

SEQ Interim Price Monitoring: Auxiliary Data Verification

2010/11 Interim Price Monitoring of SEQ Water and
Wastewater Distribution and Retail Activities

Queensland Urban Utilities, Allconnex Water and Unitywater

December 2010





SEQ Interim Water and Waste Water Price Monitoring

AUXILIARY DATA VERIFICATION REPORT

- Final Rev B
- 3 December 2010

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Limitation Statement

The sole purpose of this report and the associated services performed by Sinclair Knight Merz Pty Ltd (SKM) is to assist the Queensland Competition Authority (the Authority) in its interim price monitoring obligations to assess the accuracy and comprehensiveness of the Auxiliary Data inputs of interim price monitoring submissions of the newly formed water and wastewater distribution/retail entities within south-east Queensland (the Entities) in accordance with the scope of services set out in the contract between SKM and the Authority. That scope of services, as described in this report, was developed with the Authority.

In preparing this report, SKM has relied upon, and presumed accurate, any information (or confirmation of the absence thereof) provided by the Authority, the Entities and/or from other sources. Except as otherwise stated in the report, SKM has not attempted to verify the accuracy or completeness of any such information. If the information is subsequently determined to be false, inaccurate or incomplete then it is possible that our observations and conclusions as expressed in this report may change.

SKM derived the data in this report from information sourced from the Authority, the Entities and/or available in the public domain at the time or times outlined in this report. The passage of time, manifestation of latent conditions or impacts of future events may require further examination of the project and subsequent data analysis, and re-evaluation of the data, findings, observations and conclusions expressed in this report. SKM has prepared this report in accordance with the usual care and thoroughness of the consulting profession, for the sole purpose described above and by reference to applicable standards, guidelines, procedures and practices at the date of issue of this report. For the reasons outlined above, however, no other warranty or guarantee, whether expressed or implied, is made as to the data, observations and findings expressed in this report, to the extent permitted by law.

This report should be read in full and no excerpts are to be taken as representative of the findings. No responsibility is accepted by SKM for use of any part of this report in any other context.

This report has been prepared within the time restraints imposed by the project program. In addition, concerns and discussions regarding confidentiality resulted in delays to the provision of information. These time restraints have imposed constraints on SKM's ability to obtain and review information from the Entities.

This report is based solely on the information provided to SKM up to the issue of the draft report (29 September 2010). Therefore, as more information becomes available, the conclusions and recommendations made in this report should be revised accordingly.

This report has been prepared on behalf of, and for the exclusive use of, the Authority, and is subject to, and issued in accordance with, the provisions of the agreement between SKM and the Authority. SKM accepts no liability or responsibility whatsoever for, or in respect of, any use of, or reliance upon, this report by any third party.



Executive summary

The Queensland Competition Authority (the Authority) has begun the process of interim price monitoring of the monopoly distribution and retail water and wastewater business activities of Queensland Urban Utilities, Allconnex Water and Unitywater (the Entities).

The Authority appointed Sinclair Knight Merz Pty Ltd (SKM) to undertake an independent review of information provided by the Entities relating to:

- their Statutory Accounts and budget information
- revenues, including prices and pricing policies
- initial Regulatory Asset Base (RAB)
- information on asset lives and asset values

The Authority's terms of reference for the auxiliary data verification required SKM to review whether the Entities provided comprehensive and accurate information that complies with each element of the Authority's *"Information Requirements for 2010/11"*. SKM reviewed and analysed the data and information provided by the Entities, including supporting documents, information template (developed by the Authority) and previous reports commissioned by the Entities. Where possible, SKM has met face to face with representatives from each of the Entities to further discuss their "information returns" and responses. In reviewing some items of the information return, SKM has relied on the accuracy and completeness of the information provided (to SKM or the Authority) by the Entities. It is outside the scope of this appointment to provide an independent review of previous audited financial statements and information of the Entities or the various councils (the councils) previously responsible for water services and water assets transferred to the Entities.

The key findings from our review of each of the Entities' information return is summarised in Table 0-1.

■ Table 0-1 Summary of key findings

Auxiliary data verification	Queensland Urban Utilities	Allconnex Water	Unitywater
Statutory accounts and budget	Minor gaps identified with high-level classifications of assets and liabilities.	Audited financial statement from participating councils could not be made available in time for the submissions and therefore forecasts are linked to Allconnex Water's Enterprise Financial Model. Regulatory accounts were not available for Allconnex Water to complete the necessary information for "regulatory adjustments".	Minor issues only where supporting documents were not provided for the statutory accounts and budget information.



Auxiliary data verification	Queensland Urban Utilities	Allconnex Water	Unitywater
Revenues	Information provided for revenues has met the Authority's requirements, subject to any demand modifications.	Minor information gaps exist which should be addressed in future submissions.	Information on revenues met the Authority's requirements with the exception of appropriate supporting information on pricing policies.
Initial Regulatory Asset Base (RAB)	QUU have provided sufficient detail on its opening RAB and the required roll-forward information.	Allconnex Water provided sufficient detail on its opening RAB and the required roll-forward information. In future submissions, further clarification should be provided to explain the allocation between service types.	The RAB values cannot be verified until audited information is available.
Contributed, donated and gifted assets and capital contributions	Scenic Rim and Somerset donation forecasts and cash contributions for Somerset require confirmation.	Allconnex Water substantially met the requirements but did not complete the information return on cash contributions structure.	Forecasts for contributed, donated and gifted assets are based on historical data and subjective growth rates.
Existing useful lives	Information regarding existing useful lives was considered reasonable.	Useful lives for existing assets have been based on accounting useful lives from each district's fixed asset register and new assets were allocated by their economic useful life.	Unitywater has addressed the requirements in the provision of existing useful lives. SKM note a large range of existing lives exists within each asset class.
Non-regulated services	QUU have suitably identified non-regulated services, however, QUU should develop an appropriate cost allocation methodology for these services.	Allconnex Water is compliant with the information required for non-regulated services.	Unitywater is compliant with the information required for non-regulated services, subject to providing adequate supporting information for their non-regulated services.
Allocation of data	QUU has provided sufficient details of their allocation methodology.	Minor issues identified. Sufficient details of their allocation methodology have been provided which satisfies the Authority's requirements.	Unitywater's allocation methodology satisfies the Authority's requirements.
Systems progress	Systems progress is ongoing.	The Allconnex submission provides a list of works required to progress the business to enable complete	Unitywater are suitably progressing their systems for compliance with the information required by the



Auxiliary data verification	Queensland Urban Utilities	Allconnex Water	Unitywater
		information returns by 2013. These works need to be prioritised.	Authority.

Our review revealed that each of the Entities faced similar challenges preparing their information return. Given the recent formation of these businesses, each Entity has largely relied on information and data from the councils. According to the Entities, the information provided by local councils has often been inadequate or incomplete for the purposes of completing the Authority's information return. Specifically, the Entities expressed difficulty providing historical financial statements to SKM. This was compounded where financial statements were provided and the councils did not disaggregate their water business from other operations. To a varying degree, these issues have limited the ability of SKM to review the Entities' information return.

Key findings and recommendations from the 2010/11 review include:

- Each Entity prepared an adequate submission in response to the Authority's request. While information was provided for each requirement, the level of detail varied depending on the Entity and the requirement.
 - The Entities did not always provide comprehensive supporting information which met the Authority's requirements, particularly the requisite to provide audited financial statements and detailed asset information. SKM recognises that the Entities have faced considerable constraints in providing this information to the Authority at the time of this report. This was largely outside the control of the Entities. It is anticipated that this information is likely to be available to the Authority in the near future. This meant that in some cases the accuracy of the information returns and values in the information templates could not be confirmed. This lack of supporting information casts doubt over the derivation of the values in the information templates. This information is likely to be available to the Entities as data is provided from the councils.
- Each Entity is now preparing or updating their financial and business systems to collect and prepare the necessary information required by the Authority for future price monitoring.
- Supporting spreadsheets provided by the Entities did not contain explanatory notes. The Entities should provide a "technical note" with the models used to populate the information templates so the Authority can review the formulae and data used. The data source and assumptions used in the model should also be documented in the model's technical note.
- Several minor issues were identified in how costs were allocated between services. Entities have generally allocated costs via a "best fit" approach as not all cost categories aligned with those of the Authority. SKM recommends the Authority considers developing a cost allocation guideline for retail water businesses.
- Audited financial and asset information should be provided to the Authority as soon as available. This will enable the Entities to finalise their RAB values.
- SKM recommends the Authority provide clarity on the treatment of tax and interest in the cashflow of Entities' regulatory accounts.



SKM's assessment has to be considered in the context of the significant reform of the urban water industry and the first period of price monitoring for the new SEQ water retailers. All Entities have experienced varying degrees of difficulties in completing the required Schedules. This has meant data gaps, inconsistencies and a lack of detail was apparent. Considering the competing priorities facing the Entities as they are established, a reasonable level of detail is provided at this interim stage.

The Entities will have to undertake further work to provide the detail and transparency required by the Authority before returns are considered comprehensive and accurate for price monitoring. SKM recommends the Authority continues to monitor the Entities' progress in developing internal systems so a complete and transparent information return is provided in the future.



1. Introduction

The Queensland Competition Authority (the Authority) has commenced the process of monitoring the prices for water and wastewater services provided by the three water distribution/retail Entities (the Entities) within south-east Queensland (SEQ). The three Entities are:

- Queensland Urban Utilities (QUU)
- Allconnex Water (Allconnex)
- Unitywater

These Entities own, operate and maintain the local water and sewerage distribution and collection infrastructure and are responsible for the retail sale of water supply and sewerage services to customers. The purpose of the interim price monitoring is to review the costs and revenues associated with the provision of water and wastewater services by the Entities.

The Authority appointed Sinclair Knight Merz Pty Ltd (SKM) to review the auxiliary data provided by the Entities in their submissions for the 2010-11 interim price monitoring review. The purpose of the review is to assess whether the information provided by each Entity meets the Authority's requirements and is comprehensive and accurate for the purposes of price monitoring, and to ensure that the information was accurately entered into relevant templates.

This report details the findings of the auxiliary data verification review for the Authority. The review of the auxiliary data considers:

- Statutory and budget information
- Revenue information
- Regulatory Asset Base (RAB) information
- Contributed, donated and gifted asset and capital contribution information
- Existing useful lives for individual assets information
- Asset values and lives for tax purposes information
- Non-regulated services information
- Appropriate allocation of information to the Authority's categories

This report provides an overview of the comprehensiveness and accuracy of auxiliary information supplied to the Authority by each Entity and identifies the ability of the Entities to provide the required information and comments on the development of the Entities' data systems to provide complete information returns before 2013.

1.1. Review approach

In undertaking the review, SKM applied the following approach to verify the auxiliary data requirements specified in the Terms of Reference:








- Review the comprehensiveness of the information templates (as required by the Authority)
 - Identify that the Entities have provided the required information requested by the Authority
 - Check for inconsistencies within the templates
 - Identify where initial information gaps in the templates have been identified by the Entities and supporting documentation was provided
- Identify supporting documentation provided by the Entities
 - Where supporting documentation was provided:
 - Identify whether the supporting documentation verifies the information provided by each Entity in the templates
 - Where it does not, request additional information to support the information in the templates
 - Assess whether the supporting information addresses the identified gaps, and where an error is found, modify the templates accordingly
 - Where supporting documentation has not been provided:
 - Request supporting documentation to confirm the information provided in the Entity's submission
 - Where it does not or an error is found, modify the templates accordingly
 - Where requested supporting documentation cannot be provided, request information on how this is to be provided in the future.

1.1.1. Review measure

In reviewing the auxiliary data within the Entities' information return, SKM developed a process to identify (1) the Entities' compliance with the "SEQ interim Price Monitoring Information Requirements for 2010/11" and (2) the accuracy and comprehensiveness of the information within each Entity's template.

The colour-coded measure legend is provided below in Table 1-1.

