document look and feel and reduced the need for rework.

8 Revenue requirement

8.1 Relevant Expenditure/Revenue Assumptions

8.1.1 Level of disaggregation

The 2012/13 interim price monitoring requirements consider services under the overarching activities of water and sewerage.

Table 8-1 allocates Queensland Urban Utilities' services to the relevant activity and details the level of disaggregation of information that is available. For example, revenue information is available at the service level for trade waste.

Table 8-1 Current Separability of Data by Service Categories

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

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

8.1.2 Allocation principles

Operating costs are allocated to activities and regions within the financial accounting system, and these are used within this submission. ***Section 7.1.3*** provides the background on the financial cost allocation principles.

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

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

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

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

8 Revenue requirement

8.1.3 Treatment of capital revenues

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

These contributions can be excluded through one of two methods:

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

Consistent with the approach taken in 2011/12, Queensland Urban Utilities has applied the Revenue Offset approach for the 2012/13 Information Return.

8.1.4 Treatment of Flood Related Expenditure

The current estimated cost of recovery and repairs along with changes from previous forecasts of the January 2011 flood are summarised in Table 8-2. As reported in the 2011/12 Price Monitoring submission Queensland Urban Utilities are collating and submitting claims through insurance. Further financial assistance has been sought from Natural Disaster Relief and Recovery Arrangements (NDRRA) for expenses that will not be covered by the existing insurance policies.

The operating and asset disposal costs in Table 8-2 are shown as non-recurrent expenses and revenue within the QCA data template. The forecast operating expenditure in 2011/12 mainly relates to;

- asset damage at Oxley Creek STP that has resulted in higher sludge handling costs and reduced co-generation of electricity; and
- replacement of small assets that fall below the capitalisation threshold.

The budgeted amount in 2012/13 will complete reinstatement of a section of the Oxley STP that is needed to ensure full licence compliance with population growth and replacement of the cogenerating plant at the Oxley STP. Note the full flow at Oxley STP is currently being processed and treated.

The requirement to replace flood affected assets has continued to be reviewed in light of other capital projects occurring over the next few years that replace these assets. Where projects were already planned they have been brought forward and delivered as part of the flood recovery program. The capital replacement costs that have resulted from the floods are assigned to the renewals category in the QCA data template.

Queensland Urban Utilities is continuing to collate operating expenses and replace assets as a consequence of the flood and has maintained comprehensive records of the flood costs explicitly excluding 'business-as-usual' costs.

An initial insurance claim was submitted in May 2011 and a partial progress payment of $10 million was received at the end of June 2011. Various other amounts were recovered from other entities amounting to $0.6 million. Recently another claim was submitted however Queensland Urban Utilities does not currently have a clear understanding of the likely level of further payment. A conservative amount of $5.5 million has been budgeted in 2012/13.

Table 8-2 Forecast Flood-Related Expenditure

Description	Expenditure ($'000s)				
	2010/11[f]	2010/11[a]	2011/12[b]	2011/12[f]	2012/13[b]
Operating	$12,944	10,774		3,771	
Capital[1]	$29,972	24,173	$15,585	26,434	7,303
Disposals	$20,717	25,286			

Note 1: As 'incurred'

As stated in the 2011/12 Price Monitoring submission, Queensland Urban Utilities will delay deciding whether to seek the recovery of any flood costs in subsequent QCA submissions until it is known whether there is a material difference between these costs and revenue received through insurance and / or NDRRA funding is known.

8.2 Regulatory asset base

The value of Queensland Urban Utilities asset base, as advised by the then Minister for Natural Resources, Energy and the Minister for Trade for the RAB as at 1 July 2008 has been assigned as required on a regional basis. This value was then rolled forward by applying the principles outlined in the Minister's Direction Notice to the QCA to set the 1 July 2010 Queensland Urban Utilities' opening RAB.

The Minister advised the QCA of the approved establishment costs for Queensland Urban Utilities of $39.11 million. These costs have been added to the 1 July 2010 opening RAB.

The RAB roll forward is presented in Table 8-3 and Table 8-4. The following sections describe the calculation and development of the key factors affecting the RAB roll forward, including, indexation (***Section 8.2.1***), capital expenditure (***Section 8.2.2***), and return of capital (***Section 8.2.3***).

Table 8-3 Water Regulatory Asset Base Roll Forward ($,000s)

	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***	***$1,806,380***	***$1,856,892***	***$1,951,638***	***$2,031,786***
Net Additions 1	$90,918	$61,156	$59,192	$79,000	$104,206	$92,074	$89,913
Indexation	$32,118	$53,512	$63,486	$24,366	$47,343	$49,542	$51,503
Depreciation	-$41,692	-$42,933	-$50,116	-$52,853	-$56,803	-$61,469	-$66,340
Establishment Costs	$0	$20,412	$0	$0	$0	$0	$0
Closing RAB	***$1,641,670***	***$1,733,817***	***$1,806,380***	***$1,856,892***	***$1,951,638***	***$2,031,786***	***$2,106,862***

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

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

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Opening RAB	***$2,384,723***	***$2,408,830***	***$2,529,558***	***$2,584,831***	***$2,642,386***	***$2,838,091***	***$3,202,664***
Net Additions 1	$71,476	$122,691	$72,995	$137,224	$250,034	$424,307	$361,436
Indexation	$48,485	$79,077	$92,490	$35,025	$68,632	$75,646	$83,908
Depreciation	-$95,855	-$99,744	-$110,212	-$114,694	-$122,962	-$135,380	-$149,804
Establishment Costs	$0	$18,704	$0	$0	$0	$0	$0
Closing RAB	***$2,408,830***	***$2,529,558***	***$2,584,831***	***$2,642,386***	***$2,838,091***	***$3,202,664***	***$3,498,204***

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

8 Revenue requirement

8.2.1 Indexation

The indexation used to roll forward the RAB is outlined in Table 8-5, and follows the SEQ Interim Price Monitoring Information Requirements for 2012/13 in relation to 2008/09 to 2009/10 and the forecast years.

Table 8-5 Indexation applied to roll-forward the RAB

Year	Index	Source
2008/09	2.0%	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	2.48%	Forecast of CPI based on the difference between the RBA return on the market rate for five year bonds and five year capital indexed bonds
2013/14	2.48%	Forecast of CPI based on the difference between the RBA return on the market rate for five year bonds and five year capital indexed bonds
2014/15	2.48%	Forecast of CPI based on the difference between the RBA return on the market rate for five year bonds and five year capital indexed bonds

8.2.2 Capital expenditure

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

Capital expenditure 'as-incurred' (excluding donated assets)

Table 8-6 presents the actual, budgeted and forecast capital expenditure 'as-incurred' for the period 2010/11 through 2014/15.

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

	Capital Expenditure ($'000s)							
Region	2010/11[f]	2010/11[a]	2011/12[b]	2011/12[f]	2012/13[f]	2012/13[b]	2013/14[f]	2014/15[f]
Brisbane City[1]	$137,434	$123,932	$145,658	$128,406	$180,896	$254,982	$273,758	$137,434
Ipswich City	$88,060	$83,184	$158,379	$133,949	$73,844	$36,451	$35,368	$88,060
Lockyer Valley	$2,851	$1,377	$5,198	$3,171	$13,814	$28,505	$40,510	$2,851
Scenic Rim	$9,038	$5,970	$10,951	$9,783	$9,776	$20,025	$6,890	$9,038
Somerset	$3,342	$1,731	$4,636	$3,905	$13,194	$43,814	$27,978	$3,342
Total	**$240,725**	**$216,195**	**$324,823**	**$279,214**	**$291,524**	**$383,777**	**$384,505**	**$240,725**

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

In 2010/11, Queensland Urban Utilities purchased leased fleet from both Brisbane and Ipswich City Councils. These costs have been included in 2010/11 in accordance with the direction in the QCA's SEQ Interim Price Monitoring for 2011/12 Final Report.

Capital expenditure 'as-commissioned' (excluding donated assets)

Queensland Urban Utilities has included capital expenditure on an 'as-commissioned' basis in rolling forward the RAB and calculating the MAR for pricing purposes. This approach is consistent with the guidance contained within the QCA's 2012/13 information requirements.

Capital expenditure that is not commissioned in the year of expenditure has, in the year of expenditure, six months of interest capitalised (at the regulatory WACC). For each subsequent year, prior to project commissioning, a full year of interest is capitalised on the previous expenditure. In the year the project is commissioned, and the project 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 8-7.

Table 8-7 Capital Expenditure 'as-commissioned' - excluding donated assets

Region	Capital Expenditure ($'000s)							
	2010/11[f]	2010/11[a]	2011/12[b]	2011/12[f]	2012/13[f]	2012/13[b]	2013/14[f]	2014/15[f]
Growth	$13,014	$4,681	$48,723	$32,388	$103,381	$274,754	$202,153	$13,014
Renewals	$90,363	$83,741	$108,376	$104,587	$142,628	$142,672	$146,034	$90,363
Compliance	$11,846	$4,568	$7,903	$12,283	$12,776	$4,764	$4,395	$11,846
Improvements	$16,209	$9,256	$22,230	$14,102	$39,851	$33,800	$35,574	$16,209
Total	**$131,432**	**$102,247**	**$187,231**	**$163,359**	**$298,636**	**$455,989**	**$388,157**	**$131,432**

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

The noticeable increase in the value of commissioned projects in 2012/13 (compared with 2010/11 and 2011/12) results from the scheduled commissioning of a number of large capital value, multi-year projects (in particular sewage treatment projects).

The reasons for the other key changes between the capital expenditure 'as-commissioned' program between the 2010/11 actuals and 2011/12 are provided as part of the supporting documents

Indexation of capital expenditure

The capital program was indexed to nominal dollars by applying a specific capital index. The Construction Forecasting Council produces a publically available index for engineering construction in Australia. The indices applied are shown in Table 8-8. The September 2011 update was used as the most recently available at the time of setting the budget. For the two forecast years the later update of April 2012 was used.

Table 8-8 Engineering Construction Price Index for Australia

	2011/12[1]	2012/13[2]	2013/14[2]
Engineering Construction Index	0.96%	2.75%	2.49%

Source:

1: Construction Forecasting Council, September 2011

2: Construction Forecasting Council, April 2012

8 Revenue requirement

8.2.3 *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 2010/11 Price Monitoring submission. Actual disposals due to the January 2011 flood have been included in 2010/11 at the financial asset register WDV (which is based on RAB). The flood is discussed further under ***Section 8.1.4***.

No other disposals have been forecast as per Queensland Urban Utilities' discussions with the QCA that unless disposals are considered to be of material value they may be left to depreciate to the end of their nominal life within the RAB.

8.3 Operating expenditure

8.3.1 *Indexation*

Growth indexation

Growth in the 2012/13 budget expenses for:

- electricity, chemicals and electricity are based on bottom up models;
- labour is based on growth in FTE's for new initiatives, key changes are:
  - a permanent increase in staff for the new call centre which is transferring from a transitional service agreement to an in-house service; and
  - a temporary increase in staff for the ICT separation program;
- bulk water is based on property and volume growth plus non-revenue water at the same percentages as in Table 8-9 below.

Table 8-9 presents the growth factors used to develop the 2013/14 and 2014/15 forecasts for operating expenditure.

Table 8-9 Annual Forecast Growth Factors

	Region				
Expense Group 1	***Brisbane City***	***Ipswich City***	***Lockyer Valley***	***Scenic Rim***	***Somerset***
Bulk water	As per revenue forecasts + non-revenue water allowance				
Non-revenue water allowance	12.5%	6.0%	15%	15%	15%
Electricity, Chemicals and Sludge Handling	Dwelling growth[1]				
Labour[2]	zero	zero	zero	zero	zero
Other costs[2]	zero	zero	zero	zero	zero

Note 1 Dwelling growth factors are presented in Table 6-2.

Note 2 The growth applied to other costs allows for some operational growth to be absorbed within existing resources.

Cost indexation

The following outlines the basis for the cost indices used by Queensland Urban Utilities.

Labour

The enterprise bargaining agreement was used for the budget year. The forecasts were based on inflation plus 1.5% to allow for historical increases in labour and the commitment to no growth in FTEs.

Electricity

Queensland Urban Utilities purchases electricity under two contracts one for large contestable sites the other for small contestable sites. Large contestable sites generally are sites that use electricity above 100 MWh per annum.

The Eastern Region electricity budget for large contestable sites was based on the contract decrease of approximately 11.9%. This decrease does not include increases due to the carbon price, the revised contract prices are currently being negotiated between Queensland Urban Utilities and its electricity service provider.

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 2012/13 of 26.8%, however under the current small contestable contract a discount of 19% is applied, resulting in a net increase of 7.8%. The contracts in relation to the small contestable electricity are also currently being negotiated with the electricity service provider.

A composite electricity index for 2012/13 was calculated using a weighted average based on usage. The large contestable electricity comprises 82.8% of the total electricity use, with the small contestable comprising the remaining 17.2%. Therefore the weighted average electricity price movement for Queensland Urban Utilities in 2012/13 is a decrease of 8.51%.

As outlined above, the impact of the carbon price on the electricity prices faced by Queensland Urban Utilities in 2012/13 is yet to be determined, as such, Queensland Urban Utilities has provided an allowance in its forecast of electricity costs to account for this. This provision is about 10% of the overall cost of electricity and represents an increase similar to that expected by Commonwealth Treasury. This provision is not incorporated in the price decrease outlined above.

For 2013/14 and 2014/15 the forecast electricity index was taken from the WSAA report.

Chemicals, sludge and other costs

An estimate of inflation was used.

Bulk water

The real price path as published by the State government indexed by inflation.

Table 8-10 presents the cost indices applied to the 2012/13 budget and subsequent year forecasts.

Table 8-10 Assumed Annual Cost Indexation Factors

	Cost index		
Expense group	**2012/13**	**2013/14**	**2014/15**
Labour	4.25%	3.7%	3.8%
Electricity	(8.5%)1	4.85%	10.32%
Chemicals	2.5%	2.5%	2.5%
Sludge handling	2.5%	2.5%	2.5%
Other costs	2.5%	2.5%	2.5%
Bulk water	As per bulk water price path (*Section 8.3.2*)		

Note 1: excludes carbon price

8 Revenue requirement

8.3.2 Bulk water

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

The bulk water price path established by the QWC in 2008 and revised in 2010 is presented in Figure 8-1.

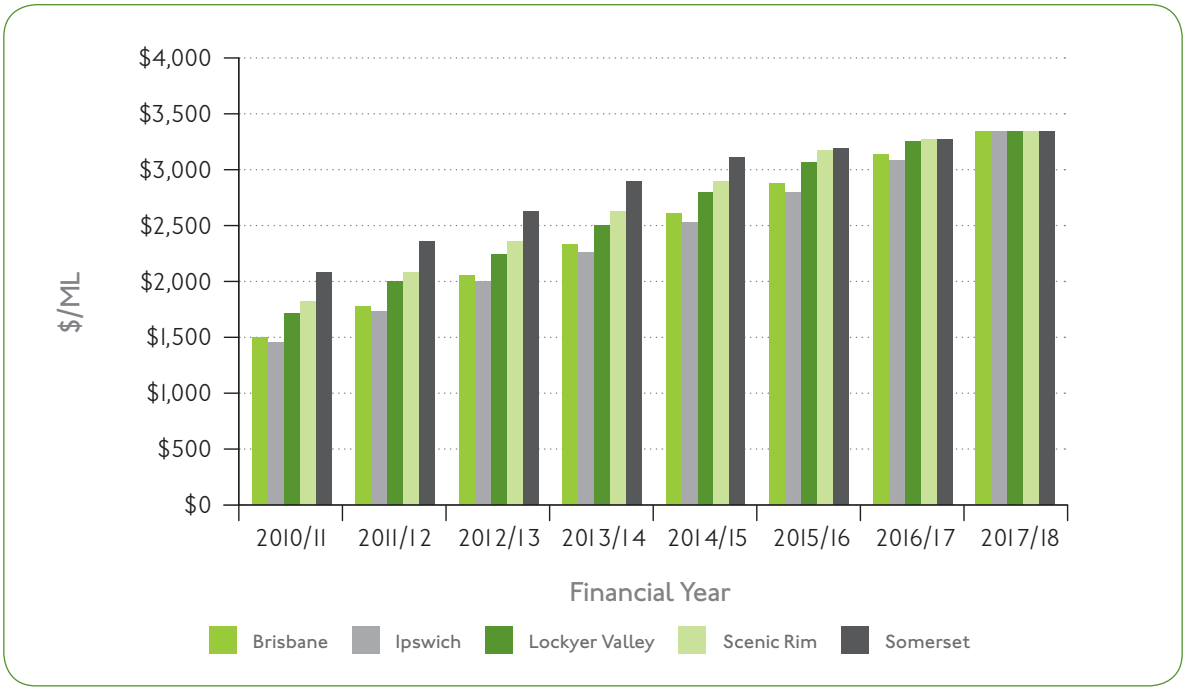

Figure 8-1 Bulk Water Price Path ($/ML)

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

8.3.3 Operating costs

Queensland Urban Utilities has already implemented changes that have led to savings and continues to seek out future opportunities to deliver operating cost efficiencies. These savings are outlined in ***Section 7.2*** and are reflected in the following discussion and the data template.

Queensland Urban Utilities' operating costs are shown in Table 8-11. Significant changes in regulated operating costs between the values submitted in 2011/12 and the latest 2011/12 forecast include:

- a reduction of $7.8 million in employee costs;
- an increase of $6.4 million in bulk water costs due to higher water usage and an increase in non-revenue water;
- reductions in electricity, chemical and sludge costs totalling $4.1 million; and
- an increase in the expensed portion of the capital program from $16.6 million in the budget to the forecast of $21.8 million (an additional $5.2 million).

Table 8-1 Operating Costs

Cost Category	Operating Costs ($'000)						
	2010/11[f]	2010/11[a]	2011/12[b]	2011/12[f]	2012/13[f]	2012/13[b]	2013/14[f]
Queensland Urban Utilities Costs							
Recurrent Costs	$213,122	$199,850	$237,079	$236,508	$265,361	$265,730	$284,390
Non Recurrent Costs[1]	$12,944	$10,774	$0	$3,981	$0	$0	$0
State Government Costs							
Bulk water	$182,791	$183,027	$219,049	$225,449	$269,822	$314,605	$361,872
Total Regulated Costs	$395,913	$382,877	$456,128	$461,957	$535,183	$580,335	$646,262
Non-regulated Costs	$11,968	$11,866	$1,613	$1,108	$1,107	$1,149	$1,189
Total Costs	***$420,825***	***$405,517***	***$457,741***	***$467,045***	***$536,290***	***$581,483***	***$647,451***

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

Note 1: The majority of the non-recurrent costs for 2010/11 and 2011/12 relate to January 2011 flood

The overall movement in regulated costs, excluding the non recurrent flood costs, is an increase of $5.8 million moving from the budget of $456.1 million to the forecast of $462.0 million. A major part of this increase relates to increased water usage.

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

Table 8-12 shows the operating cost movements from the 2011/12 forecast to the 2012/13 budget for distribution and retail activities only.

Table 8-12 Distributor-retailer Operating Cost Movements 2011/12 to 2012/13

	$'000
2011/12 Forecast	$241,596
Flood	-$3,981
Base forecast	$237,615
BAU[1] Increase	$18,726
Efficiencies	-$7,828
2012/13 Base budget	$248,513
Net New initiatives2	$17,955
2012/13 Budget	$266,468

Note 1 Indexation, for example enterprise bargaining agreement (EBA) on labour

Note 2 Incorporates $387,000 efficiency savings for Call Centre

Source: Budget document (May 2012)

Corporate costs

Queensland Urban Utilities has separated operating costs into the categories required under the QCA Information Requirements for 2012/13 where they represent a consistent approach. However, as 'Corporate Costs' is not a mutually exclusive cost category, that is it contains labour and materials and services, this has not been included in the data template.

As in the 2011/12 Price Monitoring submission corporate costs have been collated separately. In total these costs closely align with the QCA definition of Corporate Costs with the following exceptions:

- it excludes environmental management costs (as these are held within an operations responsibility code); and
- it includes accounts receivable for sundry charges (as these are held within a finance responsibility code).

The 2011/12 Corporate Costs were reported in the 2011/12 Price Monitoring submission as $52.0 million. This was under reported by approximately $6 million of expense from the ICT program. The revised 2011/12 budget for comparison purposes is $58.2 million. The Corporate Costs for 2012/13 are budgeted at $68.4 million. Of the $10.2 million increase, $9.4 million is due to the variance year on year in new initiatives, the significant increase in Corporate Cost initiatives is $11.0 million for the ICT separation program.

8 Revenue requirement

8.4 Return on capital

Queensland Urban Utilities has chosen this year to calculate the return on capital component of the MAR at the benchmark WACC advised by the QCA in March 2011. A summary of the parameters relevant to the benchmark WACC, and the values stipulated for use by the QCA, are presented in Table 8-13 below.

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

Table 8-13 Regulatory WACC Parameters

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

8.5 Capital revenues

8.5.1 Donated assets

The donations were budgeted and forecast off historic data contained in an estimated base year, adjusted for cost inflation and expected growth. Downward adjustments were applied to the 2012/13 budget from that calculated off the base year. This was done due to the sharp drops reported for Queensland dwelling approvals and commencements as published by the Australian Bureau of Statistic. Brisbane City donations were reduced by 7.5%, with all remaining districts reduced by 15%.

Growth in 2013/14 and 2014/15 forecast donations are based on adjusted dwelling growth as discussed in ***Section 6.2***. In 2013/14 a further increase of 2.5% was included to commence the return to previous historical levels prior to the downturn.

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.

No adjustment has been made in the forecast to the 2011/12 budget for donated assets.

Actual, budget and forecast donations are presented in Table 8-14.

8.5.2 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 current direction from the State government Queensland Urban Utilities is due to change to a utility based model for development assessment from 1 July 2013. The charging regime associated with this change has not yet been determined. However, the MAC is to continue as the charge for the other non water and sewerage networks until 30 June 2014. In forecasting developer cash contributions for approvals post 1 July 2014 Queensland Urban Utilities has used a third set of charges based on the draft priority infrastructure charges (PIP). These charges were developed in preparation for their introduction on 1 July 2011 prior to the State government introducing the MAC.

Both the PSP and PIP charges vary depending on where the development is to occur, as they are calculated charges based on the infrastructure required to service the charge area. The MAC varies only across the Participating Council areas depending on the allocation of the total MAC between the different networks (water, sewerage, community infrastructure, storm water and roads). Allocations were set between Queensland Urban Utilities and our Participating Councils.

A common forecasting approach across the Queensland Urban Utilities service area has been developed. The Developer Cash Contributions Model is based on the following:

- Initial development demands are taken from the forecasts used in the draft PIPs. These demands are separated into the various PIP charge areas:
  - Where PSP and PIP charge areas differ adjustments are made to match the PSP charge areas;
  - Estimating MAC charge groups by splitting total council PIP demand into:
    - two residential demand categories of 1 and 2 bedrooms; and 3 plus bedrooms; and
    - non-residential demand categories;
- For each of the three charge sets annual charges are calculated using annual forecast demand by the appropriate charge;
- The portion each charge set contributes to the annual revenue is estimated based on:
  - a four year potential payment period following approval to develop; and
  - the estimated portion paid in each of these four years;
- As the PIP demand is linked to the OESR medium 2008 population growth series the revenue is adjusted using the OESR low 2011 population growth series as discussed in ***Section 6.2.2***.
- The revenue forecasts are then reviewed against previous years' revenue and sharp drops in Queensland dwelling approvals and commencements as published by the Australian Bureau of Statistics. As a result a further downward adjustment was made to the revenue.

The actual developer cash contributions for Brisbane City in 2010/11 was higher than forecast in the August 2011 submission but lower than the budget. As the year progresses limited contributions are received leading to reductions in the forecast. However, historical patterns show that large payments can be received in the last weeks of the financial year. This is driven to some extent by Brisbane City Council offering reduced charges on their networks as an incentive for developers to pay within two financial years of development approval.

Lower contributions than budget and forecast were received for Ipswich City in 2010/11 where development has slowed significantly.

Brisbane City and Ipswich City were reduced from budget in the 2011/12 forecast. Due to Brisbane City's actual revenue tracking 67% under budget, a reduction of $9 million was forecast. However the Brisbane City Council's incentive for early payment might lead to revenue levels closer to original budget.

Ipswich revenue was reforecast twice during the year, with a total reduction of $13.5 million. The reduction in the Ipswich budget was based on the actual revenue continuing to decline below budget over the year, which was also supported by the OESR Residential land development activity profile which shows reduced developer activity in the region.

Actual, budget and forecast developer cash contributions are presented in Table 8-15.