■ Table 1-1 Review measure legend – all Entities

	Exceeds requirements
	Meets requirements
	Substantially complying, minor issues identified
	Non-complying, identified issues need addressing
	No information available

The colour-coded review measure used to assess regulatory information provided by each Entity focuses on the reliability of the procedures used to generate the information and the quality or accuracy of the data. The reliability and accuracy of the data is evaluated by reviewing:

- the systems and processes used to generate the data



- the methods used to forecast or estimate data

Descriptions of each colour code used throughout the review are presented below:

Exceeds requirements
All data is based on supportable/verifiable information and records, on documented policies, practices and procedures that are consistent with the Authority's information requirements and are fully verified by SKM. Additional information is also provided.
Meets requirements
All data is based on supportable/verifiable information and records, on documented policies, practices and procedures that are consistent with the Authority's information requirements and are fully verified by SKM.
Substantially complying, minor issues identified
Most information conforms to "green". A minority of data may be based on information which is significantly, but not substantially, different from the Authority's requirements, procedures which are not fully transparent or verifiable by SKM or minor inconsistencies within provided information.
Non-complying, identified issues need addressing
Some, but not all, data is provided without any supporting or underlying documentation, procedures which cannot fully verified by SKM or major inconsistencies within provided information.
No information available
No data was provided or no information is available.

1.1.2. SEQ Interim Price Monitoring Information Requirements for 2010/11

This report uses, and should be read in conjunction with:

- "SEQ Interim Price Monitoring Information Requirements for 2010/11", July 2010 (QCA information requirements)
- "SEQ Interim Price Monitoring Guideline for Templates for 2010/11 Version 1.0", May 2010 (QCA Template Guidelines)
- The SEQ interim revenue monitoring – information requirement template (information template¹)

Additional reference documentation, including Ministerial Advised RAB Values and published information from the various Entities, have also been consulted.

¹ References are made to "information templates" throughout this report. Readers should refer to "The QCA SEQ interim price monitoring – information requirement template"



The following sub-sections outline the information required by the Authority as specified in the “*SEQ Interim Price Monitoring Information Requirements for 2010/11*”, on which the auxiliary data review is based.

1.1.2.1. Section 5.1 – Statutory accounts and budget information

Section 5.1 of the “*SEQ Interim Price Monitoring Information Requirements for 2010/11*” requires that 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

- 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 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
- 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 help interpret the price monitoring information returns.

5.1.2 Balance sheet

- 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.
- Where appropriate, an Entity should refer the Authority to any relevant notes in the Entity’s statutory accounts and budget that will help interpret the balance sheet template.
- In the explanatory notes section, an Entity must explain any change in accounting treatment from the previous year.



5.1.3 Cashflow statement

- An Entity must provide high-level details of the cashflow statement as recorded in the 'its statutory accounts and budget, in accordance with the categories included in the template in section 8.
- Where appropriate, an Entity should refer the Authority to any relevant notes in the Entity's statutory accounts and Budget that will assist in interpretation of the cashflow statement template; and
- In the explanatory notes section, an Entity is required to provide explanation of any change in accounting treatment from the previous year.

1.1.2.2. Section 5.2 – Information on revenues

Section 5.2 of the "SEQ Interim Price Monitoring Information Requirements for 2010/11" requires that Entities provide the following information on the Entity's revenues. For revenue allocated to each deemed category as in 3.4.2, an Entity must provide details of:

- Actual revenues for the year ending 30 June 2009 and estimated actual revenues for the year ending 30 June 2010
- Forecast revenues for each year from 1 July 2010 to 30 June 2013
- Each tariff structure and associated sales consistent with the above revenues
- Any pricing policy, and supporting documents, for the interim period, including the rationale for any smoothing adopted
- 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.

1.1.2.3. Section 5.5.1 – Values for the initial RAB

Section 5.5.1 of the "SEQ Interim Price Monitoring Information Requirements for 2010/11" requires that an Entity must provide for each deemed category in 3.4.2 (except for customer groups) for 1 July 2008:

- 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
- Audited written-down asset values for each asset or asset class
- Values for the initial RAB, by asset or asset class of common type or function, that are consistent with the Minister for Natural Resources, Mines and Energy and Minister for Trade's advised asset values. The RAB values should be based on (a) audited values and (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.



1.1.2.4. Section 5.7 - Contributed, donated and gifted assets and capital contributions

Section 5.7 of the "SEQ Interim Price Monitoring Information Requirements for 2010/11" requires that an Entity must provide for each deemed category in 3.4.2 (except for customer groups) details of:

- Actual contributed, donated and gifted assets for the year ending 30 June 2009 and estimated actuals for the year ending 30 June 2010
- Contributed, donated and gifted assets in each year from 1 July 2010 to 30 June 2013
- Actual capital contributions (cash and infrastructure charges) approved under the Integrated Planning Act 1997 for the year ending 30 June 2009 and estimated actual for the year ending 30 June 2010
- Forecast capital contributions (cash and infrastructure charges) approved under the Integrated Planning Act 1997 for each year from 1 July 2010 to 2013
- Actual planning scheme policy charges received for to the year ending 30 June 2009 and estimated actuals for the year ending 30 June 2010
- Forecast planning scheme policy charges expected to be received for each year from 1 July 2010 to 2013;
- Each infrastructure charge and planning scheme policy charge and associated demand consistent with the above
- Any infrastructure charges Schedule or planning scheme policy, and supporting documents with the details of related assets where available, for the interim period including the rationale for any smoothing adopted
- Details of the method adopted by the Entity for the forecast of contributed, donated and gifted assets and capital contributions (cash and infrastructure charges)
- Any date nominated by the Entity to adopt the asset offset method
- The expected date at which any changes to forecast revenues is to take place (including the basis for the change) and the revenues (including tariff structures) that would apply before and after the change

1.1.2.5. Section 5.8 – Depreciation

Section 5.8 of the "SEQ Interim Price Monitoring Information Requirements for 2010/11" requires that an Entity must provide the following information for each deemed category in 3.4.2 (except for customer groups):

- 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
- Details of depreciation of RAB values and capital expenditure for each year of the interim period from 1 July 2010 to 30 June 2013 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).



1.1.2.6. Section 5.14 – Non-regulated services

Section 5.14 of the "SEQ Interim Price Monitoring Information Requirements for 2010/11" requires that 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.

- An Entity is required to provide revenue, operating and capital expenditure values related to its non-regulated services at an aggregated level.
- 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 (of the Authority's information requirements).
- Explanatory notes – An Entity is required to provide explanation of the basis of any allocations made to non-regulated services that would help the Authority assess the business' price monitoring information returns.

1.2. Terms of reference

The following is reproduced from the Authority's Terms of Reference for the auxiliary data verification consultancy.

1. The purpose of the consultancy is to assess whether the information provided by each Entity is comprehensive and accurate for the purposes of price monitoring, to identify and obtain any further information required and to ensure that the information was accurately entered into relevant templates.
2. The consultant should:
 - (a) review whether the Entity has provided a comprehensive and accurate information return that complies with each element of the Authority's Information Requirements for 2010/11, except for those outside the scope of this review as identified in 3 below.

In particular, whether the information return demonstrates that:

- (i) the statutory accounts and budget information is provided as per section 5.1 (Statutory Accounts and Budget);
- (ii) information on revenues, including prices and pricing policies, (including any supporting documents), and the rationale for any smoothing adopted, have been provided as per section 5.2 (Revenues);
- (iii) values for the initial regulatory asset base (RAB) as at 1 July 2008 are consistent with the Minister for Natural Resources, Mines and Energy and Minister for Trade's advised asset values; and the RAB values are based on audited values in section 5.5.1(b) adjusted by the ratio of the total initial regulatory asset base as at 1 July 2008 to total written-down values for the relevant assets; and that these assets are suitably identified and described, as per section 5.5 (Regulatory Asset Base);
- (iv) sufficient information is provided on contributed, donated and gifted assets and capital contributions (cash and infrastructure charges) as per section 5.7, to allow for their review under section 4.8 of the Final Report on SEQ Interim Price Monitoring Framework;



- (v) existing useful lives attach to individual assets from 1 July 2008, as per section 5.8 (Depreciation);
 - (vi) asset values and lives for tax purposes have been provided as per section 5.8 (Depreciation);
 - (vii) non-regulated services are identified as per section 5.14;
 - (viii) sufficient information is provided to support the allocation of data to the deemed categories;
- (b) liaise with the Entities at the earliest opportunity to seek any further information required to ensure a comprehensive and accurate information return;
- (c) cross-check a suitable sample of information within the scope of review against supporting or underlying documents including for example: an Entity's published prices; a Council or Entity's financial records and registers, and audited values; and external documents, including the Ministerially advised RAB values.

The sample of information for each Entity should cover a range of items from each activity and geographic area and include the top 10% (by value) in each activity and geographic area, over the forecast period and for 2010/11. The sample should also include at least 50% of the total value over the forecast period and for 2010/11 – if not, an additional random sample of assets comprising 30% (by number) of remaining items is required.

- (d) The consultant should identify any inaccuracies or lack of comprehensiveness. The consultant should also provide a set of revised information templates to the Authority that contain the information that, in the consultant's view, is more comprehensive and accurate, with all adjustments to the Entities' submissions clearly indicated.
- (e) The consultant should review the Entities' progress in achieving the systems and information needed for informed pricing and reporting and whether the information systems being put in place by the Entities allow for a highly disaggregated system of cost recording.

1.3. Structure of report

The remaining sections of the report are:

- Review of information return by Queensland Urban Utilities (Section 2)
- Review of information return by Allconnex Water (Section 3)
- Review of information return by Unitywater (Section 4)
- Conclusions and recommendations (Section 5)



2. Queensland Urban Utilities (QUU)

Queensland Urban Utilities (QUU) was formed by the combination of the water and wastewater retail and distribution operations of the following five councils: Brisbane, Ipswich, Lockyer Valley, Scenic Rim and Somerset.

The information provided by QUU to the Authority (31 August 2010) included the completed templates, a written submission and other supporting documentation and responses from requests for information (RFI) issued by SKM to QUU.

2.1. Statutory accounts and budget information

2.1.1. Information return

A summary profit and loss statement (consolidated statement of financial position) was included in QUU's information return for financial years 2009-2013. SKM undertook a high-level analysis for the profit and loss statement provided in Schedule 5.1.1 of the information template. Line items provided in the information template, including revenues, expenses, depreciation and amortisation, have been reconciled with data provided in other relevant Schedules of the information template (Table 2-1). The cross-check between each of the Schedules did not uncover any errors in the profit and loss data.

■ Table 2-1 QUU – statutory accounts internal consistency

Item	Profit and loss (Schedule 5.1.1)	Revenue (Schedule 5.2.1)	Contributions (Schedule 5.7.1)	Check
	2010-11 (\$'000)	2010-11 (\$'000)	2010-11 (\$'000)	
Revenue from services	732,778.7	732,778.7	-	✓
Investment income	2,114.2	2,114.2	-	✓
Contributions	147,170.0	-	147,170.0	✓

The summary balance sheet provided in QUU's information return included forecasts of profit and loss for 2011-2013, however, data for 2009 was not provided.

SKM's review of the regulatory adjustment journals showed that QUU removed interest and tax expense from the financial statement. QUU indicated that under economic regulation, interest and tax are based on weighted average cost of capital assumptions and were therefore removed. In response, the Authority confirmed it will continue to treat tax as a cashflow item. The statutory accounts may need to be adjusted to reflect any differences in the treatment of tax; however, the full value should not be removed from its regulatory account. The QUU return was amended to reflect the Authority's response.



2.1.2. Supporting information provided

No audited information (budget documentation, change in accounting treatments, etc) was available to be reconciled with the data provided. Therefore, SKM recommends this information be provided for future submissions.

2.1.3. Identified information gaps/inconsistencies

Several information gaps were identified in the template, including:

- Balance sheet (Schedule 5.1.2): deferred tax assets, interest bearing liabilities, payables - current tax liabilities, provisions. A large increase in receivables from 2009/10 to 2010/11 was also queried.
- Cashflow (Schedule 5.1.3): cashflow arising from restructuring-net movement in loans and advances-proceeds from sale of property, plant and equipment-repayments of borrowings.
- Revenue (Schedule 5.2.1): other revenue not offset against revenue requirements (across geographies).