8 Revenue requirement

Table 8-14 Donations – Local and Trunk Infrastructure

Region	Service	Actual, Budget and Forecast Donations ($'000)						
		2010/11[f]	2010/11[a]	2011/12[b]	2011/12[f]	2012/13[b]	2013/14[f]	2014/15[f]
Brisbane City	Water	$19,500	$12,772	$19,019	$19,019	$19,752	$21,591	$22,561
	Sewerage	$16,000	$28,310	$13,279	$13,279	$20,138	$21,447	$22,228
Ipswich City[1]	Water	$7,594	$5,776	$8,147	$8,147	$5,259	$5,995	$6,387
	Sewerage	$6,729	$8,606	$7,275	$7,275	$7,070	$7,820	$8,417
Lockyer Valley	Water	$42	$0	$905	$905	$652	$690	$651
	Sewerage	$224	$0	$741	$741	$499	$425	$388
Scenic Rim	Water	$266	$0	$730	$730	$414	$449	$474
	Sewerage	$0	$0	$597	$597	$339	$368	$388
Somerset	Water	$266	$33	$1,194	$1,194	$814	$884	$934
	Sewerage	$0	$0	$977	$977	$666	$723	$765
	Total	**$50,621**	**$55,498**	**$52,865**	**$52,865**	**$55,604**	**$60,393**	**$63,192**

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

Table 8-15 Developer Cash Contributions – Trunk Infrastructure

Region	Service	Actual, Budget and Forecast Cash Contributions ($'000)						
		2010/11 f	2010/11 a	2011/12 b	2011/12 f	2012/13 b	2013/14 f	2014/15 f
Brisbane City	Water	$18,813	$22,787	$16,706	$14,228	$20,940	$21,223	$19,697
	Sewerage	$43,865	$51,445	$43,971	$37,449	$44,441	$44,005	$38,175
Ipswich City I	Water	$4,211	$3,317	$6,782	$2,980	$3,971	$5,964	$8,064
	Sewerage	$6,676	$5,519	$12,486	$2,788	$5,536	$8,374	$13,548
Lockyer Valley	Water	$650	$960	$880	$880	$1,841	$2,276	$2,553
	Sewerage	$70	$147	$720	$720	$1,226	$1,802	$2,328
Scenic Rim	Water	$40	$63	$990	$990	$752	$797	$651
	Sewerage	$60	$51	$810	$810	$1,660	$2,327	$2,648
Somerset	Water	$1,093	$1,350	$1,210	$1,210	$522	$511	$408
	Sewerage	$1,077	$1,393	$990	$990	$1,194	$1,708	$2,047
	Total	**$76,555**	**$87,034**	**$85,546**	**$63,046**	**$82,085**	**$88,987**	**$90,119**

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

8.6 Maximum allowable revenue

The standard building block approach to the determination of the MAR is introduced in ***Part A*** and ***Section 5.2***.

The MAR includes the efficient costs that Queensland Urban Utilities can recover from customers and avoid exercising monopoly power. The MAR calculation also involves a number of decisions and/or assumptions as outlined in the preceding sections.

Table 8-16 and Table 8-17 present the MAR building block values for water and sewerage services for the period 2010/11 through to 2014/15.

Table 8-16 Maximum Allowable Revenue – Water

	MAR Building Blocks – Water ($'000)				
Component	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Return on assets	$164,879	$172,590	$178,491	$186,783	$194,175
Indexation	-$44,085	-$46,147	-$47,343	-$49,542	-$51,503
Depreciation	$50,116	$52,853	$56,803	$61,469	$66,340
Operating costs	$66,744	$95,053	$112,395	$83,636	$89,058
Less flood costs	-$1,395	-$20	$0	$0	$0
Bulk water costs	$183,027	$225,449	$269,822	$314,605	$361,872
Net tax	$888	$0	$47	$0	$0
Capital revenues	-$47,060	-$50,284	-$54,919	-$60,381	-$62,382
MAR	**$373,114**	**$449,495**	**$515,296**	**$536,570**	**$597,560**

Table 8-17 Maximum Allowable Revenue – Sewerage

	MAR Building Blocks – Sewerage ($'000)				
Component	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Return on assets	$239,926	$248,097	$258,752	$285,198	$316,346
Indexation	-$64,151	-$66,336	-$68,632	-$75,646	-$83,908
Depreciation	$110,212	$114,694	$122,962	$135,380	$149,804
Operating costs	$144,802	$141,474	$158,467	$124,987	$136,174
Less flood costs	-$10,301	$0	-$5,500	$0	$0
Net tax	$3,017	$6,032	$5,808	$6,546	$7,542
Capital revenues	-$95,471	-$65,626	-$82,770	-$88,999	-$90,930
MAR	**$328,034**	**$378,335**	**$389,087**	**$387,466**	**$435,029**

8 Revenue requirement

Table 8-18 shows the variation between the 2011/12 and forecast MAR for 2011/12, where the budget value is the regulatory value presented by the QCA in the IPM Report 2011/12. The budget values are therefore based on the data presented in Queensland Urban Utilities' 2011/12 information return. The forecast values are based on the forecast for 2011/12 and adjustments to the roll forward of the asset base.

Table 8-18 Budget and Forecast MAR Comparison – 2011/12

	Water			Sewerage		
2011/12 MAR	**Budget**	**Forecast**	**Variance**	**Budget**	**Forecast**	**Variance**
Return on Assets	$174,350	$172,590	-$1,760	$251,590	$248,097	-$3,493
Indexation	-$46,230	-$46,147	$83	-$66,710	-$66,336	$374
Depreciation	$54,760	$52,853	-$1,907	$117,820	$114,694	-$3,126
Operating Costs (excl flood costs)	$79,730	$95,053	$15,323	$154,000	$141,474	-$12,526
Bulk Water Costs	$219,760	$225,449	$5,689	$0	$0	$0
Net Tax	$0	$0	$0	$6,040	$6,032	-$8
Capital Revenues	-$56,560	-$50,284	$6,276	-$81,850	-$65,626	$16,224
MAR	***$425,810***	***$449,515***	***$23,705***	***$380,890***	***$378,335***	***-$2,555***

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

- Capital revenues are $24 million below the originally anticipated level and are the primary reason for the change in MAR (***Section 8.5***).
- A $24 million reduction in forecast commissioned capital expenditure from the budget, reducing the average RAB for the year.
- The reduction in the RAB also flows through depreciation and indexation components of the MAR.
- A $6 million increase in bulk water which was made up of an increase in customer usage and the non-revenue water component.

8.7 Utility revenue

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

Forecast revenue is a function of property counts (including expected growth), forecast demand (for water volume), and prices. Revenue forecasts have been derived from an analysis of 2011/12 billings, including connections growth, demand assumptions and applied price increases.

Table 8-19 show the actual, forecast and budget revenues for the water, sewerage and non-regulated activities undertaken by Queensland Urban Utilities from 2010/11 to 2012/13. Aggregate values for Queensland Urban Utilities are presented on Figure 8-2.

Table 8-19 Revenue from Services

Region	Activity	Revenue from Services ($'000)				
		2010/11f	2010/11a	2011/12b	2011/12f	2012/13f
Brisbane City	Water	$281,339	$278,643	$325,425	$328,368	$364,996
	Sewerage	$302,502	$300,348	$318,658	$316,435	$324,289
	Non-regulated	$12,014	$12,611	$1,767	$1,156	$1,119
Ipswich City	Water	$57,432	$57,575	$62,484	$63,122	$70,016
	Sewerage	$41,797	$42,795	$44,132	$44,558	$46,648
	Non-regulated	$2,496	$1,739	$92	$172	$150
Lockyer Valley	Water	$6,765	$6,466	$6,582	$8,782	$8,342
	Sewerage	$2,305	$2,413	$2,387	$2,387	$2,670
	Non-regulated	$220	$278	$0	$0	$0
Scenic Rim	Water	$5,636	$5,779	$6,165	$6,185	$6,515
	Sewerage	$3,030	$3,048	$3,270	$3,291	$3,311
	Non-regulated	$210	$209	$0	$0	$0
Somerset	Water	$4,232	$4,242	$4,910	$5,000	$5,764
	Sewerage	$2,039	$1,945	$1,922	$1,922	$2,120
	Non-regulated	$160	$185	$0	$0	$0
Total	Water	$355,405	$352,707	$405,566	$411,457	$455,632
	Sewerage	$351,674	$350,549	$370,369	$368,593	$379,039
	Non-regulated	$15,100	$15,022	$1,858	$1,327	$1,269
	Total	**$722,179**	**$718,278**	**$777,794**	**$781,377**	**$835,940**

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

8 Revenue requirement

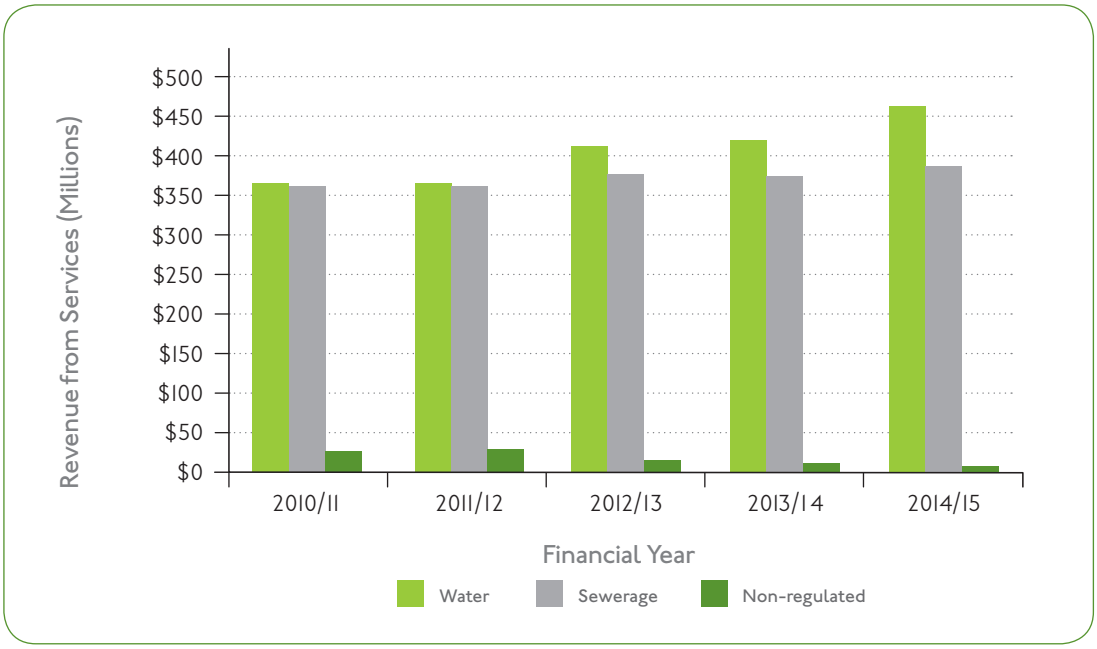

Figure 8-2 Forecast Recovery (by Activity)

As outlined in ***Section 5.3.3***, a price path for the period 1 July 2013 to 30 June 2018 will be developed by 1 March 2013.

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

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

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

As the development of this price path is in progress Queensland Urban Utilities does not consider it appropriate to provide forecast revenues beyond 2012/13.

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

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

As discussed in ***Section 6.3*** residential forecast volume demand for 2012/13 has been set at approximately 5 litres per person per day (L/p/d) higher than actual demand in 2011/12. Per capita demand (L/p/d) is converted to consumption per property (kL/annum) by the application of the OESR 2011 medium series forecast occupancy rates per property.

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

Utility revenues for 2011/12 are forecast to be slightly higher than budgeted (0.5%), primarily due to demand being marginal higher than expected. Table 8-20 presents the percentage over or under recovery of Queensland Urban Utilities' revenues against MAR by activities and in total.

Table 8-20 Over or Under Recovery against MAR

	(Over) / Under Recovery		
Activity	**2010/11 [a]**	**2011/12[f]**	**2012/13[b]**
Water	5.5%	8.5%	11.6%
Sewerage	-6.9%	2.6%	2.6%
Total	***-0.3%***	***5.8%***	***7.7%***

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

Figure 8-3 show that in 2010/11 Queensland Urban Utilities under-recovered in water but marginally over-recovered in sewerage against MAR. Figure 8-4 and Figure 8-5 show the extent to which Queensland Urban Utilities is under-recovering against MAR for both water, sewerage activities and overall for 2011/12 and 2012/13. These comparisons are based on the MAR values presented in ***Section 8.6*** (refer Table 8-16 and Table 8-17) and the revenue values presented in Table 8-19.

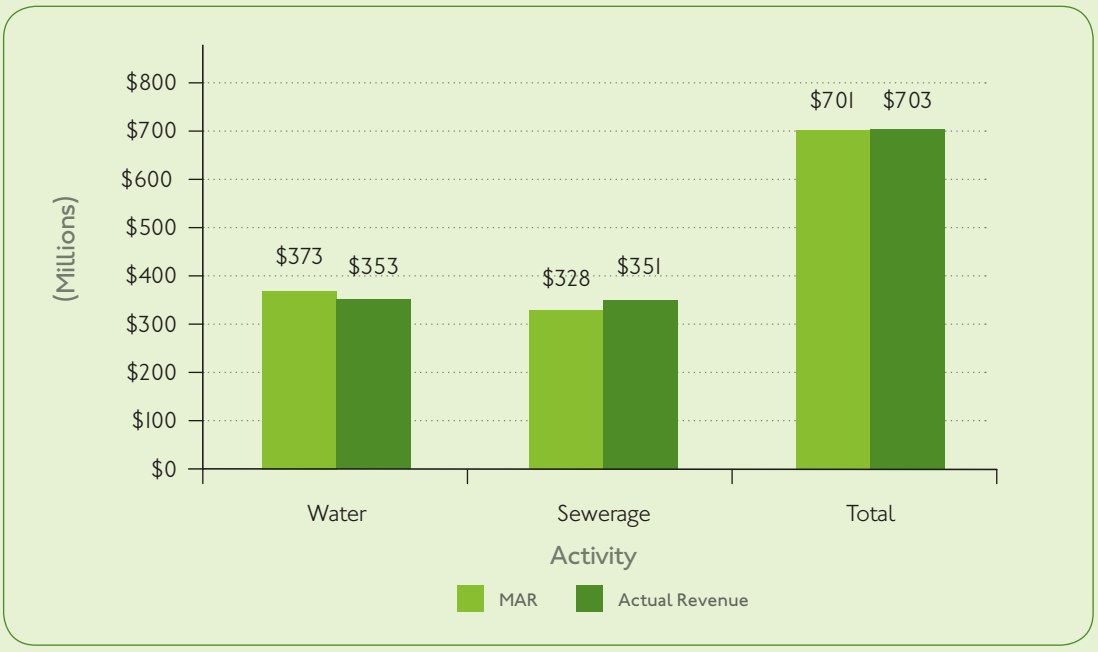

Figure 8-3 Forecast Recovery (by Activity) v MAR – 2010/11

8 Revenue requirement

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

Figure 8-5 Forecast Recovery (by Activity) v MAR – 2012/13

8.8 Unders and overs mechanism

Queensland Urban Utilities is proposing to implement an unders and overs mechanism that accounts for any over, or under-recovery of revenue during the regulatory period. Queensland Urban Utilities is proposing that the mechanism applies from the period in which price caps have been imposed on the business (i.e. from 2011/12).

Given the restrictions on Queensland Urban Utilities' ability to apply cost reflective prices due to the price cap imposed through the Fairer Water Prices for SEQ Amendment Act 2011, Queensland Urban Utilities' financial position becomes increasingly under pressure.

In the 2011/12 Interim Price Monitoring Review, Unitywater proposed a Maximum Allowable Revenue Adjustment Transition Scheme (MAT Scheme). The proposed MAT Scheme comprised three key components:

- A loss capitalisation balance to capitalise net revenue under-recoveries over the period MAR is not achieved on a sustainable basis
- A medium to long-term price path to clear the loss capitalisation balance
- Once MAR is achieved on a sustainable basis, an unders and overs mechanism is to apply once MAR has been achieved on a sustainable basis.

The application of an unders and overs mechanism effectively applies a revenue cap on the business over a period of time, and provides greater revenue certainty in a time of structural uncertainty for the industry.

The QCA Final Report for 2011/12 outlined that it supported a net present value (NPV) neutral glide path wherever possible and would work with Unitywater to establish more details of such an approach. It went on to note that these unders and overs schemes in regulatory pricing are based on actual data and at the time of pricing, only estimated actual data was available at the time of the review.

At present, actual information is not available; therefore Queensland Urban Utilities has presented indicative under-recovery amounts for 2011/12 and 2012/13 in Figure 8-4 and Figure 8-5. The under/over recovery amount will be finalised when actual information is available.

Queensland Urban Utilities intends to discuss the proposed mechanism with the QCA in more detail to establish clear processes for how such a mechanism would work. Queensland Urban Utilities also proposes to work with the QCA to determine the most appropriate glide paths for any significant under-recovery that would have a material impact on prices. Queensland Urban Utilities understands that the magnitude of any under-recovery may result in a longer than normal recovery of this amount in order to limit the impacts on customers.


QUEENSLAND
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9 Conclusion

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

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

9.1 Key Business Details

Key business details are summarised in Table 9-1.

Table 9-1 Business Details

Trading name	Queensland Urban Utilities
Australian Business Number	86 673 835 011
Principal place of business	Levels 6-8, West Tower, Brisbane Transit Centre 171 Roma Street Brisbane QLD 4000
Contact person	Tim Ryan (Manager, Regulatory Affairs)

9.2 Director's Statement

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

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

  (i) the information required by the Information Requirements;

  (ii) the information on related party transactions required;

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

[redacted]

Bernard Ponting
Acting Chair

20 August 2012
Dated

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

10. Abbreviations, Acronyms and Glossary

10.1 Abbreviations & Acronyms

Abbreviation	Abbreviated Term
ABS	Australian Bureau of Statistics
ADWG	Australian Drinking Water Guidelines
AS	Australian Standard
BCW	Brisbane City Works
Budget Guideline	Queensland Urban Utilities Budget Guideline – 2011/2012
CCRG	Customer and Community Reference Group
CCTV	Closed circuit television
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIP	capital investment program
COO	Chief Operating Officer
CPI	Consumer Price Index
CWIP	Capital work in progress
DERM	Department of Environment and Resource Management
DRR Act (the)	South East Queensland Water (Distribution and Retail Restructuring) Act 2009
DWQMP	Drinking Water Quality Management Plan
ELT	Executive Leadership Team
EP	Equivalent person
ET	Equivalent tenement
EWOQ	Energy and Water Ombudsman
FMPM	Financial Management Practice Manual
GAWB	Gladstone Area Water Board
GFA	Gross floor area
GIS	Geographical information systems
ICS	Infrastructure Charges Schedule
IPM Report 2010/11	SEQ Interim Price Monitoring for 2010/11 Final Report (QCA, March 2011)
kL	kilolitre, or one thousand litres
km	kilometres
L/p/d	Litres per person per day
L/s	Litres per second
MAR	Maximum Allowable Revenue
MCOE	Multi-criteria options evaluation
ML	Mega litres or one million litres
NDRRA	Natural Disaster Relief and Recovery Arrangements

Abbreviation	Abbreviated Term
NRW	Non-Revenue Water
OESR	Office of Economic and Statistical Research
PIP	Priority Infrastructure Plan
PSP	Planning Scheme Policy
QAO	Queensland Audit Office
QCA	Queensland Competition Authority
QWC	Queensland Water Commission
RAB	Regulatory Asset Base
RBA	Reserve Bank of Australia
s.	Section (of an Act or Regulation)
SAMPs	Strategic Asset Management Plans
SEQ	South East Queensland
SEQWGM	SEQ Water Grid Manager
SCADA	Supervisory Control and Data Acquisition
SLMP	System Leakage Management Plan
SP Act	Sustainable Planning Act 2009
Treasury	Queensland Treasury
UDA	Urban Development Areas
ULDA	Urban Land Development Authority
WACC	Weighted Average Cost of Capital
WDV	Written down value
WSAA	Water Services Association of Australia

10. Abbreviations, Acronyms and Glossary

10.2 Glossary of Terms

Term	Definition
Amortised	The cost of an intangible is allocated proportionally against the years of useful life. The annual allocation represents the amount amortised.
Asset offset	One method that is used to avoid a regulated business earning a return to assets they have not funded. The revenue contributed by third parties (often developers) is not added to the asset base.
Building block approach	Generic approach to price/revenue regulation involving the determination of a maximum allowable revenue (MAR – see below). The MAR is made up of a number of separate components, including a return on capital and depreciation, as well as operating, maintenance, and administrative charges.
Bulk water	The name given to water supplied wholesale to distribution entities for retail sale to the public.
Capital expenditure (compliance)	Capital expenditure associated with meeting price monitoring or legislative obligations should be included in compliance.
Capital expenditure (growth)	Capital expenditure associated with increasing the capacity of assets or construction of new assets to meet growth in demand, or to provide additional security of supply should be included in growth.
Capital expenditure (improvement)	Capital expenditure associated with improving service levels and reliability to meet customer preferences should be included in improvements.
Capital expenditure (renewals)	Capital expenditure associated with replacing assets and generally maintaining service levels should be included in renewal of existing infrastructure.
Capitalisation	Recognition of the capital cost of an asset.
Depreciation	A measure of the decline in an asset's service potential related to usage or technological obsolescence.
Developer contribution	A monetary contribution, the dedication of physical assets free of cost, or the provision of a material public benefit.
Donated assets	Assets constructed by a third party (e.g. developer) and donated to Queensland Urban Utilities. In the case of trunk infrastructure this would typically be undertaken as part of an infrastructure agreement and offset against infrastructure funding obligations.
Equity beta (βe)	A measure of the undiversifiable market risk associated with an entity's assets, and the financial risk borne by shareholders due to an entity's use of debt financing.
Efficient (expenditure)	Minimum expenditure that is required to maintain a given level of service over an extended period.

Term	Definition
Eastern service area	Queensland Urban Utilities' service area encompasses the local government boundaries of our Participating Councils. This service area is divided into eastern and western service areas for operational, service and maintenance reasons. The eastern service area corresponds to the Brisbane City Council local government boundary.
Equivalent person (EP)	A unit of measure that imposes the same demand/load on the water supply/sewerage system as a person living in a detached house. It is used to express the demands/loads from different types of development in a standard unit.
Equivalent tenement (ET)	The demand on the water supply or sewerage system unit which is represented by a single detached dwelling.
Financial Management Practice Manual	Queensland Urban Utilities manual addressing accounting and other financial practices.
Full cost pricing	An element of various competition reforms, where state or local government business activities are required to recover sufficient revenue to cover the identified costs of delivering goods and services.
Market power	In economics, market power is the ability of a firm to alter the market price of a good or service. A firm with market power can raise prices without losing its customers to competitors.
Market risk premium (MRP)	The difference between the expected return on a market portfolio and the risk-free rate. The risk free rate of return is the theoretical rate of return of an investment with zero risk. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.
Maximum Allowable Revenue (MAR)	The MAR is a generally accepted regulatory term for the level of revenue that fairly compensates an entity for its efficient costs and the level of risk it has assumed (it corresponds to the Council of Australian Government's upper bound pricing). OR The total amount of revenue that an efficiently operated business would need to receive to remain commercially viable, but not earn monopoly profits. Generally derived using the building block approach.
Net present value (NPV)	Sum of a stream of revenue and expenditure discounted into current year dollars. Frequently used to assist in deciding between several potential projects.
Non-regulated service (see also 'regulated service')	Service for which a competitive price must be charged in order to maintain market share. A correctly classified non-regulated service is one for which a provider or customer has little or no power to influence the price.

10. Abbreviations, Acronyms and Glossary

10.2 Glossary of Terms

Term	Definition
Non-revenue water	The difference between system input volume and billed authorised consumption. In other words it is the difference between water purchased by Queensland Urban Utilities, and the water billed to Queensland Urban Utilities' customers. There are a number of factors that contribute to NRW. These include background leakage, legal and illegal unmetered consumption, unbilled metered consumption and meter inaccuracies.
Participation agreement	The agreement between Queensland Urban Utilities and its participating local governments in accordance with the South-East Queensland Water (Distribution and Retail Restructuring) Act 2009.
Prudent (expenditure)	Expenditure is prudent where Queensland Urban Utilities can demonstrate a need for the expenditure. In terms of the capital works program expenditure is prudent if it is required to meet a legal obligation (e.g. high-quality discharges to the environment from sewage treatment plants), to cater for new connections (i.e. growth), to ensure existing assets remain fit-for-purpose (i.e. renewals) or where it contributes to an increase in reliability or quality of supply that is endorsed or desired by customers (i.e. improvements).
Raw water	Water taken from the environment that has not been subject to any form of treatment or purification. Water that collects in a dam or other storage is transferred to a water treatment plant as 'raw water'. Typically it is then treated and purified to produce water suitable for drinking and other household purposes.
Recycled water	Water taken from any waste (effluent) stream and treated to a level suitable for further use, where it is used safely and sustainably for beneficial purposes. This is a general term that can include reclaimed water.
Regulated services	Services subject to oversight by an economic regulator.
Regulatory Asset Base (RAB)	Asset base refers to the underlying assets giving value to a company, investment or loan. In the case of a monopoly distributor-retailer, such as Queensland Urban Utilities, the regulatory asset base refers to the value of underlying assets that is accepted by the regulator as representing the minimum asset value necessary to deliver the required standards of service.
Revenue offset	One method that is used to avoid a regulated business earning a return to assets it has not funded. The revenue contributed by third parties (often developers) is added to the asset base and deducted from the maximum allowable revenue in the year of contribution.

Term	Definition
Risk free rate	The return that accrues to securities with no risk. Returns on Commonwealth bonds are commonly used as a proxy for the risk free rate.
Sewage	Material transported in a sewerage system. Sewage is collected from all internal household drains; it contains all the contaminants of grey water and urine, in addition to high concentrations of faecal material from toilets and wastes from industrial and commercial premises. Sewage can therefore contain a range of infectious enteric pathogens and a range of physical and chemical contaminants.
Statement of Comprehensive Income	A component of the end of financial year statements in which all recognised items of income and expense in a period are presented, according to the requirements of AASB 101 Presentation of Financial Statements.
Strategic Asset Management Plans (SAMP)	Prior to the formation of Queensland Urban Utilities (and the other distributor-retailers), council owned water businesses were required to prepare and adhere to a SAMP. The SAMP outlined the services provided as well as the standards that those services would meet. SAMPs also outline the infrastructure required to meet these standards, along with operations, maintenance, and renewals strategies to be adopted, and the means by which activities outlined in the SAMP would be financed. Queensland Urban Utilities is required to develop an approved Water Netserv Plan (see below) to replace the SAMPs inherited from its Participating Councils.
Target 200	The QWC's (refer below) South East Queensland Water Strategy seeks to build a long-term water savings culture in the SEQ community, in part through the setting of a voluntary regional residential consumption target of 200 litres per person per day (Target 200). This challenge is separate from restrictions and is actively encouraged but not enforced.
Trade waste	Water-borne waste from a business or manufacturing premises, that is not: a. a prohibited substance (for example, petrol, pesticide); b. domestic sewage (human waste) c. stormwater.
Two part tariff	Pricing structures, under which users face a fixed charge (regardless of consumption levels) and a variable charge that is based on consumption.
Unaccounted for water	That volume of water that is metered as having entered a particular network or system, but is not metered on withdrawal.