2.1.4. Response to identified information gaps

In response to these gaps, QUU indicated:

- Balance sheet (Schedule 5.1.2):
 - *"The tax effect accounting items were not included in the submission as the taxation value of assets has not yet been established and other tax effect impacts were considered not to be material. Tax effect accounting is expected to be reported in future years. Please note that tax effect accounting is not available for the 2008/09 and 2009/10 years."*
 - *"The separation of assets and liabilities into current and non-current was undertaken at a high level with the classification set to the predominant nature of the asset or liability. This was necessitated to some extent as precise details were not available from the forecast information. Greater clarification of assets and liabilities is expected to be reported in future years. Please note that such clarification is not available for the 2008/09 and 2009/10 years."*
 - *"The receivables balance included in these is the value of Brisbane commercial (non-residential) accounts that were maintained in the HiAffinity billing system which was transferred to QUU. This represents the only receivables transferred to QUU. The remaining receivables relating to the water businesses are included within the rating systems for each Council and which remain with those the councils for collection. (The Commercial accounts transferred will be collected by QUU on behalf of Brisbane and matching liability for this obligation is included in the Payables value."*



- *"The balance of receivables for 2011 and beyond represents the expected balance with the transfer of all water billings to QUU and estimations of subsequent collections. It also includes estimations of unbilled consumption revenue."*
- Cashflow (Schedule 5.1.3):
 - *"The items without values should be read as nil values as there is no forecast cashflow arising from restructuring, movement in loans and advances, from the sale of property, plant and equipment and no forecast repayments of borrowings. Please note that no cashflow values are available for the 2008/09 and 2009/10 years."*

SKM considers this response to be reasonable given the timelines and difficulties associated with sourcing the required information from the councils.

2.1.5. Summary of statutory accounts and budget information

No changes were made to the information returns. QUU's compliance with the Authority's requirements is provided below in Table 2-2.

■ Table 2-2 QUU compliance with information return requirements (statutory accounts and budget information)

	Profit and Loss (Section 5.1.1)
	Balance Sheet (Section 5.1.2)
	Cashflow Statement (Section 5.1.3)

As noted, QUU provided a largely compliant return. Information gaps identified are largely based on the availability of supporting information which QUU acknowledged in its information return. A summary of the accuracy and comprehensiveness of the statutory accounts and budget information provided is presented in Table 2-3.

■ Table 2-3 QUU comprehensive and accurate template (statutory accounts and budget information)

	Profit and Loss (Schedule 5.1.1)
	Balance Sheet (Schedule 5.1.2)
	Cashflow Statement (Schedule 5.1.3)
	Regulatory Adjustment Journals (Schedule 5.1.4)
	Adjusted Profit and Loss Statement (Schedule 5.1.5)
	Adjusted Balance Sheet (Schedule 5.1.6)
	Profit and Loss – Regulatory Values (Schedule 5.1.7)
	Balance Sheet – Regulatory Values (Schedule 5.1.8)



SKM considers that the accuracy and comprehensiveness of the statutory accounts and budget information templates were completed as reasonably as could be expected for a newly established water Entity. However, appropriate supporting information has not been satisfactorily provided and is represented by the amber review measure.

2.2. Information on revenues

2.2.1. Information return

The information on revenues provided by QUU has met the Authority's requirements. QUU indicated that the councils adopted several different tariff structures to set prices. QUU provided supporting information on revenues, including summaries of tariff structures. The inherited tariff structure pertained to:

- Efficiency prices
- Revenue adequacy
- Equity and social welfare
- Environment and resource impact
- Administrative practicality
- Ease of understanding

QUU indicated that no structural alignment was undertaken in setting the 2010/11 prices, but it does intend to review tariff structures during the interim monitoring period. The review will incorporate customer consultation and aim to develop a simpler set of tariffs. SKM believes a simpler set of tariffs will assist interim price monitoring.

QUU provided disaggregated information on revenue for water and wastewater activity by geographic area.

Within the water activity, the following service categories are available for revenue disaggregation:

- Drinking water
- Aggregate non-core water

For the wastewater activity, the following services level data is available:

- Wastewater via sewer
- Trade waste
- Other core wastewater
- Aggregate non-core wastewater
- Non-regulated



SKM cross-checked the revenue data in Schedules 5.2.2 and 5.2.3 of the information template. The cross-check is presented in Table 2-4 below.

■ **Table 2-4 QUU – revenue inconsistency \$'000**

Revenue	Revenues by tariff (Schedule 5.2.3)	Revenue by customer group (Schedule 5.2.2)	Variance
Residential	\$461,212	\$461,945	(\$732)
Business	\$246,394	\$245,848	\$546
Other	\$11,875	\$11,875	
Total	\$719,481	\$719,668	(\$187)

The cross-check found a difference of \$0.19 million between the two revenue estimates. QUU attributed the variance to rounding errors in the tariff and volume calculations.

SKM cross-checked QUU's published prices, for charges to residential and non-residential customers, and values inputted in the information return (Table 2-5). The review indicated general consistency between prices provided in the information return and the publicly available information. However, there were difficulties in assessing some of the tariffs provided as the return only included a single (average) figure, whereas many tariffs were dependant on geographies and connection sizes. A small discrepancy was found in the Brisbane business pedestal charge; although this is considered to be immaterial as the difference is around 2 per cent.

■ **Table 2-5 QUU Tariff Cross-check**

				Return	Public information
Brisbane	Drinking water	Residential	Access charge	\$162.96	\$162.96
		Business	Access charge	\$162.96	\$162.96
	Wastewater via sewer	Residential	Access charge	\$461.16	\$461.16
		Business	Pedestal charge	\$451.27	\$461.16
Ipswich	Drinking water	Residential	Access charge	\$324.94	\$324.48
		Business	Access charge	\$756.06	Depends on connection size
	Wastewater via sewer	Residential	Access charge	\$550.32	\$550.32
		Business	Pedestal charges	\$550.32	\$550.32
Lockyer Valley	Drinking water	Residential	Access charge	\$358.41	Depends on land type
		Business	Access charge	\$442.26	Depends on connection size
	Wastewater via sewer	Residential	Access charge	\$385.68	Depends on service type
		Business	Pedestal charges	\$348.73	Depends on service type and location



				Return	Public information
Scenic Rim	Drinking water	Residential	Access charge	\$416.70	Depends on connection size
		Business	Access charge	\$342.07	Depends on connection size
	Wastewater via sewer	Residential	Access charge	\$502.80	\$502.80
		Business	Pedestal charges	\$361.03	Depends on connection size
Somerset	Drinking water	Residential	Access charge	\$340.68	Depends on connection or location
		Business	Access charge	\$353.33	Depends on connection or location
	Wastewater via sewer	Residential	Sewerage charge	\$490.32	Depends on connection or location
		Business	Sewerage charge	\$489.29	Depends on connection or location

SKM also examined the Brisbane variable residential drinking water tariff to ensure consistency with the pricing policy provided in the information return. The information return states that water charges for Brisbane residents are:

- Tier 1 consumption (≤ 255) at \$0.65 / kilolitre (kL)
- Tier 2 consumptions (256-310) at \$0.69/kL
- Tier 3 consumption (> 310) at \$1.23/kL
- State Government bulk water charges at \$1.52/kL

For 2010/11, total demand is estimated at 60,290.49 megalitres (ML) and given total properties of 399,922, this indicates water use of about 150 kL per property. At that level of average demand, a tier 1 tariff could be expected of \$2.17 per kL (ie \$1.52 + \$0.65). However, the QUU information return included a tariff at \$2.19 / kL. SKM's calculation is provided in Table 2-6.



■ **Table 2-6 QUU tariff cross-check**

Brisbane residential drinking water prices (volume charge)	
\$	162.96
Properties	399,922.00
\$'000	65,171.3
\$	2.19
MLs	60,290.49
\$'000	131,891.5
<hr/>	
KL per property	150.8
Bulk water charge	1.52
Tier 1 consumption	0.65
Cost (average usage)	\$2.17
<hr/>	
Variation from listed prices	-\$0.02

In response, QUU indicated:

"In forecasting revenue average consumption is applied against average tariffs, not the applicable tariff for the average consumption. The adopted approach recognises that whilst the average consumption is below the first tier level, the spread of consumption that generates this average does include some consumption in higher tiers."

"The average price has been obtained through analysis of individual customer accounts billed in 2009/10. An allowance has then been provided to tier creep (where applicable) for the increase in consumption expected in 2010/11."

SKM considers QUU's response appropriate.



SKM noted an error in Schedule 5.2.2 (residential and non-residential aggregate non-regulated services) of the information template. QUU acknowledged this error and indicated that the residential and business revenues had been swapped. SKM updated the information template. SKM's changes to the information template are provided in Appendix A.1.

2.2.2. Summary of revenues




QUU provided sufficient detail to assess the revenue forecasts. The amber measure refers to the minor changes made to the information template. QUU's compliance with information requirements and the accuracy of completed templates is presented in Table 2-7 and Table 2-8 below.



■ **Table 2-7 QUU compliance with information return requirements (revenue)**

	Revenue from Prices (Section 5.2.1)
	Revenue from Other Sources (Section 5.2.2)

■ **Table 2-8 QUU comprehensive and accurate template (revenue)**

	Revenue by Geographic Area (Schedule 5.2.1)
	Revenue by Customer Group (Schedule 5.2.2)
	Revenue –Tariff Structures (Schedule 5.2.3)

The tables above indicate that QUU complied with the Authority's requirements. However, minor issues were uncovered in Schedules 5.2.2 and 5.2.3 which have been reflected in the review measure.

2.3. Values for the initial RAB

2.3.1. Information return

The RAB information provided in the information return is not completed to the level required by the Authority. This relates primarily to the inability to reconcile audited written-down asset values to QUU's detailed asset register. As noted in section 2.1 of this report, the Entities have acknowledged the limitation in providing financial statements as required by the Authority.

2.3.2. Supporting information provided

QUU provided the following spreadsheet files to support their submission:

- Eco BCC FAR Jun08 V2
- Eco ICC FAR Jun08 V2
- Eco LVRC FAR Jun08 V2
- Eco SSRC FAR Jun08 V5
- Eco SRC FAR Jun08

SKM conducted a preliminary review of the workbooks. The cross-checking function did not uncover any significant errors, and the output data produced by each spreadsheet matched the relevant figures used to populate the Authority's templates submitted by QUU.

SKM undertook the following review.

Brisbane geographic location (Eco BCC FAR Jun08 V2.xls):

- Unique identifiers were provided for each individual asset.



- Each asset was allocated to a regional location, product and asset class.
- Written-down values were provided for 2008/09.
- RAB asset values were internally consistent when aggregated by asset class and compared to the initial RAB values provided in the information template.

SKM considers QUU provided a sufficient amount of supporting documentation. The initial RAB for QUU as at 1 July 2008 was set to \$3.9 billion. Table 2-9 below outlines the geographical split of the RAB and the split provided by the QUU in its information return. The initial values provided in the information return show some variation to those listed in the Ministerial-advised values. The Esk, Gatton, Laidley Water Board RAB value was assigned 80% to Lockyer Valley and 20% to Somerset. This was presumably split because the former Gatton Shire Council and Laidley Shire Council become part of the amalgamated Lockyer Valley Regional Council, while the former Esk Shire Council formed part of the Somerset Regional Council. No further information was sought on this due to a lack of materiality.

■ **Table 2-9 QUU RAB split (\$'000)**

RAB	Brisbane	Ipswich	Lockyer Valley	Scenic Rim	Somerset	Esk, Gatton, Laidley WB	TOTAL
Ministerial-advised RAB	\$3,417,432	\$428,374	\$24,641	\$37,361	\$27,771	\$9,471	\$3,945,050
QUU-advised figures	\$3,416,852	\$428,813	\$32,279	\$37,408	\$29,698	-	\$3,945,050
Variance	(\$580)	\$439	\$7,638	\$47	\$1,927	(\$9,471)	\$0

SKM requested further information to understand how the advised RAB values were allocated to the various geographical areas. This information showed that the variance was due to the allocations of corporate and billing systems from the Brisbane City Council (BCC) across the other geographical areas.

■ **Table 2-10 QUU RAB split (\$'000)**

RAB	Brisbane	Ipswich	Lockyer Valley	Scenic Rim	Somerset	Esk, Gatton, Laidley WB	TOTAL
Ministerial-advised RAB	\$3,417,432	\$428,374	\$24,641	\$37,361	\$27,771	\$9,471	\$3,945,050
Allocation of Esk			\$7,576.80		\$1,894.20	(\$9,471)	-
Allocation of billing systems	(\$580)	\$439	\$61	\$47	\$33		-
Adjusted RAB	\$3,416,852	\$428,813	\$32,279	\$37,408	\$29,698		\$3,945,050
QUU-advised figures	\$3,416,852	\$428,813	\$32,279	\$37,408	\$29,698	-	\$3,945,050
Variance	-	-	(\$0)	(\$0)	-		(\$0)



The allocation of corporate and billing systems to the geographical areas were undertaken on the basis of properties serviced (Table 2-11). The initial starting value of the corporate and billing systems component of the RAB is \$4.023 million (as at 1 July 2008).