10. Abbreviations, Acronyms and Glossary

Term	Definition
Urban Development Areas (UDA)	Areas that are subject to streamlined planning and development processes administered by the Urban Land Development Authority as part of the Queensland Housing Affordability Strategy. The Minister for Planning nominates UDAs. Selection criteria for UDAs include areas of high growth or high housing stress, areas that contain significant portions of Crown land, areas that are close to public transport, employment opportunities or other services.
Water netserv plan	Section 99BJ of the South East Queensland Water (Distribution and Retail Restructuring) Act 2009 requires that a "distributor-retailer must, from 1 July 2013, have a plan (a water netserv plan) about its water and wastewater networks and providing its water service and wastewater service". Among other requirements the water netserv plan must be consistent with the SEQ Regional Plan and the planning assumptions for the distributor-retailer's geographic area. The water netserv plan will become the key strategic document guiding Queensland Urban Utilities delivery of water and sewerage infrastructure, replacing a range of planning tools that existed prior to the creation of the distributor retailers.
Weighted Average Cost of Capital (WACC)	In general terms, a company's assets are financed by either debt or equity. WACC is the average of the costs of these sources of financing, each of which is weighted according to their respective proportions of total financing.
Western service area	Queensland Urban Utilities' service area encompasses the local government boundaries of our Participating Councils. This service area is divided into eastern and western service areas for operational, service and maintenance reasons. The western service area corresponds to the area formed by the local government boundaries of the Ipswich City Council and the Lockyer Valley, Scenic Rim and Somerset Regional Councils.

Information Requirements for 2012/13

Annex A

QUEENSLAND COMPETITION AUTHORITY

SEQ Interim Price Monitoring

Information Requirements for 2012-13

August 2012

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1. INTRODUCTION

1.1 Purpose

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

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

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

1.2 Authorising Provision

1.2.1 The price monitoring framework was approved by the Ministers in the referral received by the Authority on 25 June 2011 pursuant to Part 3 of the *Queensland Competition Authority Act 1997* (the QCA Act).

1.3 The Entities

1.3.1 The entities are as follows:

(a) Unitywater; and

(b) Queensland Urban Utilities.

1.4 Commencement and Application

1.4.1 These Requirements take effect on 30 June 2012 and apply to each entity.

1.4.2 The Requirements apply to 2012-13 other than where indicated to apply for subsequent years (as bolded).

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

For 2012-13, information is to be submitted by 31 August 2012, and incorporate audited financial information for the years ending 30 June 2009, 30 June 2010 and 30 June 2011, to the extent that records and information have been provided to the entities by participating Councils, and forecasts for each year to 30 June 2015; or, where an entity chooses to set revenues and prices over a longer period, for that period.

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

1.5 Amendment to these Information Requirements

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

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

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

2. REQUIREMENTS

2.1 General Obligation

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

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

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

2.2 Preparation of Returns

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

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

2.3 Submission of Returns

2.3.1 An *entity* must submit *price monitoring information returns* in respect of a reporting year to the Authority in hardcopy and electronic format by 31 August of that year, unless the Authority has agreed in writing to an extension of time prior to that date. .

2.4 Publication of Prices

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

2.5 Retention of Accounting Records

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

3. PRINCIPLES

3.1 Substance of Transactions

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

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

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

3.2 Returns to be derived from Statutory Accounts and Budget

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

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

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

(b) eliminating adjustments not permitted by these Requirements;

(c) including adjustments required by these Requirements; and

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

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

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

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

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

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

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

3.3 General principles

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

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

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

3.4 Allocation Principles

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

3.4.2 For 2012-13, the details in chapter 5 must be disaggregated by each *entity* according to the following deemed categories:

(a) each Activity;

(b) each geographic area;

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

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

(e) **for subsequent years**, for each *customer group*. For 2012-13, revenues are also to be allocated to customer groups.

3.4.3 Allocations are required in relation to:

(a) revenue;

(b) the regulatory asset base;

(c) capital expenditure; and

(d) operating costs.

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

(a) amounts are directly attributable to that category;

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

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

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

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

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

3.5 Statement of Accounting Principles and Policies

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

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

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

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

(i) the nature of the change;

(ii) the reasons for the change; and

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

4. REVIEW AND ADJUSTMENT

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

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

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

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

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

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

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

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

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

4.1.5 An *entity* must submit:

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

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

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

5 DETAILS

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

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

5.1 Statutory Accounts and Budget

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

5.1.1 Profit And Loss

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

(i) Revenue;

(ii) Investment income;

(iii) Net profit from sales of assets;

(iv) Contributions;

(v) Operating expenditure;

(vi) Depreciation;

(vii) Bad debts;

(viii) Borrowing costs;

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

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

5.1.2 Balance Sheet

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

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

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

5.1.3 Cash flow statement

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

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

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

5.2 Revenue

5.2.1 Actual and forecast revenue from Prices

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

(a) actual revenues for each year from 1 July 2008 to 30 June 2011 and estimated actual revenues for the year ending 30 June 2012;

(b) forecast revenues for each year from 1 July 2012 to 30 June 2015 (at the time of setting 2012-13 prices);

(c) **each** tariff structure and associated sales consistent with the above revenues, also identifying which tariff is subject to the CPI price cap in the *South East Queensland Water (Distribution and Reform) Act 2009*;[1]

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

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

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

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

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

[1] The annual change in revenue for non-CPI capped services (including trade waste, recycled water, *seepage* water services and sundry services) should be clearly identified for each relevant tariff.

5.2.2 Revenue from Other Sources

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

5.3 Service Standards[2]

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

(a) service standards[3] for each year from 1 July 2008 to 30 June 2012, as approved by other agencies[4];

(b) service standards[3] for each year from 1 July 2012 to 30 June 2015, as approved by other agencies;

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

5.4 Demand

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

(a) actual demand for each year from 1 July 2008 to 30 June 2011 and estimated actual demand for the year ending 30 June 2012, and corresponding non-revenue water and bulk water purchases (where relevant);

(b) forecast demand for each year from 1 July 2012 to 30 June 2015, and corresponding non-revenue water and total bulk water purchases (at the time of setting 2012-13 prices);

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

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

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

[2] The Authority will also obtain details of past performance since 1 July 2008 as reported to the National Water Commission under the National Performance Reporting framework using the Statewide Information Management (SWIM) database.
[3] Also required are details of contractual service standards, or changes in contractual service standards, between the SEQ Water Grid Manager and the distribution/retail entity.
[4] Where a council has directed that higher service standards be pursued than those approved by other agencies, it is appropriate for these to form the basis for reporting. However, the entity must demonstrate to the Authority that is has been directed by Council to do so and that these standards are indeed superior.

5.5 Regulatory Asset Base

5.5.1 Regulatory Asset Base as at 1 July 2008

An *entity* must provide for each deemed category in 3.4.2 (except for customer groups) for 1 July 2008[5]:

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

(b) audited written down asset values for each asset or asset class[6]; and

(c) values for the initial regulatory asset base (RAB), by asset or asset class of common type or function, that are consistent with the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade's advised asset values. The RAB values should be based on audited values in (b) adjusted by the ratio of the total initial regulatory asset base as at 1 July 2008 to total written down audited values for the relevant assets[7].

5.5.2 Rolling Forward the RAB

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

$RAB_t = (RAB_{t-1} + \text{Capital Expenditure}_t - \text{Regulatory Depreciation}_t - \text{Disposals}_t^{8} + \text{Indexation}_t)$

where t = the year under consideration.

(b) an *entity* must provide for each deemed category in 3.4.2 (except for customer groups) sufficient details to allow the Authority to roll forward asset values for each year from 1 July 2010 to 30 June 2015, according to the above formula.

5.6 Capital Expenditure

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

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

(b) details of estimated capital expenditure for each year, excluding *establishment costs*, for the period from 1 July 2010 to 30 June 2015, or further forward where required to assess proposed projects during this period; and

[5] Where audited asset values are not available as at 1 July 2008 (e.g. the values are only available as at 15 March 2008) these must be rolled forward to 1 July 2008 in a manner consistent with the formulae in the Ministerial Direction.
[6] The values of asset classes should be able to be reconciled with the underlying individual asset values in an entity's detailed asset registers.
[7] Alternative methods of allocating the RAB may also be provided. If so, information must be provided to explain the use and application of that methodology.
[8] For (individual) assets retired prior to being fully depreciated could remain in the RAB and be depreciated over their remaining life, provided that the individual asset does not account for more than 5% of the asset class. The Authority may review this approach in light of its experience in actual price monitoring.

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

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

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

5.6.4 Criteria and Processes for Capital Expenditure

(a) Prudency

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

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

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

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

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

(b) Efficiency

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

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

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

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

(c) Expenditure Approval Processes

For the purpose of establishing the prudency and efficiency of capital expenditure (as well as operating expenditure), information is required on expenditure approval policies and procedures. In addition, links to strategic development plans, risk and asset management planning, corporate directives, evidence of external drivers, and review of procurement practices should be identified.

Evidence of any consideration of alternative investments, the substitution possibilities between capex and opex, and non-network alternatives such as demand management is required.

Further, information on the compatibility with existing and adjacent infrastructure is relevant and consideration of modern engineering equivalents and technologies. Compliance with Strategic Asset Management Plans and Total Management Plans is also relevant.

5.6.5 Explanatory Notes

An *entity* is required to provide information on all capital expenditure items that have been allocated across items in section 3.4.2, including a description of the item, its value, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

An *entity* is required to provide an explanation of any significant shift in expenditure compared with the previous year in the explanatory notes section. Where an entity's capital expenditure (actual or forecast) differs from previous estimates provided to the Authority an entity must explain the cause of the variance.

5.6.6 Exclusions:

(a) asset revaluations or adjustments for impairment (whether the adjustments would have the effect of increasing or decreasing asset values) are not permitted in price monitoring accounts unless they are specifically agreed to or required by the Authority; and

(b) goodwill and any related impairments are not permitted in price monitoring information returns.

5.7 Contributed, Donated and Gifted Assets

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

(a) actual contributed, donated and gifted assets for the year ending 30 June 2009 and for the year ending 30 June 2010 as included in council financial accounts;

(b) contributed, donated and gifted assets in each year from 1 July 2010 to 30 June 2015;

(c) actual capital contributions (cash and infrastructure charges) approved under the *Integrated Planning Act 1997* for the year ending 30 June 2009 and for the year ending 30 June 2010 as included in council financial accounts;

(d) capital contributions approved under a SEQ infrastructure charges schedule for each year from 1 July 2010 to 30 June 2015;

(e) actual planning scheme policy charges received for to the year ending 30 June 2009 and for the year ending 30 June 2010 as included in council financial accounts;

(f) each infrastructure charge and associated demand consistent with the above;

(g) any SEQ infrastructure charges schedule and supporting documents with the details of related assets where available, for the interim period including the rationale for any smoothing adopted;

(h) details of the method adopted by the *entity* for the forecast of contributed, donated and gifted assets and capital contributions (cash and infrastructure charges);

(i) any date nominated by the *entity* to adopt the asset offset method; and

(j) the expected date at which any changes to forecast revenues is to take place (including the basis for the change) and the *revenue*s (including tariff structures) that would apply before and after the change.

Where an entity's contributed, donated and gifted assets (actual or forecast) or capital contributions (cash and infrastructure charges) differ materially from previous estimates provided to the Authority an entity must explain the cause of the variance.

5.8 Depreciation

5.8.1 An *entity* must provide the following information for each deemed category in 3.4.2 (except for customer groups):

(a) details of depreciation of RAB values and capital expenditure for the period 1 July 2008 to 30 June 2010 on the physical assets calculated on a straight line basis using existing useful lives attaching to the individual assets from 1 July 2008. Individual assets should be grouped by *asset class*; and

(b) details of depreciation of RAB values and capital expenditure for each year of the interim period from 1 July 2010 to 30 June 2015 calculated on a straight line basis using remaining useful lives on the basis of individual assets (on the same basis as for (a) above or, if different asset lives are adopted, with appropriate supporting information).

5.9 Indexation

5.9.1 An *entity* must index:

(a) the RAB values for each year from 1 July 2008 to 30 June 2012 using the ABS Consumer Price Index (all groups, Brisbane); and

(b) the forecast RAB values for each year of the interim period from 1 July 2012 to 30 June 2015 using 2.48%, as this is the forecast of CPI as determined by the difference between the RBA return on the market rate for five year bonds and five year capital indexed bonds that is consistent with the benchmark return on capital of 9.35%.

5.10 Return on Capital

5.10.1 An *entity* must provide details of the target return on capital for each year of the interim period from 1 July 2010 to 30 June 2015, including the values attached to the key underlying parameters and the method of WACC calculation.

5.10.2 An *entity* must provide details of the following for each from 1 July 2010 to 30 June 2015:

(a) borrowing costs; and

(b) dividends.

5.11 Operating costs

5.11.1 An *entity* must provide details, allocated between the deemed categories in 3.4.2, of:

(a) actual operating costs (including taxes and approved establishment costs) for each year ending 30 June 2009, 30 June 2010 and 30 June 2011; and

(b) forecast operating expenditure (including taxes and approved establishment costs) from 1 July 2011 to 30 June 2015;

according to:

(a) bulk water costs;

(b) employee expenses;

(c) contractor expenses;

(d) GSL Payments;

(e) electricity charges;

(f) sludge handling costs;

(g) chemicals costs;

(h) other materials and services (not relating to capital expenditure):

(i) licence or regulatory fees;

(j) non-recurrent costs;

(k) corporate costs; and

(l) indirect taxes.

5.11.2 Comparative Data

An *entity* is required to provide an explanation of any significant change in expenditure in the explanatory notes section.

5.11.3 Explanatory notes

An *entity* is required to provide information on all operating expenditure items that have been allocated across *entity business segments* or asset categories, including a description of the item, the value in thousands of dollars, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

An *entity* is also required to provide the reasons for anticipated changes in operating costs and taxes over the period from 1 July 2010 to 30 June 2015. Where an entity's operating costs differ materially from previous estimates provided to the Authority an entity must explain the cause of the variance. An *entity* is also required to provide further explanation of significant one-off expenditure items or any allocations made that would assist the Authority in its assessment of the *entity's price monitoring information returns.*

5.11.4 Subsequent Years

For subsequent years, a greater level of disaggregation of operating expenditure may be required. For that to be effected, a substantial effort may be required to allocate costs to their appropriate category. The degree of detail required by the ESC in Victoria for example forms Attachment 1.

5.12 Third Party Transactions

5.12.1 Where an *entity* enters into transactions with a *third party* which total greater than $1,000,000 of operating expenditure in aggregate, or $10,000,000 of *capital expenditure* in aggregate for the *financial year*, the *entity* must disclose:

(a) the name of the *third party*;

(b) a description of the services provided by the *third party*;

(c) the value of the payments made to the *third party*;

(d) a description of how the basis for the payment was determined; and

(e) a description of how the payment is reflected in the price *monitoring information returns*, including the asset class or cost category that the costs are included in.

5.13 Related Party Transactions

5.13.1 Where an *entity* enters into a transaction with a *related party* the *price monitoring information returns* must disclose for each transaction:

(a) the name of the *related party* which incurred the cost in providing the service to the *entity* and a description of the *entity's* interest in the *related party*;

(b) a description of the service provided or received by the *related party*;

(c) the value of the payments for the service;

(d) demonstration that the value reflects that which would be paid by two companies dealing at arm's length dealing with each other;

(e) a description of how the value was arrived at, including any market testing undertaken;

(f) description of how the payment for the service is reflected in the *price monitoring information returns*; and

(g) a description of how shared costs have been allocated.

5.13.2 For the purposes of this clause, a payment made under a contract with a party who was a *related party* at the time the contract was entered into, even if that party is no longer a *related party* (including, but not limited to, where the *related party* was sold to another party) must be recorded as a related party transaction.

5.14 Non-regulated Services

5.14.1 An *entity* is required to list all services provided during each financial year that do not fall within those services defined as *monopoly business activities*, being services that the Authority does not monitor under the QCA Act.

5.14.2 An *entity* is required to provide revenue, operating and capital expenditure values related to its *non-regulated services* at an aggregated level.

5.14.3 If costs to a non-regulated *revenue source* are not directly attributable, an *entity* should allocate costs based on the principles in clause 3.4.

5.14.4 Explanatory notes – An *entity* is required to provide explanation of the basis of any allocations made to *non-regulated services* that would assist the Authority in its assessment of the business' *price monitoring information returns*.

5.15 Tax

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

(a) written down asset values and remaining useful lives for tax purposes for each existing asset or asset class as at 1 July 2008; and

(b) useful lives for tax purposes for each new asset or asset class from 1 July 2008.

5.16 Maximum Allowable Revenue

5.16.1 An entity must provide details of the maximum allowable revenue/s used by the entity in setting prices for 2012-13 and any smoothing period adopted by the entity.

6 DEFINITIONS AND INTERPRETATION

6.1 Definitions

Accounts means a system that records the financial transactions of a business, including revenue earned, costs incurred, and changes in assets, liabilities and equity on which a business's financial statements are based.

Accounting principles and policies mean principles and policies that are used by an *entity* to prepare the statutory accounts and budget.

Activity means each of the water retail/distribution activities and wastewater retail/distribution activities, pending any declaration of activities as monopoly business activities under Part 3.

Asset class means a group of assets with common characteristics and asset lives. As a minimum, asset classes are:

(a) distribution infrastructure not included in the following categories:

(b) reservoirs;

(c) pump stations;

(d) treatment;

(e) associated telemetry and control systems;

(f) meters;

(g) billing systems;

(h) corporate systems;

(i) sundry property, plant and equipment;

(j) land;

(k) buildings other than infrastructure housing;

(l) support services; and

(m) mains and pipes.

Authority means the Queensland Competition Authority established under the *Queensland Competition Authority Act 1997*.

Budget means the budget adopted by the entity at the time of setting prices.

Bulk water costs means all direct and indirect operating expenditure associated with the purchase of bulk services including costs associated with: the purchase of bulk water from the Water Grid Manager and other entities; and the purchase of bulk sewerage services.

Capital Contribution means cash (potentially in the form of an infrastructure charge payment) contributed to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*).

Capital expenditure means any expenditure, which has been disclosed as a non-current asset in the balance sheet of the *entity's statutory accounts* and Budget provided that the expenditure conforms with at least one of the following:

(a) the expenditure relates to the purchase, development or construction of a new non-current asset of the *entity*;

(a) the expenditure will increase the capacity or functionality of the *entity's* non-current assets;

(b) the expenditure will significantly reduce the ongoing maintenance of the *entity's* non-current assets; and/or

(c) the expenditure will extend the service life of the *entity's* non-current assets beyond that expected when the assets were originally installed.

Causal means, in relation to a relationship or basis of allocation, that the allocation base is the most significant trigger of consumption or utilisation of the resources or services represented by the costs or other item that is being allocated.

Chart of accounts means the detailed listing of all accounts represented in the *general ledger*.

Chemical costs means all chemical costs incurred in the process of treating water, sewerage or recycled water during the year.

Contributed assets means assets contributed to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*).

Contractor expenses means a person (or team of persons) who provides services including consultancy and agency staff) to the business but is not directly employed by the business. This does not include contractors engaged in the provision of IT maintenance and support services (these are to be included in the IT expenditure allocation category).

Core service is a monopoly service provided by the business to customers on a continuous basis. Each core service is typically differentiated by a standard description that defines the type, characteristics and attributes that logically separates that service from all other core services. Core services for water include: the supply of drinking water delivered by the distribution network, and the supply of recycled water via a separate distribution network. Core services for wastewater include acceptance and disposal of sewerage directly from users' premises to the sewer network (core wastewater service) and acceptance and disposal of trade waste from users' premises to the sewer network.

Corporate costs means general corporate expenditure that cannot be reasonably allocated to other cost types, including such costs associated with:

(a) personnel in the corporate group/division;

(b) general management;

(c) board members;

(d) legal counsel;

(e) company secretary;

(f) quality/business improvement;

(g) corporate relations;

(h) strategy and planning;

(i) human resource management;

(j) risk management;

(k) insurance management;

(l) environment management;

(m) property management;

(n) financial management;

(o) support staff for the corporate office;

(p) costs incurred by the corporate office, including:

  (i) property rental, repair and maintenance, utilities, and taxes for the corporate office;

  (ii) printing and stationery;

  (iii) telephone and fax;

  (iv) travel expenses;

  (v) legal fees;

  (vi) consultants;

  (vii) auditing;

  (viii) board fees;

  (ix) brand advertising and corporate image making;

  (x) corporate/community sponsorships and donations;

  (xi) internal communication;

  (xii) membership fees for industry or trade organisations;

  (xiii) freight, courier and postage;

(q) membership fees for industry or trade organisations;

(r) IT systems other than costs associated with the SCADA (Supervisory Control and Data Acquisition control system);

(s) telemetry and other 'operational' IT costs should be allocated to the relevant activity area; and

(t) price monitoring staff, providing information requested by the Authority, preparing submissions in response to consultations conducted by the Authority, non-financial audits and the preparation of price monitoring accounts.

Costs associated with the following items must be excluded, and separately identified, from corporate costs:

(a) management fees which are a transfer of profit rather than a fee for service; and

(b) costs associated with property required for workshops and for network assets.

Customer group means, for example, residential, *non-residential*, or *other customer group* that is the source of revenue. Where there are commercially negotiated arrangements, these also need to be separately identified. Revenues from commercially negotiated arrangements include revenue that is *directly attributable* to the provision of services for which a price is not included in an *entity's* pricing schedule.

Directly attributable means, in relation to the allocation of an item, that the item is wholly and exclusively associated with the *activity* or *service.*

Director means a person appointed to the board of a water business.

Distribution activity means activities related to the transmission, reticulation and treatment of water and wastewater.

Dividend means any dividend payments either paid or payable that relate to the profit earned during the financial year. For the avoidance of doubt, any dividend payments made during the financial year that relate to profits earned in previous financial years should not be reported.

Donated assets means assets provided to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*). There may be instances where such a benefit is not anticipated. Details of the nature of the arrangement are required in this instance.

Electricity charges means all electricity costs that have been incurred during the year, including, as a separate item, renewable or green electricity expenditure.

Employee expenses means wages and costs related to employees directly employed by the business with the exception of labour costs for the provision of IT services and customer service and billing. Any agency staff or labour expenses incurred on contractors should be included in the 'Contractor expenses' category. Employee expenses should be disaggregated according to:

(a) superannuation;

(b) WorkCover;

(c) long service leave;

(d) payroll tax;

(e) training;

(f) study assistance;

(g) overtime.

Entity means a SEQ Distributor-Retailer Authority created by the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* listed under clause 1.3 of these requirements or its successor.

Establishment Costs means the costs involved in establishing the entities. Criteria for these costs will be advised by the Queensland Water Commission. Only the establishment costs approved by the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade can be included in the *entities' price monitoring information returns.*

Estimated actual means the expected year end results for the year immediately prior to the reporting year as estimated at the time of drafting the price monitoring information returns.

Financial year means a standard *financial year* beginning 1 July and ending 30 June the following year.

General ledger means the detailed set of *accounts* of an *entity* upon which the detailed transactional information for each cost category and *revenue source* is recorded.

Geographic area means each of the ten amalgamated council boundaries, and by system (catchment) where available.

Gifted assets means assets provided to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*). There may be instances where such a benefit is not anticipated. Details of the nature of the arrangement are required in this instance.

GSL payments mean gross payments made to customers under a GSL Scheme approved by the approved by the Minister under section 94(1)(c) of the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*

Information Technology means all information technology costs that have been incurred during the year. This includes such items as software (where classified as an operating expenditure by the business), IT licence costs, IT maintenance and support arrangements and SCADA operating costs. Entities should also allocate any direct or contracted labour expenses related to the provision of IT services to this category. IT related to billing systems should be recorded separately under billing systems.

Licence and regulatory fees means fees paid to the Department of Environment, Resources and Mines, the Energy and Water Ombudsman Queensland, Queensland Competition Authority or other relevant agency. Fees must be identified on the basis of the agency to which they relate. Licence fees must exclude membership fees for industry or trade organisations (to be included corporate costs).

Material means, in relation to an item, that the omission, misstatement or non-disclosure of the item has the potential to prejudice the understanding of the financial position and nature the entity and allocations between entity business segments and activity areas. For guidance, any variation above 5% is considered material.

Ministers means the (then) Treasurer and the Minister for Finance and The Arts.

Ministerial Direction means the Ministers' Direction Notice made under Section 23 (a) of the *Queensland Competition Authority Act 1997* and published in the Queensland Government Gazette Vol. 357, No. 68 on Wednesday 29 June 2011.

Monopoly business activity is an activity declared for the purposes of price monitoring under Part 3 of the QCA Act. To avoid doubt, *monopoly business activities* include core services and non-core services.