■ **Table 2-11 Billing Systems by Area**

Area	Allocation	Corporate and billing systems		Change
Brisbane	86%	\$4,023	\$3,443	(\$580)
Ipswich	11%		\$439	\$439
Lockyer Valley	2%		\$61	\$61
Scenic Rim	1%		\$47	\$47
Somerset	1%		\$33	\$33

The asset registers are used to convert the written-down values (WDV) of the assets to an equivalent RAB value by adjusting the WDV by the ratio of the RAB to the WDV. At this stage, audited WDV were not able to be cross-checked to audited data due to the lack of disaggregated financial statements. SKM understands that the fixed asset registers provided by QUU underlie councils' audited asset values, but that a detailed cross-check is not possible as councils' audited financial statements did not have to be disaggregated to the water/wastewater level. The BCC's 2007-08 financial reports were signed off by the Auditor-General, which supports the asset values provided by QUU at 1 July 2008. The other councils' reporting periods were impacted by the amalgamations but represent only a small proportion of the total asset base.

Table 2-12 below summarises the information provided by QUU for Brisbane which represents over 85% of the total QUU RAB. This is informed by the supporting asset register and shows that the RAB was allocated consistently on the basis of the ratio. The average remaining asset lives are calculated based on the RAB divided by the estimated depreciation.

■ **Table 2-12 QUU RAB split**

	1-Jul-08 CC WDV \$'000	FY09 Estimated depreciation \$'000	1-Jul-08 RAB \$'000	1-Jul-08 Av. remaining life	Ratio of WDV:RAB
Water Distribution	1,296,060	31,138	1,303,484		0.99
Main	1,227,186	26,330	1,234,216	46.6	0.99
Pump station	20,322	1,590	20,439	12.8	0.99
Reservoir	46,668	1,711	46,936	27.3	0.99
Telemetry	1,883	1,508	1,893	1.2	0.99
Wastewater	1,968,878	78,721	1,980,157		0.99



	1-Jul-08 CC WDV \$'000	FY09 Estimated depreciation \$'000	1-Jul-08 RAB \$'000	1-Jul-08 Av. remaining life	Ratio of WDV:RAB
Treatment	406,219	25,245	408,546	16.1	0.99
Main	1,448,636	44,089	1,456,934	32.9	0.99
Pump station	112,001	7,400	112,643	15.1	0.99
Telemetry	2,023	1,987	2,034	1.0	0.99
Recycled production					
Treatment	11,771	1,106	11,839	10.6	0.99
Recycled distribution					
Main	3,689	70	3,710	52.8	0.99
Support services	117,568	1,897	118,242		0.99
Plant	1,664	474	1,673	3.5	0.99
Corporate systems	3,726	1,068	3,748	3.5	0.99
Billing systems	273	156	275	1.8	0.99
Buildings	5,757	199	5,790	28.9	0.99
Land	106,148		106,756		0.99
Total	3,397,967	112,932	3,417,432		0.99

Asset allocation to services is made primarily by being directly attributable (95 per cent of drinking water assets and 98 per cent of wastewater assets) with the remainder through a causal allocation. The causal method used properties as a basis for allocation of corporate and billing systems while the 2008 RAB values were used for the allocation of buildings.

Disposals

Only limited information was provided on disposals. In response, QUU have stated:

"Actual disposals, the undepreciated value remaining on the asset at the time of removal from service, can be taken the Trial Balance (TB) at a high level or potentially from the Financial Asset Register (FAR) at an asset class level. However, the values held in the TB and FAR will not be the same values as those in the regulatory asset base. This is for a variety of reasons but basically due to different required treatment by the two regulators on impairment, revaluations, adjusting nominal asset lives. As the RAB is to be maintained at an asset class level not



an individual asset item level, as per the QCA's Building Block Model which forecasts depreciation using an average life for an asset class, the remaining depreciation on a given asset cannot be recovered."

"Given the financial value cannot to be relied on to mirror the economic value and the economic value cannot be separated for actual, it seems of little value to forecast disposals. Queensland Urban Utilities has had discussions with QCA on this issue and the QCA has agreed that this is reasonable so long as disposals do not represent 5% of the total RAB. Assets that have been removed from service but remain in the RAB will continue to depreciate until fully depreciated, so Queensland Urban Utilities is in fact delaying recovery of the depreciation."

SKM considered this reasonable as long as any revenue from disposal is also accounted for.

Indexation

The indexation applied to the RAB is provided in Table 2-13 below.

■ **Table 2-13 Indexation**



Year ending 30 June:		
2009	2010	2011 onwards
2.00%	2.50%	2.50%

However, in applying indexation, disposals were indexed at 2 per cent. Following a request for further information, QUU indicated its practice was to index the asset base at the end of the year; hence the only indexation adjustment to the disposals for 2009/10 was for 2008/09 inflation. Subsequent to this, the Authority provided their preferred roll-forward process which indexes at the start of the year and this change was not accounted for. QUU indicated that is unlikely to make a material difference to the overall return and could be corrected in the 2009/10 return.

2.3.3. RAB summary

QUU's compliance with the Authority's requirements is provided below in Table 2-14.

■ **Table 2-14 QUU compliance with information return requirements (RAB)**

-  Regulatory Asset Base as at 1 July 2008 (Section 5.5.1)
-  Rolling Forward the RAB (Section 5.5.2)

QUU addressed the Authority's requirements to provide the values of the initial RAB and comprehensive supporting documentation. Therefore, QUU's return was classified as compliant.



■ **Table 2-15 QUU comprehensive and accurate template (RAB)**

■	Opening Asset Base as at 1 July 2008 (Schedule 5.5.1)
■	Allocation of Opening Asset Base (Schedule 5.5.1 SD01)
■	Pro Forma Workpaper for RAB Value Allocation (Schedule 5.5.1 SD02)
■	Opening Regulatory Asset Base as at 1 July 2008 (Schedule 5.5.1 SD03)
■	Opening Asset Base as at 1 July 2008 (Tax Values) (Schedule 5.5.1 SD04)
■	Other Asset Base Information (Schedule 5.5.2)
■	Disposals for Asset Base Roll (Schedule 5.5.2 SD01)

2.4. Contributed, donated and gifted assets and capital contributions

2.4.1. Information return

The information provided by QUU on contributed, donated and gifted assets and capital contributions was completed to the detail required by the Authority with the exception of historical financial statements.

2.4.2. Supporting information provided

QUU provided adequate supporting information for contributed, donated and gifted assets and capital contributions. Capital revenues are treated through a revenue-offset method and QUU indicated that a decision on the method to be used in the 2011/12 and 2012/13 financial years is yet to be made.

Donated assets

For 2010/11, shareholding councils provided budget forecasts. Brisbane forecasts use historical growth rate in planning scheme policy charges, while Ipswich uses a property growth rate and historical expenditure per lot. Trunk asset donations are also forecasted. Lockyer Valley has assumed a 2 per cent growth rate on 2009/10 forecast. Scenic Rim and Somerset did not provide forecasts. QUU indicated it will investigate if an appropriate forecasting method can be developed while seeking a common method across all geographies.

QUU also noted that Somerset received an extraordinary donation for water assets in 2008/09 which was sufficiently large not to have been offset against the Maximum Allowable Revenue (MAR). To avoid customers paying for assets Somerset did not pay for, this asset was not included in the value of the donations in the RAB.

QUU indicated that this does not represent a move away from the revenue offset method. However, SKM believes this treatment does provide evidence that moving to an asset offset approach would be advantageous. QUU does not support this as it was considered a highly unusual situation.

Developer cash contributions



Brisbane forecast developer cash contributions are based on development approvals, forecast approvals and historical trends adjusted by the expected percentages which will expire without payment and are further reduced to exclude bulk water components. Ipswich uses the growth in lots from the previous year to estimate contributions while Lockyer Valley and Scenic Rim's forecasts as supplied to the Council of Mayors (SEQ) water reform programme. Somerset did not provide forecasts.

The allocation of contributions made on a causal basis is undertaken by the estimate of the net present value of commissioned capital.

2.4.3. Identified information gaps

The identified information gaps relate to the lack of data provided by Scenic Rim and Somerset councils. Further the data provided in Schedule 5.7.1 SD03 does not align with that in Schedule 5.2.2. Schedule 5.7.1 SD03 appears to only seek cash contributions and therefore donations were excluded. This should be noted by the Authority when the return is used in its MAR model.

2.4.4. Response to identified information gaps

In response to the lack of alignment, QUU stated:

"Contributions in 5.7.1 SD03 are cash contributions while contributions in 5.2.2 i.e. for Brisbane row 37 contain Cash Contributions and Donations."


"The donations have not been included in 5.7.1 SD03 as there is no additional information available than that provided in 5.7.1 SD01. Generally donated asset revenue is recognised using 'as constructed' asset information received from developers and then standard unit rates of the water business are applied to the assets, i.e. line segments."

Further review of the returns showed the Schedules align when excluding donations.

2.4.5. Summary of contributed, donated and gifted assets and capital contributions

No changes have been made to the information return. However, the lack of information provided on donations (Scenic Rim and Somerset) and developer contributions (Somerset) resulted in an increase in the MAR for QUU as offsetting revenues were lower. As these two councils represent only 2 per cent of properties, the forecast data error is not likely to be significant. However, an estimate could be applied using pro rata figures, such as property numbers. For this reason the return is considered as containing minor issues as per Table 2-16 and Table 2-17.

■ Table 2-16 QUU compliance with information return requirements (contributed assets)

 Contributed, Donated and Gifted Assets (Section 5.7.1)



■ **Table 2-17 QUU comprehensive and accurate template (contributed assets)**

	Contributed, Donated and Gifted Assets (Schedule 5.7.1)
	Allocation of Contributions to Asset Classes (Schedule 5.7.1 SD01)
	Pro Forma Workpaper for Allocation of Contributions (Schedule 5.7.1 SD02)
	Cash Contributions Structure (Schedule 5.7.1 SD01)

2.5. Existing useful lives attach to individual assets from July 1 2008

2.5.1. Information return

SKM considers the information provided by QUU for existing useful lives was completed to the detail required by the Authority. QUU's information return outlined nominal asset lives for use in economic regulation to depreciate at the asset class level.

The Authority's template allows information to be provided on the following two Schedules.

- Schedule 5.8.1.1 Asset Lives Details for Regulatory Asset Base
- Schedule 5.8.1.2 Asset Lives Details for Regulatory Asset Base - Tax Purposes

The Authority's template requires information to be provided on the following categories:

- Useful Lives for New Assets
- Remaining Asset Lives for Existing Assets - as at 1 July 2008

The useful lives for the "new assets" category are considered below. The average remaining life is calculated based on the WDV divided by the estimated depreciation.

2.5.2. Supporting information provided

Useful lives for new assets

QUU provided documentation to support the rationale for selecting asset lives. A summary from "Nominal Asset lives.xls" is shown in Table 2-18 below.

■ **Table 2-18 QUU – new asset lives summary**

Asset Class	Description	Nominal life	Comments
Water			
Distribution infrastructure	All mains and fittings	70	*70 years is reasonable for water mains, based on a weighted average of pipe lengths and fittings and the expected asset lives for the range of pipe materials



Asset Class	Description	Nominal life	Comments
Reservoirs		90	*Based on 2003 BCC/BW active asset standard lives
Pump stations		40	*Based on civil, mechanical and electrical replacement cost proportions, weighted with active asset nominal lives for PS (water and wastewater)
Telemetry / SCADA		10	See page for notes – although 10 years is the BCC/ BW standard
Meters		15	*Based on asset management information (testing of meters, etc)
Treatment plants		35	N/A – No WTPs for QUU, so use same as WRPs
Wastewater			
Distribution infrastructure	All mains and fittings	70	*Use 70 years, based on a weighted average of the range of pipe material asset lives
Pump stations		40	*Based on civil, mechanical and electrical replacement cost proportions, weighted with active asset nominal lives for PS (water and wastewater)
Telemetry / SCADA		10	See page for notes – although 10 years is the BCC/ BW standard
Treatment plants		35	*Based on Civil, Mechanical and Electrical replacement cost proportions, weighted with Active asset nominal lives for WRPs
Recycled Water			
All classes			
Distribution infrastructure	All mains and fittings	70	*Use 70 years, based on a weighted average of the range of pipe material asset lives
Reservoirs		90	*Based on 2003 BCC/BW active asset standard lives
Pump stations		40	*Based on civil, mechanical and electrical replacement cost proportions, weighted with Active asset nominal lives for PS (water and wastewater)
Telemetry / SCADA		10	See page for notes - although 10 years is the BCC/ BW standard
Meters		15	*Based on asset management information (testing of meters, etc)
Treatment plants		35	*Based on civil, mechanical and electrical replacement cost proportions, weighted with active asset nominal lives for WRPs (similar plant)
Support			
Billing systems		5	
Corporate systems		10	
Buildings	Not housing infrastructure	60	
Sundry plant and equipment		10	



Asset Class	Description	Nominal life	Comments
Establishment costs		5	

This supporting document aligns with the information provided in the Authority's templates.