Non-regulated service means a service provided by an *entity* that is not required to satisfy any specified legal obligation or is provided by other service providers in a competitive market in which the business has no legal power to influence a customer's selection of the business as the service provider. For example, this could include laboratory services. Non-regulated services are not to be disaggregated between water and wastewater.

Non-residential customer means commercial and industrial customers and community or council groups.

Operating Costs means those costs which relate to the day to day operations of the *entity*.

Other Customer group means customers other than residential and non-residential (commercial and industrial) and typically includes the provision of irrigation, irrigation drainage, domestic and stock, surface water diversions and groundwater diversions.

Other Expenses means all other operating expenditure accounts not already included in the previous operating expenditure categories. The Authority anticipates that this category would include a number of smaller expenditure accounts (to the extent that they are considered to be incurred in the provision of specified services), including, but in no way limited to:

(a) membership fees;

(b) advertising;

(c) subscriptions and publications fees;

(d) sponsorships;

(e) entertainment;

(f) meal expenses; and

(g) travel and accommodation.

Other Material and Services includes:

(a) the hire of equipment to undertake maintenance works;

(b) expenditure on concrete;

(c) expenditure on steel and other metals or alloys;

(d) expenditure on cables and other electrical *materials* ;

(e) expenditure on wood or timber products;

(f) expenditure on nuts, bolts and screws;

(g) expenditure on any other plant or materials that can be reasonably justified by the business for inclusion in this category.

Price monitoring information returns means financial records derived from an *entity's statutory accounts* and Budget that record transactions associated with the *Activities* and services of the *entity*.

Price monitoring accounting principles and policies means *accounting principles and policies* that are used by an *entity* to prepare *price monitoring information returns* that are additional or in place of the accounting principles used to prepare the *statutory accounts* and budget.

QCA Act means the *Queensland Competition Authority Act 1997*.

Related party means in relation to an *entity* any other party that, at any time during the reporting period, is subject to (or may exert) control or significant influence by (or upon) the *entity*. For the avoidance of doubt, a related party would include an entity's participating councils.

Residential Customer means a person who provides revenue in exchange for services directly attributable to the provision of services to residences.

Revenue from other sources means:

(a) Revenue that will offset prices/revenue requirement

  (i) Proceeds from asset disposals (to be deducted from RAB) - Revenue collected from the disposal of assets used to provide monopoly business activities should be included in proceeds from asset disposals.

  (ii) Government contributions (operating) - Government grants that are intended to offset prices for purposes other than capital expenditure should be included in government contributions (operating).

  (iii) Government contributions (capital) - Government grants for capital purposes that are intended to offset prices should be included in government contributions (capital);

(b) Revenue that will not offset prices/revenue requirement

  (i) Proceeds from sale of assets (with no impact on the RAB) - Revenue collected from the disposal of assets used to provide non-regulated services should be included in proceeds from asset disposals.

  (ii) Other non-regulated revenue - Revenue that is directly attributable to the provision of non-regulated services should be included in other non-regulated revenue (non-regulated revenue includes interest on investments, but not interest paid by customers on overdue accounts).

Seepage water means water that seeps from the ground into that part of a structure that is built below ground level. Examples of structures built below ground level – tunnels for traffic, underground carparks, basements, lift wells.

Service can be *core* or *non-core* or *non-regulated*, as per above definitions.

Statutory accounts means the *statutory accounts* of an *entity*, audited where available.

Statutory account amount means amounts taken from the *statutory accounts* for the purposes of allocating or disaggregating those amounts as required by these requirements.

Subsequent price monitoring accounting period means, from time to time, the price monitoring period directly following the interim price monitoring period.

Third party means any party other than a *related party* contracted by the *entity* to provide services in order for the entity to fulfil its obligations.

Treatment means the treatment and disposal of sewage and trade waste.

Vehicle Fleet running costs means all fuels and other vehicle fleet running and maintenance costs. Fuels include petrol, diesel, liquefied petroleum gas (LPG) or any other fuel used to power motor vehicles. Any labour costs incurred by the business in managing its fleet, should be included in the 'Labour costs' expenditure allocation category, rather than in this expenditure allocation category.

Year means financial year, unless otherwise specified.

6.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

(a) The singular includes the plural, and the converse also applies.

(b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.

(c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.

(d) A reference to a clause or appendix is a reference to a clause of or appendix to, this document.

(e) A reference to an agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, innovated or replaced, except to the extent prohibited by this document or that other agreement or document.

(f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.

(g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.

(h) Any 'notice' to be given or matter to be 'notified' must be in writing.

7 PROFORMA BOARD MEMBERS RESPONSIBILITY STATEMENT

In the opinion of the Board Member/s of [name of *entity*]:

(a) The *price monitoring information returns* set out on pages [ ] to [ ] are drawn up so as to fairly represent, in accordance with the requirements of the SEQ Interim Price Monitoring Information Requirements issued by the Queensland Competition Authority, ("Information Requirements"):

  (i) the information required by the Information Requirements;

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

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

(b) no related party transactions of the type described in the Information Requirement arose during the current price monitoring accounting period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above);

(c) no third party transactions of the type described in the Information Requirement occurred during the current price monitoring period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above); and

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

Signed in accordance with a resolution of the Board:

(name of Board Member) Dated

Please append an extract of the Minutes of the Board Meeting that the above attestation.

8 PRICE MONITORING ACCOUNTING STATEMENT TEMPLATES

Information templates are available from the Authority's website www.qca.org.au.

Board Biographies

Annex B

BERNARD PONTING

Appointed Acting Board Chairperson: August 17 2012

LLB (Hons), GDip Legal Practice, Solicitor of the Supreme Court of Queensland, GAICD

Bernard became a solicitor of the Supreme Court of Queensland on 14 December 1978. After initially practising in Brisbane, he commenced practice at Southport in 1981, where he continues under the firm name of Bernard Ponting & Co.

His practice covers a range of legal areas, with an emphasis on commercial, corporate and administrative law matters, and litigation in those areas. His clients are drawn from Australia and overseas.

Bernard was a Board member of the Gold Coast Waterways Authority from 1988 to 1990. The authority had responsibility for the management and control of the Gold Coast Seaway at Southport and the waterways and navigable rivers of south Moreton Bay and the Gold Coast area. Bernard was also a Board member of its successor authority, the Gold Coast Harbours Authority, in 1998.

Following the resignation of Jude Munro AO, Bernard was appointed Acting Board Chairperson effective 17 August 2012.

Barry Ball

Appointed: 25 June 2010

BEng (Civil), GDip Mgt, MAICD

Barry is Deputy Director of the Global Challenge Institute at the University of Queensland, and Water Policy Manager for the International Water Centre. He provides leadership in the area of water policy and governance, institutional strengthening and social change.

Barry held senior management positions with the Brisbane City Council for more than 18 years and has held many positions in organisations devoted to issues of water, planning and natural disaster responses.

Barry's roles within the water sector include being a board member of the Water Sensitive Cities Cooperative Research Centre and the International River Foundation. Barry is a registered professional engineer and was awarded the Australian Public Service Medal for Water Policy.

Dennis Cavagna

Appointed: 25 June 2010

BEcon, GDip Fin Planning, GAICD, FCA

Dennis has a wealth of experience in leadership roles in finance, economics and IT within the water and essential services industries in Victoria.

His professional experience spans some 25 years in the Victorian water industry, including leadership positions with South East Water, Melbourne Water, the Mornington Peninsula and District Water Board and the Department of Water Resources.

Since 2007, as a Commissioner of the Essential Services Commission (the independent economic regulator in Victoria), Dennis has been involved with the approval of prices and the quality and reliability of essential utility infrastructure services, including water services.

Dennis is also a board member with Parks Victoria as well an independent member of both the Risk and Audit Committee of the Victorian Department of Sustainability and Environment and Audit Committee of VicRoads.

Diana Eilert

Appointed: 25 June 2010

BSc (Maths), MComm (Fin & Marketing), GAICD

Diana is a professional Non-Executive Director, appointed to Boards of Queensland Urban Utilities, ASX listed digital business "onthehouse", and AMP Life.

She has an executive career spanning more than 25 years. Major roles include Group Executive, responsible for Suncorp's entire insurance business and Group Executive People, Technology, Marketing and Joint Ventures for Suncorp. Diana also worked for 10 years with Citibank where she ran retail credit and risk; the mortgage business; retail funds management business; and the direct bank. Diana built her strength in strategy early in her career as a Principal of AT Kearney and, subsequently, as a Partner of IBM Consulting. From 2009 until 2012 she developed this further while working with News Ltd, initially consulting, then as Head of Strategy and Corporate Development.

Diana's previous directorships include ASX-listed REA group (realestate.com.au), Chairmanship of GIO Australia and directorships of various other Suncorp subsidiaries.

She holds a Bachelor of Science, Master of Commerce and is a member of Chief Executive Women.

Paul Emmerson

Appointed: 25 June 2010

BComm, LLB, Solicitor of the Supreme Court of QLD, MAICD

Paul is a solicitor, Certified Practising Accountant and Registered Tax Agent. His long-standing involvement in numerous community groups and major projects of regional significance contributed to his winning the 2009 inaugural Lockyer Valley Council Citizen of the Year award.

Paul's many years of legal and accounting experience have made him sought after in the fields of commercial and financial law. As Principal of PJ Emmerson Accountancy Practice, and manager of the family dairy farm, Paul has a wealth of business experience and regional knowledge.

Paul has been heavily involved in water user groups for more than a decade, including the Upper Lockyer Water Users Association, Lockyer Water Users Forum and South East Queensland Western Catchment Group.

Phil Kesby

Appointed: 25 June 2010

CertConst (Hons), Licensed Builder (NSW & QLD), GAICD

Phil has more than 32 years' experience in infrastructure delivery and property related industries. He has exceptional business and people skills and is highly regarded for his expertise in relationship management and stakeholder engagement.

Phil was Strategic Relationship Manager within the Thiess Queensland Leadership Team and was responsible for relationship management, stakeholder engagement and marketing. Phil was at the forefront of cultural programs that improved the personal and business environments at Thiess.

Phil established his own consultancy practice in 2008, which provides high-level mentoring and guidance in the fields of relationship management, stakeholder engagement and business development.

Len Scanlan

Appointed: 25 June 2010

BBus (Acc), BA (Gov't/Asian Studies/Public Admin), M Pub Ad, FAICD

Len's public service career spanned 31 years and included service with the Departments of Premier, Transport, Auditor-General and the Queensland Treasury.

Len was Auditor-General of Queensland from 1997–2004.

Upon completing his term as Auditor-General, Len commenced a portfolio career as an independent private consultant, encompassing various activities in the public and private sectors.

Len was an active member of CPA Australia for 30 years, serving on numerous committees at local, state and national levels, including time as State President.

Len is an Adjunct Professor at the University of Queensland and Bond University and is also Chair of Brisbane City Council's Audit Committee.

Queensland Urban Utilities' Board members from left to right: Paul Emmerson, Phil Kesby, Dennis Cavagna, Barry Ball, Bernard Ponting *(Interim Chairperson)*, Diana Eilert, Len Scanlan.

Customer Service Standards

Annex C

Queensland Urban Utilities
Service Standards

January 2011

QUEENSLAND Urban Utilities

WATER QUALITY

The Queensland Urban Utilities' customer service standards outline commitments, responsibilities and standards you can expect from us, in relation to your water and wastewater service. The standards cover customers across all of our service territory including the Brisbane City, Ipswich City, Lockyer Valley Regional, Scenic Rim Regional, and Somerset Regional council areas.

Drinking water quality standard	
Definition	The Australian Drinking Water Guidelines specified by the National Health Medical Research Council, against which Queensland Urban Utilities measures the verification of water quality.
Queensland Urban Utilities Service Standard	National Health Medical Research Council, Australian Drinking Water Guidelines

Water quality complaints per 1000 properties per year	
Definition	The total number of complaints received by Queensland Urban Utilities requiring further investigation that relate to water quality, including water quality complaints resulting from operational practices. With respect to water quality, this is any complaint regarding: • discolouration • taste • odour • stained washing • illness, or cloudy water (e.g. caused by oxygenation), etc. It excludes complaints relating to: • service interruption • adequacy of service • restrictions • pressure and leakage. Complaints that require further investigation are those where the recommended action by Queensland Urban Utilities does not quickly solve the customer's concern. For example, a recommendation to address discolouration would be to run the tap for a minute. If effective, a complaint requesting service would not be recorded.
Queensland Urban Utilities Service Standard	Less than or equal to eight water quality complaints per 1000 properties per year

Water quality incidents per 1000 properties per year	
Definition	An incident is any event affecting Queensland Urban Utilities' infrastructure, which adversely affects the water quality delivered to customers, and to which water quality complaints can be attributed.
Queensland Urban Utilities Service Standard	Less than or equal to ten water quality incidents per 1000 properties per year

WATER SUPPLY

Water pressure	
Definition	The minimum pressure that customers can expect to receive at the connection to the property.
Queensland Urban Utilities Service Standard	Urban areas - minimum 210 kPa (kilopascals) Trickle feed areas and private booster - minimum 100 kPa (kilopascals)

Water volume	
Definition	The minimum flow rate that customers can expect to receive at the connection to the property.
Queensland Urban Utilities Service Standard	Urban areas – 25 litres per minute Trickle feed areas – minimum 3.2 litres per minute

CUSTOMER SERVICE

Calls answered (Grade of Service)	
Definition	The percentage of calls answered within 30 seconds.
Queensland Urban Utilities Service Standard	To have 80 percent of calls answered within 30 seconds

SERVICE CONNECTIONS

Time to commence work following customer payment	
Definition	The time to install a new service connection.
Queensland Urban Utilities Service Standard	Time frame to be 15 working days, 95 percent of the time

CONTINUITY OF SUPPLY AND NOTIFICATION OF INTERRUPTIONS

Number of unplanned water interruptions per 1000 connections per year.