QUU has also further noted that:

- *"All nominal lives above were used from BCC/BW Standard Asset Lives (2003) and proportioned at lower levels (ie mains and fittings, civil/electrical/mechanical)"*
- *"Based on Brisbane data, other regions were not made available yet. However, Brisbane is 85% of the asset base"*
- *"Active asset lives taken from BCC/ BW 1 July 2003 Asset Revaluation (P Belz, 2003)"*
- *"Passive asset (material) lives taken from lives from BCC/ BW Asset Register (D Faccio, 2003, updated 2009)"*
- *"Standard asset lives should soon be revised by QUU (currently using 2003 BCC/ BW nominal lives)"*
- *"Asset lives are always difficult to predict, due to so many factors affecting the condition and deterioration of the asset."*
- *"The above table is very simplified and may at times be too high level to reflect actual situation of QUU's assets (consider very different lives of civil, mechanical and electrical assets)"*

Having reviewed the asset lives presented, SKM:

- Accepts QUU's assertion that the above table is simplified and cannot take into account the different lives of civil, mechanical and electrical assets. For example, a wastewater treatment plant will have a combination of civil assets with over 50-year asset lives and mechanical and electrical equipment with a typical 15-to-20 year asset life.
- Acknowledges that the above data is for Brisbane only; however, as Brisbane forms 85% of the asset base, this appears to be a fair initial approximation.
- Recognises that QUU is currently revising asset lives and recommends that this revision takes into account data from all geographic areas.

Regarding specific asset lives, SKM presents the following conclusions in Table 2-19 below.

■ **Table 2-19 QUU new asset life recommendations**

Asset	Calculation	Comment	Benchmark
Water and wastewater distribution infrastructure	Asset lives have been calculated using the Weighted average life of distribution infrastructure	Whilst SKM found minor errors in the calculation sheet, the end result is unaffected, and a 70-year	The WSA 07-2007 Pressure Sewerage Code of Australia V1.1 suggests a nominal asset



Asset	Calculation	Comment	Benchmark
	mains and fittings.	asset life is reasonable	design life of 100 years for pressure sewers and laterals and property discharge lines, 20-30 years valves. The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 100 years for water mains, 30 years for valves.
Reservoirs	The average age of BCC reservoirs have been calculated as 50 years.	The average age is not comparable to asset life. Compared to benchmarks, the assumption of a 90-year asset life appears high. However, out of a list of 36 reservoirs, 12 are recorded as being over 50 years old; one is recorded as being 120 years old. Therefore, this assumption is reasonable.	The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 50 years for reservoirs.
Telemetry and SCADA	Nominal life of 10 years is the BCC/ BW Standard Asset Life (2003)	The assumption of a 10-year asset life appears reasonable.	The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 15 years for SCADA.
Pump stations	Asset lives have been calculated using the weighted average life of civil (75 years), mechanical (20years) and electrical (20 years) assets.	The calculation appears reasonable and the assumption of a 40-year asset life for pump stations appears reasonable.	The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 20 years for pumps (note that this contributes to the mechanical component only).

2.5.3. Identified information gaps

SKM did not identify any information gaps.

2.5.4. Response to identified information gaps

As no information gaps were identified, there were no responses.



2.5.5. Summary of existing useful lives

SKM has assessed the information return and believes it to be comprehensive and accurate.

■ Table 2-20 QUU compliance with information return requirements (asset lives)

 Useful Lives for Assets (Section 5.8.1)

■ Table 2-21 QUU comprehensive and accurate template (asset lives)

 Useful Lives for Assets (Schedule 5.8.1)

 Useful Lives for Assets (Tax) (Schedule 5.8.2)

2.6. Asset values and existing useful lives for tax purposes

SKM's review of the template showed the Schedules to be identical. QUU indicated that in the absence of a Taxation Equivalent Manual, it used the accounting lives for calculating depreciation on assets for tax purposes.

Based on this, no further review of this section of the information response was considered necessary.

2.7. Non-regulated services

2.7.1. Information return

QUU identified several services that are open to competition. The information return indicates total revenue of \$13.1 million and associated expenditure of \$10.9 million for 2010/11. While these figures are significant, they are only a small percentage of the overall QUU revenue (~1.5 per cent).

2.7.2. Supporting information provided

The QUU information return indicated these services are technical consultancies, connection design and private plumbing works. QUU also indicated a review will be undertaken to assess the existence and potential for competition in the supply of each service. QUU advised that the completion of this review was not possible for this return due to time constraints and the necessary prioritisation of tasks.

2.7.3. Identified information gaps

Since it is important that revenues and expenses are clearly delineated between regulated and non-regulated services to avoid any cross-subsidisation of non-regulated services through customer tariffs, SKM sought further information, such as the allocation of shared overheads between the regulated and non-regulated services.

2.7.4. Response to identified information gaps

QUU indicated that corporate costs are based on historical allocations:



QUU allocated corporate costs based on the proportion of historical allocations on what information was available. For Brisbane, where the majority of the non-regulated services are, the historical costs provide a good basis as they are assigned directly.

SKM recommend that QUU develop a cost allocation methodology and submit their proposed methodology to the Authority for comment. This should also include a clear statement of their unregulated activities and how joint costs are allocated and their basis of allocation.

2.7.5. Summary of non-regulated services

No changes were made to the information return. The information return and supporting data for non-regulated services is considered comprehensive.

- **Table 2-22 QUU compliance with information return requirements (non-regulated services)**

 Non-regulated Services (Section 5.14.1-4)

- **Table 2-23 QUU comprehensive and accurate template (non-regulated services)**

 Non-regulated Services (Schedule 5.14.1)

2.8. Allocation of data to categories

A summary of QUU's allocation of data and information to the various categories is provided below.

- **Table 2-24 QUU allocation methodology summary**

Category	Allocation compliance	Comments
Revenue	✓	QUU's information on revenues met the Authority's requirements. Allocation was made on a geographical basis and split between water and wastewater.
RAB	✓	QUU adopted a robust approach to allocating the RAB. This has occurred primarily via direct attribution with causal allocation based on defensible allocation.

2.9. Systems progress

The ability to allocate data to the appropriate categories is primarily a function of QUU's supporting systems. Through a service agreement, the BCC provides QUU with payroll, procurement, job costing, asset management, sundry debtors and cash management. Table 2-25 below outlines the separability of its current data.



■ **Table 2-25 Current separability of data by service categories**

Activity	Service	Revenue	Operating expenses	Assets
Water	Drinking water Potable water supplies to all customer classes.	Yes	Yes	Yes
	Other core water Queensland Urban Utilities has no other core water services.	N/A		
	Aggregate non-core water Sundry services, such as water connections, water meter testing, special meter reads and water efficiency management plan assessment.	Yes		
Wastewater	Wastewater via sewer Domestic strength wastewater from residential and non-residential customers and trade waste and recycled water where they are not currently separable.	Yes	Yes	Yes
	Trade waste Trade waste where currently separable from wastewater via sewer.	Yes		
	Other core wastewater Recycled water where currently separable from wastewater via sewer.	Yes		
	Aggregate non-core wastewater Sundry services, such as discharge of septic tanks, sewer connections and garbage grinders.	Yes		
	Non-regulated Consultancy, connection design and private plumbing works.	Yes		

QUU's systems are noted as mature. It is expected that these systems will need to be further refined in the future to meet the Authority's requirements.

2.10. QUU Summary

QUU's submission was completed adequately, given the information available to the Entity at the time of the submission. Although limitations have constrained the availability of support information for this year's information return, QUU has shown a willingness to provide detailed responses to SKM's queries.

Statutory accounts provided had only minor gaps, arising from only high level classification of asset and liabilities being provided at this stage. Greater precision can be expected in future submissions. Cashflows were not provided for 2008/09 and 2009/10 due to a lack of data. QUU has removed tax and interest from its regulatory accounts, which, after consultation with the Authority, was modified and reflected in their information template.

QUU's information on revenues met the Authority's requirements (subject to any demand assumptions and review by Frontier Economics). The information templates have been completed to the requirements (except for some relatively minor spreadsheet errors). The tariffs for the interim period from the published documents have been cross-checked with the tariffs provided in the spreadsheet. The structure of the tariffs is complex in some



geographies which meant cross-checking submitted average tariffs to published information was not always possible.

QUU has provided sufficient detail on its opening RAB and the information required to roll it forward. The allocation of the RAB to geographies to assets was completed with suitable transparency using a defensible methodology. Some concerns were raised regarding forecast disposals; however, QUU has satisfied SKM's queries of the information gaps.

Details of contributed, donated and gifted assets and capital contributions met the Authority's requirements. Scenic Rim and Somerset did not provide forecasts of donations and Somerset did not provide forecasts of cash contributions. QUU has indicated it will investigate if an appropriate forecasting method (common across all geographies) can be developed. No changes have been made to the information return; however, the lack of information provided on donations (Scenic Rim and Somerset) and developer contributions (Somerset) results in an increase in the MAR for QUU as offsetting revenues are lower.

QUU also provided information for existing useful lives which attach to individual assets from 1 July 2008 as per section 5.8 of the information return (depreciation). This information is considered reasonable.

QUU identified several services that are open to competition, including technical consultancies, connection design and private plumbing works. The information return indicates total revenue of \$13.1 million and associated expenditure of \$10.9 million for 2010/11. While these figures are significant, they remain only a small percent of the overall QUU revenue (~1.5 per cent). QUU has indicated that corporate costs are based on the proposal of historical allocations on what information was available. Historical allocations are considered reasonable at this stage. However, given the changing structure of the industry, it is recommended that QUU develop a new cost allocation methodology and submit their proposed method for comment by the Authority. This should also include a clear statement of their unregulated activities and how joint costs are allocated and their basis of allocation.

SKM has reviewed QUU's allocation method of data to the categories specified by the Authority and considers this method to be reasonable.



3. Allconnex Water

Allconnex Water was formed by the combination of the water and wastewater retail and distribution aspects of the three councils: Gold Coast, Logan and Redlands. Allconnex Water has only been in operation since 1 July 2010 and is still in transition. This has presented challenges in providing the level of detail and accuracy required for the information return. In its response to the SKM draft report, Allconnex noted *"it is expected that the information return required to fully populate the template would not be available until 2013."*

Some overarching issues (noted by Allconnex in its submission) which affect the robustness of its information return include:

- Allconnex Water's current forecasts are based on its own Enterprise Financial Model (EFM) which was developed before the information templates were released. Therefore, the template was completed in a way that allows reconciliation of the input data back to its EFM.
- The councils were not required to submit their audited financial statements in time for the submissions, and therefore, audited financial statements for each of the districts are not available for 2009/10. It should be noted that Allconnex Water provided the 2009-10 audited financial statements after release of the SKM draft report and therefore was not reviewed.
- The three councils' information systems are not consistent and Allconnex Water was not able to separate the information required to fully populate the template. These differences could not be fully addressed in time for the information return.

3.1. Statutory accounts and budget information

3.1.1. Information return

The statutory account and budget information, including templates, was partially completed to the detail required by the Authority. Some of the overarching limitations which impact Allconnex Water's ability to provide complete information are detailed throughout this section.

An incomplete summary profit and loss statement (consolidated statement of financial position) was included in Allconnex Water's information return for financial years 2009-2013. Given the unavailability of audited financial accounts from the councils, no information was provided for 2009-10. The forecasts are linked to Allconnex Water's EFM. The forecasts in the EFM were based on the best information available from the councils but may differ from the audited financial statements. Allconnex Water noted these limitations and is working towards addressing these information gaps for the next submission.

SKM conducted a high-level analysis for the profit and loss statement, where line items provided in the template, including revenues, expenses, depreciation and amortisation, were reconciled with information provided within the relevant sections of the template. The inconsistencies identified are discussed in Section 3.1.3 of this report.



Allconnex Water provided a summary balance sheet, but it did not include data for 2009-2010. A summary balance sheet was not provided in the supporting information. As is the case for the profit and loss statement, the values are linked to Allconnex Water's EFM instead of to audited financial statements. Allconnex Water noted these limitations and is working towards addressing these information gaps for the next submission.

In providing the cashflow statement, Allconnex Water incurred similar constraints providing the summary profit and loss statement and balance sheet. As such, no estimates for 2009-10 were provided.

Allconnex Water did not provide regulatory adjustments as it does not have regulatory accounts. This issue is detailed in Section 3.7 of this report.

3.1.2. Supporting information provided

Supporting information for the statutory accounts and budget information in the submission included:

- A high-level profit and loss statement for 2009-10
- Audited 2008-09 financial statement the three councils

Allconnex Water provided some information about the data limitations and noted that it plans to address these for the future information returns. For example, Allconnex Water noted some inconsistencies in the categories used in its EFM and the template requirements. Therefore, the revenue forecasts in the template were provided in categories consistent with Allconnex Water's own modelling.

3.1.3. Identified information gaps/inconsistencies

In many instances, it was not clear whether a gap in the template referred to a "zero" input, a gap in the data (ie such that the totals are affected) or an allocation issue due to different categorisation in the EFM and the template requirements. In response to requests for information to clarify this, Allconnex Water provided forecast income statements, to clarify which items are forecast to be zero and which are excluded from the forecast.

The following items were left blank within the information template. Allconnex Water clarified whether each of these was a "zero" input or whether it was a gap in the data:

- P&L: Investment income from 2009-10 onwards – *data gap*
- P&L: Sale of unregulated assets – *data gap*
- P&L: Bad debt from 2009-10 onwards – *data gap*
- BS: Intangibles and other non-current assets – *data gap*
- BS: Current provisions – *zero input*
- BS: Other current liabilities – *zero input*
- BS: Non-current payables - *data gap*
- BS: Non-current tax liabilities – *data gap*



- BS: Other non-current liabilities – from the additional information provided, it appears this “gap” was actually a data entry error, whereas the other non-current liabilities were captured under “non-current provisions”.
- BS: Non-current provisions – *data gap*
- CF: Cashflow arising from restructuring (forecasts) – *zero input*
- CF: Net movement in loans and advancements (forecasts) – *zero input*
- CF Interest received (forecasts) – *allocation issue*. This was previously allocated under finance charges and was swapped with tax payment to provide clarity.

Where the information was not provided due to a “data gap” issue, no further information was provided to explain why these items were excluded. Whilst based on the general comment provided (see following section), it is understood that all gaps identified are considered by Allconnex Water to be an “allocation issue” as opposed to information gaps. However, SKM recommends that the reason for the allocation issues be provided in the supporting information. In future submissions, SKM recommends Allconnex Water provide their cost allocation methodology and basis for allocation.

Allconnex Water had very little time to reconcile the information from the three councils and it is reasonable that there would be some categorisation issues which could not be addressed for this submission. For future submissions, it is important that the template and EFM are aligned.

Some other inconsistencies or gaps identified include:

- Slight inconsistency between the 2008-09 cash at the end of the reporting period (Schedule 5.1.3) and the cash assets in balance sheet
- The submission did not state whether there was a change in the accounting treatment to previous years.

In addition to these information gaps and inconsistencies, an eight-fold increasing in borrowing cost is forecast from 2009-10 to 2010-11. This significant increase was not supported by any additional information in the submission.

3.1.4. Response to identified information gaps

In response to a request for information clarifying an inconsistency between the cash at end of period (in Schedule 5.1.3 for 2009-09) and the balance sheet, Allconnex Water suggested that the “*closing cash for Schedule 5.1.3 is the aggregation of all cashflow items (ie retaining the formula which was pre-populated as per the template available on the QCA website). Cash assets in the balance sheet represent the audited financial statements as supplied by the councils.*”

For the purposes of the review, the impact of the discrepancy may not be significant as it only applies to 2008-09 cashflow. However, the response does not provide sufficient detail for SKM to assess why there is a difference between the two sources of information. It is recommended that this issue be addressed when systems are updated and the EFM and the template are aligned.

SKM recommends that for future templates, the Authority incorporates an automatic “check” for this consistency as assets in the balance sheet representing the audited financial statements should match the cashflow.



SKM's primary concern with the information gaps is how the forecasts will be impacted once this information is available. In response to this, Allconnex Water provided the following statement:

"In general, gaps relate to allocation issues, rather than missing information. In some cases, Allconnex Water has been unable to fully reconcile the historical information provided by the districts and in this case there may be minor discrepancies in total values (in particular, between financial statements and revenue/expense worksheets). For consistency, categories and values in Allconnex Water's EFM have been adopted, with the exception of the historical financial statements. As noted in the submission to the QCA, Allconnex Water will work towards aligning data to the QCA information requirements."

While the above response may be acceptable for the 2010-11 submission, it should be a priority for subsequent submissions that Allconnex Water's EFM is aligned to the information requirements. This is particularly important where the gaps affect the distribution of costs, revenues and assets between regulated and unregulated activities. For example, input for "sale of unregulated assets" was left blank in the profit and loss statement. If this is an allocation issue between sale of unregulated and regulated assets, this would impact the value of the RAB and future price determinations. In its response to the SKM draft report, Allconnex Water confirmed that new models are being developed to improve its financial and regulatory reporting and that subject to the finalisation of the Authority's pricing principles and audited templates these models will be aligned with the template.

Allconnex Water also noted that for this information return it relied on the councils' information and accounting treatment. Accounting treatment will be refined and consolidated for future submissions.

In response to a request for information to explain the forecast eight-fold increase in borrowing costs between 2009-10 and 2010-11, Allconnex Water suggested that:

"There is limited comparability in financing structures and borrowing costs between the legacy businesses (ie the period up to 30 June 2010) and Allconnex Water (ie from 1 July 2010). As part of its establishment, Allconnex Water negotiated a mix of funding which includes QTC loans (both short- and long-term) and shareholder loans. Borrowing costs include significant interest costs on these loans. Allconnex Water had no cash reserves at 1 July 2010, with an extensive capital works program to be delivered and operating expenditure to be meet loans was required to be taken."

Allconnex Water also noted that the key drivers for the increased borrowings are the delivery of \$1.2 billion in capital works over three years and the requirement to achieve a BBB+ credit rating over that period. This information is considered to be sufficient to explain the sharp increase in borrowing.

An internal error was identified within the Authority's information templates, where Schedule 5.1.5 refers to the incorrect information in Schedule 5.1.1 of the information template. This was amended in Appendix A.2.1.

3.1.5. Summary of statutory accounts and budget information

Allconnex Water's compliance in providing the information required by the Authority in its information return is provided below.



■ **Table 3-1 Allconnex Water compliance with information return requirements (statutory accounts and budget information)**

■	Profit and Loss (Section 5.1.1)
■	Balance Sheet (Section 5.1.2)
■	Cashflow Statement (Section 5.1.3)

■ **Table 3-2 Allconnex Water comprehensive and accurate template (statutory accounts and budget information)**

■	Profit and Loss (Schedule 5.1.1)
■	Balance Sheet (Schedule 5.1.2)
■	Cashflow Statement (Schedule 5.1.3)
■	Regulatory Adjustment Journals (Schedule 5.1.4)
■	Adjusted Profit and Loss Statement (Schedule 5.1.5)
■	Adjusted Balance Sheet (Schedule 5.1.6)
■	Profit and Loss – Regulatory Values (Schedule 5.1.7)
■	Balance Sheet – Regulatory Values (Schedule 5.1.8)

The amber results reflect the missing supporting information whilst the red results acknowledge an inconsistency in the templates and missing values for FY2009-10. The key compliance issues relate to:

- Unavailability of audited account for 2009-10 at the time that the templates were completed
- Unavailability of regulatory accounts
- Categorisation inconsistencies between the EFM and the template
- Difficulties in reconciling historical data from the councils with template categories

Allconnex Water identified these issues in its submission and responses to requests for information. Allconnex Water also identified that these issues will have to be addressed for future submissions, and that the quality of this information return should not be taken as an indication of the quality of future information returns. Given the short time Allconnex Water has been in existence as an Entity, and that this is its first regulatory review, this statement seems reasonable.

3.2. Information on revenues

3.2.1. Information return

The revenues were completed for both geographic areas and service categories in Schedule 5.2.1 for FY2009 to 2013. SKM identified some inconsistencies when cross-checking for internal consistency with the revenue information provided in alternative Schedules. These inconsistencies are discussed detailed in the following



sections. Revenues were also allocated across customer groups as required in Schedule 5.2.2. These values were successfully reconciled with complete tariff structures provided in Schedule 5.2.3. As noted in its supporting documents, Allconnex Water's revenue categories were allocated to the categories within the template as follows:

■ **Table 3-3 Allconnex Water revenue categories**

Summary of service category (in template)	Revenue
Drinking water	Water
Other core water services	Not used
Aggregate non-core water services	Other services relating to water (including operating grants, subsidies and other services)
Wastewater via sewer	Wastewater
Trade waste	Trade water
Other core wastewater services	Recycled water
Aggregate non-core wastewater services	Not used

Allconnex Water provided reasons for its allocation of revenue in its submission and in response to subsequent information requests, including:

- Revenue details for recycled water were provided under "*other core wastewater services*" to allow comparison against costs (which are included in overall wastewater costs due to unbundling issues).
- Revenue of '*other core water services*' was not used in the template due to the unavailability of data of sufficient disaggregation for separate reporting purposes.

Allconnex Water's information on revenues met the Authority's requirements. However, the information gaps will have to be addressed in future submissions.

Allconnex Water has not yet developed a pricing strategy and plans to assess the appropriateness of a suite of options throughout 2010-11. The options considered will also rely on the pricing principles established by the Authority.

3.2.2. Supporting information provided

Allconnex Water provided the following supporting information:

- Schedule of tariffs
- Developer charges (CPI-based escalation)
- Additional detail on differences between the three geographical areas treatment of wastewater and trade waste.
- High level rationale for interim pricing strategy for 2010-11, where price increases in each geographical area for water charges, wastewater charges, and trade waste charges, where the percentage increase is based on what is required to achieve the MAR, up to a maximum of 20 per cent.



The supporting information was generally sufficient to verify the revenue forecasts. Some of the information gaps are discussed below.

3.2.3. Identified information gaps/inconsistencies

The following information was left blank in Schedule 5.2.1:

- Gold Coast: investment income (revenues not offset against revenue requirements)
- Logan: investment income (both categories)
- Gold Coast and Logan: contributions for revenues not offset against revenue requirements
- Gold Coast: net profit from sale of assets (both categories)
- Redland: net profit from sale of assets for revenues not offset against revenue
- Redland: investment income for revenues not offset against revenue
- Redland: contributions for revenues not offset against revenue.

The following inconsistencies between entries in Schedule 5.2.1 and the aggregate values in Schedule 5.1.1 were identified:

- Investment income in Schedule 5.1.1 was not accounted for, but was provided in Schedule 5.2.1.
- Total revenue in Schedule 5.2.1 for 2008-9 and 2010-11 is lower than the total revenue provided in 5.1.1 for the same years, despite the total in 5.2.1 allowing for additional investment income.
- Inputs in Schedule 5.2.1 indicate a net loss of \$4,584 from sale of assets (regulatory and non-regulatory). This is inconsistent with the net profit from the sale of assets in 5.1.1 (\$84,555).
- Contributions for 2008-09 in Schedule 5.2.1 and 5.1.1 are different.

The structure in Schedule 5.2.3 of the information template varies slightly to the published tariff structure in the submission. The reasons for this variation are explained further in the following sections.

3.2.4. Response to identified information gaps

Allconnex Water explained the information gaps relating to contribution (noted above) only. It was noted that “*all contributions are included in the category ‘other revenue offset against requirements’ to reflect that all contributions are either deductible from MAR (2008-09 and 2009-10) or from the RAB (2010-11 onwards).*” They did not explain the other gaps, but they may be explained by the general categorisation issues discussed in Section 3.1, where:

“In general, gaps relate to allocation issues, rather than missing information. In some cases, Allconnex Water has been unable to fully reconcile the historical information provided by the districts and in this case there may be minor discrepancies in total values (in particular, between financial statements and revenue/expense worksheets). For consistency, categories and values in Allconnex Water’s EFM have been adopted, with the exception of the historical financial statements. As noted in the submission to the QCA, Allconnex Water will work towards aligning data to the QCA information requirements”



Allconnex Water also indicated that the data allocation issues in Schedule 5.2.1 should not have a significant distributional impact on the customer categories in Schedule 5.2.2. In particular allocation issues seem to primarily relate to non-tariff revenues.