Definition	An unplanned water supply interruption occurs when the property is without a service due to any cause, excluding the following: • Property service connection interruptions (unless the burst or leak requires the water main to be shut down for repair and therefore affects multiple customers) • Interruptions that cause some reduction to the level of service but where normal activities(shower, washing machine, toilet flushing etc.) are still possible • Breaks in house connection pipes or mains • Planned interruptions. An unplanned water supply interruption is when the customer has not received at least 48 hours notification (or as otherwise prescribed by regulatory requirements) of the interruption. It also includes situations where the duration of a planned interruption exceeds that which was originally notified. In this circumstance the duration of the entire interruption is referenced. All un-notified interruptions caused by third parties should be included.
Queensland Urban Utilities Service Standard	Less than or equal to 100 unplanned water interruptions per 1000 connections per year

Restoration of supply after unplanned interruptions

Definition	Restoration occurs where all interrupted connections are restored to normal service, that is, regardless of whether connections are progressively restored, for example, due to location of isolation valves.
Queensland Urban Utilities Service Standard	Less than five hours on 90 percent of occasions

Response to urgent incidents

Definition	The response time is determined as the time it takes the utility to attend to the incident, measured from the time of the customer request to the time taken to determine appropriate restoration action.
Queensland Urban Utilities Service Standard	Urban areas – less than one hour Rural areas – less than two hours

Response to non-urgent incidents

Definition	Response time to non-urgent incidents is determined as the time it takes the utility to attend to the incident, measured from the time of the customer request to the time taken to determine appropriate restoration action.
Queensland Urban Utilities Service Standard	Urban areas – less than 24 hours Rural areas – less than 72 hours

CONTINUITY OF SUPPLY AND NOTIFICATION OF INTERRUPTIONS

Notification of planned interruptions	
Definition	Planned interruption is when the customer is given notification of the interruption as it is part of organised works. Planned work of which the customer is not notified is an unplanned interruption.
Queensland Urban Utilities Service Standard	Minimum of 48 hours

Queensland Urban Utilities
GPO Box 2765, Brisbane Qld 4001
ABN 86 673 835 011

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Q00171-2011
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For more information
visit www.urbanutilities.com.au
or call 13 26 57


Urban

Design Standards – Source Documents

Annex D

Water supply network desired standards of service

Measure	Planning criteria (qualitative standards)	Design criteria (quantitative standards)
Reliability/continuity of supply	All development receives a reliable supply of potable water with minimal interruptions to their service.	• Local government standards in planning scheme and planning scheme policies • Customer service standards • Customer service obligations
Adequacy of supply	All development is provided with a water supply that is adequate for the intended use.	• Water Service Association of Australia codes • IPWEA standards • Customer service standards • Local government standards in planning scheme and planning scheme policies
Quality of supply	Provide a uniform water quality in accordance with recognised standards that safeguards community health and is free from objectionable taste and odour.	• The Australian Drinking Water Guidelines developed by the National Health and Medical Research Council
Environmental impacts	The environmental impacts of the water supply network are minimised in accordance with community expectations.	• Compliance with the requirements of the Environmental Protection Act 1994 and associated Environmental Protection Policies and the Water Act 2000
Pressure and leakage management	The water supply network is monitored and managed to maintain the reliability and adequacy of supply and to minimise environmental impacts.	• System Leakage Management Plan (Chapter 3, Part 3, Division 1A Water Act 2000)
Infrastructure design/ planning standards	Design of the water supply network will comply with established codes and standards.	• Water Supply Code of Australia—Water Services Association of Australia— WSA 03–2002 • The Australian Drinking Water Guidelines developed by the National Health and Medical Research Council • Planning Guidelines for Water Supply and Sewerage—Department of Natural Resources and Water (NRW) • Local government standards in planning scheme policies

Sewerage network desired standards of service

Measure	Planning criteria (qualitative standards)	Design criteria (quantitative standards)
Reliability	All development has access to a reliable sewerage collection, conveyance, treatment and disposal system.	• Local government standards in planning scheme and planning scheme policies • Customer service standards • Customer service obligations
Quality of treatment	Ensures the health of the community and the safe and appropriate level of treatment and disposal of treated effluent.	• Local water quality guidelines prepared in accordance with the National Water Quality Management Strategy • Queensland Water Quality Guidelines 2006—Environmental Protection Agency (where local guidelines do not exist) • National Water Quality Guidelines—National Water Quality Management Strategy (where local or regional guidelines do not exist)
Environmental impacts	The environmental impacts of the sewerage network are minimised in accordance with community expectations	• Compliance with the requirements of the Environmental Protection Act 1994 and associated Environmental Protection policies
Effluent re-use	Reuse effluent wherever possible	• Guidelines for Sewerage Systems: Reclaimed Water — February 2000 • Queensland Water Recycling Guidelines—December 2005
Infrastructure design / planning standards	Design of the sewerage network will comply with established codes and standards	• Planning Guidelines for Water Supply and Sewerage—NRW • Sewerage Code of Australia— Water Services Association of Australia—WSA 02—2002 • Sewerage Pumping Station Code of Australia—Water Services Association of Australia—WSA 04—2005 • Local government standards in planning scheme and planning scheme policies

Capital Prioritisation

Annex E

Queensland Urban Utilities Capital Risk Prioritisation Guidelines

Introduction

The Australian Water Industry is a very capital intensive industry being driven by the need to meet growth in our expanding cities and changing regulatory requirements. Queensland Urban Utilities annually seeks significant levels of capital funding, in the order of $300M+. Capital effectiveness and efficiency are critical.

QUU has recognised that the process of allocating limited capital funding to a selection of projects, that have competing drivers, is a difficult one. Hence a consistent, objective and transparent approach is sought to prioritising capital works to ensure limited funding is invested wisely.

The Queensland Urban Utilities capital prioritisation framework has a number of objectives:

- Assessing each project:
  - Contribution to Queensland Urban Utilities objectives (still to be developed).
  - Risk of deferring the project against the Risk Framework.
- Ability to prepare scenarios that:
  - Trade off between risk and value.
  - Optimise the program to meet budget constraints.
  - Facilitate decision making.
- Ensure that all projects and decisions are transparent.

Why is Capital Prioritisation Important?

Capital Prioritisation is important for a number of reasons:

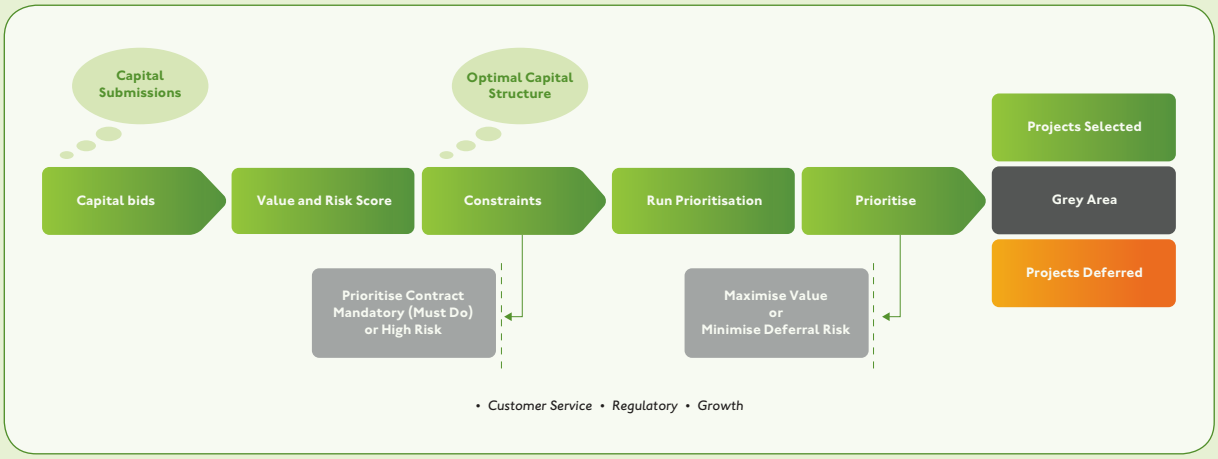
- To ensure a financially responsible spend profile that provides services at optimal timing and minimum cost.
- To ensure a program that will meet shareholder requirements and maximise returns.
- To result in an affordable program that will meet Queensland Urban Utility's pricing and lending policies.
- To develop a program that will be justifiable to the pricing and asset regulators and able to sustain review.

Capital Prioritisation Methodology

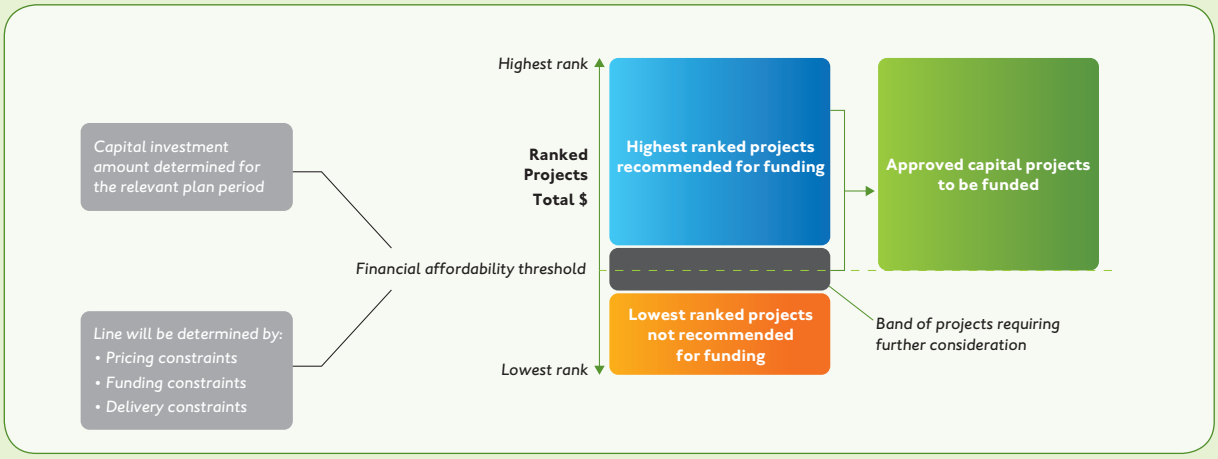
The capital prioritisation process addresses a number of issues:

- Ongoing projects – Where there is a contractual commitment or approved funding is in place.
- Rolling Programs – Where some level of funding is desired every year.
- New Projects – An evaluation of risk of deferral is carried out. In this process both the likelihood and consequence of deferral are evaluated.

The following diagram illustrates the capital prioritisation process:



The output of the prioritisation process will be a list of projects as follows:



The output of this process will be a list of projects with a financial affordability threshold for consideration by the QUU Board.

Capital Prioritisation

Annex E

Step Through of Prioritisation Process

Scenario: Assume the Project will not be funded in the upcoming FY's Budget.

Responses to Questions below are entered on the risk assessment worksheet provided.

Q1a. Is the project contractually committed as of the date of prioritisation assessment?

Note: Contractually committed means either a contract has been awarded to an external provider or there is a fixed commitment by that date to an internal service provider to undertake the works.

If the answer is YES these projects are automatically placed at the top of the overall prioritised list of projects. This acknowledges that the project is already in the delivery process and that to not fund the project would mean that existing contracts would need to be broken.

Q1b. Does the project have approved funding in the current FY, but is not yet contractually committed?

If the answer is YES these projects are ranked immediately below the contractually committed projects. This acknowledges that Councils have already seen fit to approve funding for these projects and as such have already been justified through rigorous budgetary processes.

Q1c. Is the line item for a Rolling Program?

Note: A Rolling Program is a program of repeatable minor works for which some level of funding is desired every year (e.g. Water Meter Replacement, Burst Mains Replacement etc).

If the answer is YES these programs are ranked immediately below the ongoing projects. This acknowledges that historically these programs are always funded. The level of funding rather than the need for the program is usually the key discussion point.

Minute Extract

Annex F

20 August 2012

Board Minute – QCA Interim Price Monitoring – Information Return 2012/13

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 2012/13 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 9 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**

FOR MORE INFORMATION VISIT
www.urbanutilities.com.au

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