Allconnex Water sufficiently explained the inconsistencies between the profit and loss statement and Schedule 5.2.1. These mostly related to problems reconciling the historical data supplied by the councils to the financial statements (for 2008-09). Difficulties in reconciling the data are understandable, given Allconnex Water had only been in operation for two months. However, once consistent accounting systems are in place across all geographical areas, these issues should be resolved in time for the next submission.

In response to queries regarding the tariff structure provided in Schedule 5.2.3, Allconnex Water highlighted that *“The average charge was calculated as estimated revenue divided by estimated properties. The relevant price increase was then applied to the average charge to calculate the 2010-11 average charge for revenue forecasting purposes only.”* Therefore, the average tariffs do not directly match the fixed tariff. This approach was considered acceptable for the 2010-11 submission. However, a more robust pricing strategy in the next submission would provide greater clarity about the pricing policy.

3.2.5. Summary of revenues

No modifications were made to revenue in the information return. Allconnex Water's compliance in providing the information required by the Authority is provided in Table 3-4 and Table 3-5 below. The issues identified relate to the information gaps and the potential categorisation issues.

■ **Table 3-4 Allconnex compliance with information return requirements (revenues)**

- Revenue from Prices (Section 5.2.1)
- Revenue from Other Sources (Section 5.2.2)

■ **Table 3-5 Allconnex comprehensive and accurate template (revenues)**

- Revenue by Geographic Area (Schedule 5.2.1)
- Revenue by Customer Group (Schedule 5.2.2)
- Revenue – Tariff Structures (Schedule 5.2.3)

3.3. Values for the initial RAB

3.3.1. Information return

Allconnex Water's RAB information was completed to the detail required by the Authority with the exception of supporting documentation.



The initial RAB for Allconnex Water as at 1 July 2008 was set to \$3,557.537 million. Table 2-9 below outlines the geographical split of the RAB and the split provided by Allconnex Water. The initial RAB in the template is consistent with Ministerial advised values.

■ **Table 3-6 Allconnex RAB split (\$'000)**

	Gold Coast	Logan	Redland	Total
Ministerial-advised RAB	\$2,131.16	\$1,005.432	\$420.945	\$3,557.537
Allconnex Water-advised figures	\$2,131.16	\$1,005.432	\$420.945	\$3,557.537
Variance	-	-	-	-

The information return for the RAB was provided using asset classes. The written-down values (WDV) for each of the asset classes were cross-checked with the audited asset register for consistency. In Schedule 5.5.1_SD01, Allconnex Water allocated the opening RAB to its asset classes, based on the ratio of total RAB to total WDV within each geographical area. This approach is considered reasonable.

The rationale for a causal allocation for asset values was provided for the allocation between wastewater assets and trade waste and sewerage. This allocation provided in the additional information was cross-checked against the allocation applied to the RAB.

3.3.2. Supporting information provided

Allconnex Water provided the following supporting information:

- **RAB Value** – Asset registers were provided in response to SKM's information request.
- **Depreciation rationale** – Consistent with the Minister's Direction Notice, regulatory depreciation is calculated based on a straight line method and using the apportionment of the original asset valuation to council assets and the existing useful lives attached to those assets. For the purposes of Allconnex Water's modelling, a weighted average approach was used to calculate the 'roll-forward' remaining useful lives."
- **RAB roll-forward assumptions** - "For the purposes of calculating the RAB roll-forward, a mid-year assumption was adopted for capital expenditure, the receipt of donated assets, and asset disposals."
- **Disposals** – "Disposals are typically not a significant component of water businesses, and for Allconnex Water typically only accounts for approximately 0.2% – 0.3% of the RAB in any year."
- **Indexation** – "For 2008-09 and 2009-10, indexation rates have been adopted which reflect the Australian Bureau of Statistics Consumer Price Index for June (all groups, Brisbane, Series ID A2325817T). The reported CPI rate was 2% for 2008-09 and 3.2% for 2009-10."

Allconnex Water provided the following review information, consistent with the requirements for a comprehensiveness and accurate information return for the RAB:

- Unique identifiers for each individual asset



- Each was allocated to regional location, product and asset class
- Audited written-down values were allocated to the Minister's approved RAB values for each council for 2008.
- RAB asset values were internally consistent when aggregated by asset class and compared to the initial RAB values in the information template.

Note: Capital expenditure review (which forms part of the RAB calculation) does not form part of this assessment.

3.3.3. Identified information gaps/inconsistencies

In identifying information gaps for the initial RAB, values were allocated to the following asset classes:

- Billing systems
- Support systems
- Corporate office
- Establishment cost
- Unallocated cash contributions

In regards to other asset information, depreciation for Gold Coast disposals was not provided in Schedule 5.5.2_SD01.

In Schedule 5.5.2, depreciation charges are "greater than the asset value" as per the check built in to the template. The formula behind this check was locked, which meant it was difficult to verify the accuracy of the depreciation charges. Allconnex Water provided further explanation to justify the accuracy of their forecasts (see below). The total depreciation for the three geographic areas in Schedule 5.5.2 was slightly higher (\$118 million) than the depreciation for the same year in the profit and loss statement in Schedule 5.1.1 (\$112 million).

Allconnex Water noted that the tax written-down asset values and remaining useful lives were provided based on regulatory values (as a conservative interim assumption).

SKM sought clarification on the allocation of wastewater assets to trade waste and sewerage (Schedule 5.5.1SDO2). The template input states it is non-causal, which is inconsistent with Schedule 5.5.1SDO1.

3.3.4. Response to identified information gaps

Allconnex Water noted in its response (consistent with the information contained in its submission) that the assets were allocated to various categories based on the categories used in Allconnex Water's EFM. The EFM was developed as part of the WB3 project before the templates were released, and therefore, there were some inconsistencies between the categories. In particular:

- Billing and support systems are included in corporate systems
- The category 'corporate office' was used for Allconnex Water's corporate costs (not district corporate costs) and will be used as a category from 1 July 2011, but not for historical assets (therefore there are no assets to be allocated at 1 July 2008)



SKM recommends the Authority seeks further information on the justification for asset allocation for shared assets. For example, in Schedule 5.5.1SD01, building assets were only allocated to drinking water and no supporting information was provided to explain why this value is not shared among other services. Further, while the billing and support system is incorporated in corporate system, this should be identified separately for future submissions.

In regards to the information gap for depreciation for Gold Coast disposals, Allconnex Water noted that values for gross assets and cumulative depreciation were not available for the Gold Coast district and that forecast values for the Gold Coast are also net values. SKM believes this is not a key issue for the purposes of this submission, but should be addressed for future submissions.

In response to the inconsistency in depreciation value in Schedule 5.5.2 and Schedule 5.1.1, Allconnex Water noted that:

“Depreciation in the P&L represents accounting depreciation, rather than regulatory depreciation (which is included in worksheet 5.5.2). A key reason for the difference is the use of different timing assumptions in Allconnex Water’s EFM (for forecasting purposes) compared to RAB roll-forward (which was developed separately to replicate, as closely as possible, the QCA’s methodology as set out in the QCA’s MAR model). For the RAB roll-forward (worksheet 5.5.2), new assets are assumed to be commissioned mid-year, whereas for the P&L is based on an end-of-year assumption. This discrepancy will be resolved for the 2011-12 review.”

SKM considers this response to be reasonable as the discrepancy will be resolved for the 2011-12 review.

In response to the query the automatic check in Schedule 5.5.2 which states that ‘depreciation charges are greater than the asset value’, Allconnex Water noted that:

“Current period depreciation relates to the total assets within each asset class, rather than just being depreciation on contributed assets. Therefore if the hidden cells on this Schedule are not linked to the RAB roll-forward (which includes opening asset value, disposals etc) then the depreciation charges will exceed the asset value. In other words, the depreciation values must be compared to the total asset value for each category, not just the contributed assets in each category”.

This explanation may be reasonable; however, SKM is unable to verify whether the automatic check in the template is linked to the RAB roll-forward value. The level of detail provided on disposals, indexation and roll-forward assumptions was considered reasonable for this review. For future submissions, SKM recommends a consistent set of assumptions for calculating the RAB roll-forward be applied across Entities.

In its response to the information request, Allconnex Water confirmed that the allocation of wastewater assets to trade waste and sewerage (Schedule 5.5.1SDO2) should be changed to ‘causal’.

The only modification was to Schedule 5.5.1SDO2 which changed the allocation of wastewater assets to trade waste and sewerage to ‘causal’ (see Appendix A.2.2). This does not impact forecasts.



3.3.5. Summary of Regulatory Asset Base

Allconnex Water's compliance in providing the information required by the Authority in its information return is provided below in Table 3-7.

■ **Table 3-7 Allconnex Water compliance with information return requirements (RAB)**

■	Regulatory Asset Base as at 1 July 2008 (Section 5.5.1)
■	Rolling Forward the RAB (Section 5.5.2)

Allconnex Water addressed the information required by the Authority to review the values of the initial RAB. In future submissions, further information to explain the causal allocation should be provided, particularly between different service types. Future submissions should also ensure that depreciation is clearly allocated and tax written-down values provided based on State Government advice. These issues have been reflected in the return summary (Table 3-8).

■ **Table 3-8 Allconnex comprehensive and accurate template (RAB)**

■	Opening Asset Base as at 1 July 2008 (Schedule 5.5.1)
■	Allocation of Opening Asset Base (Schedule 5.5.1 SD01)
■	Pro Forma Workpaper for RAB Value Allocation (Schedule 5.5.1 SD02)
■	Opening Regulatory Asset Base as at 1 July 2008 (Schedule 5.5.1 SD03)
■	Opening Asset Base as at 1 July 2008 (Tax Values) (Schedule 5.5.1 SD04)
■	Other Asset Base Information (Schedule 5.5.2)
■	Disposals for Asset Base Roll (Schedule 5.5.2 SD01)

3.4. Contributed, donated and gifted assets and capital contributions

3.4.1. Information return

Details of contributed, donated and gifted assets were provided. However (as noted by Allconnex Water), a full Schedule of infrastructure charges was provided separately.

SKM conducted the following checks to verify the data:

- Completion of the relevant information templates
- Consistency between information return on contribution in Schedules 5.7.1 and 5.7.1SD01 and the balance sheet (Schedule 5.1.2).
- Consistency between the total contributed, donated and gifted and the capital programme provided in Table 7.1 of Allconnex Water's submission.



- Supporting information to justify the allocation of contributions provided in Schedule 5.7.1SDO2

Within the RAB roll-forward period to 30 June 2010, Allconnex Water adopted a 'revenue-offset' approach, and therefore, donated assets and cash contributions were included in the RAB in the same way as other council-funded capital expenditure. The following is a summary of the allocation of contributions applied.

Table 3-9 Allconnex allocation of contributions summary

Region	Service	% allocation to "Distribution infrastructure not included in another category"	% allocation to Treatment
Gold Coast	Drinking water	100%	0%
Gold Coast	Wastewater via sewer	69%	31%
Gold Coast	Trade waste	69%	31%
Logan	Drinking water	100%	0%
Logan	Wastewater via sewer	100%	0%
Logan	Trade waste	100%	0%
Redland	Drinking water	100%	0%
Redland	Wastewater via sewer	100%	0%
Redland	Trade waste	100%	0%

3.4.2. Supporting information provided

Supporting documents included:

- Gold Coast Priority Infrastructure Plan
- Logan Planning Scheme Policy No.7 (Infrastructure Contributions), 2006
- Beaudesert – Planning Scheme Policy No.5 Infrastructure contributions
- Gold Coast – Policy 3A: Policy for Infrastructure (Water Supply Network Developer Contributions)
- Gold Coast – Policy 3A: Policy for Infrastructure (Sewerage Network developer contributions)
- Redland – Policy 3, Chapter 7- Water Supply and Sewerage Headworks Contribution

3.4.3. Identified information gaps/inconsistencies

SKM identified the following gaps and inconsistencies in the initial information return:

- Total contributions for the Gold Coast in 2010/11 in Schedule 5.2.1 total were \$63.185 million, while in Schedule 5.7.1 (and 5.7.11.SD01) these were \$61.1 million
- Schedule 5.7.1_SDO3 was not populated (as noted in the supporting information)
- Rationale for the allocation of contributions (in Schedule 5.7.1_SDO2) was not provided



3.4.4. Response to identified information gaps

In response to the inconsistency between Gold Coast contributions in Schedule 5.2.1, Schedule 5.7.1 and 5.7.1.SD01, \$2.2 million was inadvertently omitted, which pertained to wastewater grants and subsidies expected to be received.

In response to further clarification of the allocation of cash and capital contributions variances within the three geographical regions, Allconnex Water suggested that this was due to the difference in growth patterns and different infrastructure charging regimes. The growth pattern was based on information from the South East Queensland Regional Plan and the participating councils. As a consequence, the three districts have different growth projections, different requirements for infrastructure and different contribution rates.


It is also understood from the response that as a result of the water reform, water cash contribution rates only apply to the distribution network, while the wastewater takes into account treatment and distribution. SKM considers this information to be sufficient.

Allconnex Water identified an extensive forward works programme to enable the business to complete the information templates by 2013. In response, the additional \$2.2 million for contributions in the Gold Coast from wastewater grants and subsidies expected to be received in 2010-11 was included in Schedule 5.7.1 (and 5.7.1.SD01).





3.4.5. Summary of contributed, donated and gifted assets and capital contributions

Allconnex Water did not complete the information return required for the contributed, donated and gifted assets, as required in Schedule 5.7.1SD03. However, the information was considered adequate for the purpose of this year's submission (see Table 3-10 and Table 3-11).

- **Table 3-10 Allconnex compliance with information return requirements (contributed assets)**

 Contributed, Donated and Gifted Assets (Section 5.7.1)

- **Table 3-11 Allconnex comprehensive and accurate template (contributed assets)**

 Contributed, Donated and Gifted Assets (Schedule 5.7.1)
 Allocation of Contributions to Asset Classes (Schedule 5.7.1 SD01)
 Pro Forma Workpaper for Allocation of Contributions (Schedule 5.7.1 SD02)
 Cash Contributions Structure (Schedule 5.7.1 SD03)



3.5. Existing useful lives attach to individual assets from July 1 2008

3.5.1. Information return

Allconnex Water outlined nominal asset lives for use in economic regulation to depreciate at the asset-class level. The template allows information to be provided on the following two Schedules:

- Schedule 5.8.1.1 Asset Lives Details for Regulatory Asset Base
- Schedule 5.8.1.2 Asset Lives Details for Regulatory Asset Base – Tax Purposes

As an interim approach, Allconnex Water assumed that tax lives are the same as regulatory lives, and therefore, the same information was provided in both templates.

The QCA template required information to be provided on the following categories:

- Useful Lives for New Assets
- Remaining Asset Lives for Existing Assets – as at 1 July 2008

Allconnex Water completed both these requirements to a satisfactory level. The asset lives provided for new assets in the template aligns with the supporting information (see below).

3.5.2. Supporting information provided

Supporting documentation was not provided to document the rationale for selecting asset lives. A summary from “Allconnex asset life.docx” is shown below.

■ Table 3-12 Allconnex support Asset life summary

Description	Nominal Life	Comment
Reservoirs	70	
Pump stations	25	
Treatment	35	
Distribution infrastructure not included in another category	70	
Associated telemetry and control systems	20	
Meters	15	
Billing systems	5	
Corporate systems	5	
Sundry property, plant and equipment	5	
Land	NA	Does not depreciate
Building other than infrastructure housing	60	
Support services	NA	Category not used
Establishment costs	5	
Corporate office	5	



Description	Nominal Life	Comment
Unallocated cash contribution	55	

Regarding specific asset lives, SKM presents the following conclusions of key assets:

■ **Table 3-13 Allconnex Water asset life review**

Asset	Comment	Benchmark
Reservoirs	The assumption of a 70-year asset life appears is reasonable.	The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 50 years for reservoirs.
Pump stations	Pump stations consist of several civil, mechanical and electrical assets. The assumption of a combined 25-year asset life for pump stations appears reasonable.	The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 20 years for pumps (note that this contributes to the mechanical component only).
Treatment	Treatment consists of a number of civil, mechanical and electrical assets. A combined asset life of 35 years appears reasonable.	No combined treatment asset life was provided.
Distribution infrastructure not included in another category (Water and wastewater Distribution infrastructure)	The assumption of a 70-year asset life appears is reasonable	The WSA 07-2007 Pressure Sewerage Code of Australia V1.1 suggests a nominal asset design life of 100 years for pressure sewers and laterals and property discharge lines, 20 -30 years valves. The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 100 years for water mains, 30 years for valves.
Telemetry and SCADA	The assumption of a 20-year asset life appears reasonable.	The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 15 years for SCADA.

3.5.3. Identified information gaps/inconsistencies

No information gaps were identified. The only potential issue was that the asset life allocated to existing pump stations in the Gold Coast (ie for the asset class) was higher than the useful life allocated to new pump stations.

3.5.4. Response to identified information gaps

In response to this issue, Allconnex Water noted that the useful lives for existing assets were based on the existing *accounting* useful lives (weighted average useful lives from each district's fixed asset register as at 1 July 2008) and that new assets were allocated *economic* useful life, developed as part of the Water Reform Program (WRP).



This sufficiently explains why the asset lives for new assets may be different to the remaining asset life on existing assets.

SKM notes that for regulatory purposes economic useful lives are more relevant than the accounting concept. Any implications on the information return from the difference between accounting and economic useful lives were marginal, and no modifications were required.

3.5.5. Summary of existing useful lives

Allconnex Water complied with the necessary information return for useful asset lives (see Table 3-14). The treatment of useful asset lives for tax purposes will be refined for future submissions, and therefore the information return, is assessed as accurate and comprehensive, with the exception of Schedule 5.8.2 as provided in Table 3-14 and Table 3-15 below.

- **Table 3-14 Allconnex compliance with information return requirements (useful asset life)**

 Useful Lives for Assets (Section 5.8.1)

- **Table 3-15 Allconnex comprehensive and accurate template (useful asset life)**

 Useful Lives for Assets (Schedule 5.8.1)

 Useful Lives for Assets (Tax) (Schedule 5.8.2)

3.6. Asset values and existing useful lives for tax purposes

Section 10.1.1 noted that at the time Allconnex Water was formulating its pricing strategy, a key issue outstanding was the basis on which Allconnex Water's opening tax cost base would be determined. As such, Allconnex Water claims that it has *"adopted, as a conservative assumption, a tax cost base aligned to its then estimate of its RAB. This assumption was conservative in that the RAB represented the highest possible valuation for the tax cost base, thereby giving the highest possible tax depreciation estimate and lowest tax cost estimate"*. Based on the information provided by Allconnex, no further review of this section was considered necessary.

3.7. Non-regulated services

3.7.1. Information return

Schedule 5.14 was completed detailing the service, revenue and operating expenditure for non-regulated services. Allconnex Water identified two types of non-regulated services, including work provided by Allconnex Water for another Entity under a service level agreement (SLA) and the business' scientific services laboratories. The information return indicated total revenue of \$7.71 million and expenditure of \$6.99 million related to non-regulated services, and zero capital expenditure.



As noted previously, Allconnex Water does not have regulatory accounts, and therefore the information return in Schedule 5.14.1 could not be cross-checked with any regulatory adjustments which should have been made in Schedule 5.1.4 to 5.1.8.

3.7.2. Supporting information provided

Allconnex Water provided a range of supporting information for its non-regulated services, including service level agreements and telecommunication leases.

3.7.3. Identified information gaps/inconsistencies

The capital expenditure forecast of zero in Schedule 5.14.1 is not consistent with the capital programme provided in Table 7.1 of Allconnex Water's submissions, which includes capital expenditure for non-regulated service (\$1.29 million in 2010-11, 0.55 million in 2011-12 and \$0.83 million in 2012-13).

Allconnex Water does not hold any regulatory accounts. Therefore, while the information in Schedule 5.14.1 is based on the best information available, Allconnex Water does not have sufficient information to fully separate its regulated and non-regulated costs and revenues. While it is unlikely to materially impact overall tariffs in this case, it is important that all revenues and expenses are clearly delineated between regulated and non-regulated services to avoid any cross-subsidisation of non-regulated services through customer tariffs. This can be important, for example, if the allocation of overheads is shared inappropriately between the regulated and non-regulated services this will result in a cross subsidy of a non-regulated service. SKM recommends Allconnex Water provides greater clarity about the allocation of shared costs between regulated and non-regulated activities.

SKM recommends, as a temporary approach, Allconnex Water applies the information it has available on its non-regulated activities (as per Schedule 5.14.1) to adjust its financial statements.

3.7.4. Response to identified information gaps

Allconnex identified that it will be able to complete the information templates to capture all the non-regulated services by 2013.

In regards to whether the potential exclusion of capital expenditure for non-regulated services in Schedule 5.14.1, Allconnex Water, suggested that the expenditure in question *"did not relate to specific non-regulated services that Allconnex Water undertakes"*, but rather to plant and equipment from one of the districts, predominantly fleet replacement. This suggests that the Authority should clarify whether this expenditure should or should not be classified as non-regulated. Allconnex Water listed it under both categories, with Schedule 5.6.1 suggesting it is a non-regulated activity.

There are no implications for, or modification to, the current information return. However, it is noted that forecasts may be affected in future submissions if allocation of costs and revenues between regulated and non-regulated activities are adjusted.



3.7.5. Summary of non-regulated assets

Allconnex Water complied with the necessary information return for its non-regulated services (see Table 3-16).

- **Table 3-16 Allconnex compliance with information return requirements (non-regulated services)**

 Non-regulated Services (Section 5.14.1)

- **Table 3-17 Allconnex comprehensive and accurate template (non-regulated services)**

 Non-regulated Services (Schedule 5.14.1)

3.8. Allocation of data to categories

For the purposes of this review, allocation is required for revenue and the RAB (allocation of capital expenditure and operating cost are outside the scope of the review). The extent to which the information provided by Allconnex Water was allocated to the categories specified by the Authority, and any associated issues, has been noted and is summarised below.

- **Table 3-18 Allconnex allocation of data to categories**

Category	Allocation compliance	Comments
Revenue	In part	Partially compliant. The information on revenues generally met the Authority's requirements. Revenue details for recycled water were provided under 'other core wastewater services' to allow comparison against costs (which are included in overall wastewater costs due to unbundling issues). Revenue of 'other core water services' was not used in the template due to unavailability of data of sufficient disaggregation.
RAB	In part	More robustness is required in the allocation of the RAB between different service types.

3.9. Systems progress

Allconnex Water noted:

"As expected with a "merger" of three large businesses, there are a multitude of tasks and consolidation that will need to be completed over the coming years. This may include, but is not limited to: Integrated Standards; Financial Practices; Systems; Infrastructure Planning; Regulation and Pricing; Procedures and Policies; and, Enterprise Bargaining. The focus will be on consistency and efficiency that will take Allconnex Water forward."

More specifically, Allconnex Water advised that the forward works programme to enable the business to complete the information templates by 2013 includes:



- Possible harmonisation of service standards and desired standards of service
- Procurement efficiencies
- Asset management systems
- Finance systems
- Standardised budgeting and project justification
- Enterprise resource planning (ERP) system
- Customer impact assessment of possible tariff harmonisation (district pricing vs. service area pricing)
- IT systems
- NetServ plan
- Review non-core charges
- Regulatory readiness programme

SKM advises that the priorities for information returns for the 2011-12 submission relating to the auxiliary data issues addressed in this report should include:

- Consistent accounting and billing systems
- Updating the EFM to reconcile with QCA information requirements, especially the disaggregation between regulated and non-regulated assets, revenue and costs.
- Establishing a tariff pricing framework and methodology
- More transparent and consistent information about the allocation of costs and revenue between regulated and non-regulated activities and within regulated activities including the basis for the allocation of costs.

It is expected that there will be overlaps between the systems required to comply with the information requirements, and therefore the prioritisation may be adjusted for improved efficiency.

3.10. Allconnex Water Summary

Allconnex Water's 'Response to Interim Price Monitoring Information Requirement', which includes both a written submission and completed template, was completed to the adequacy of the information available to the Entity at the time of the submission to the Authority. However, the gaps and compliance issues should be amended for future years' returns.

SKM acknowledged the limitations and constraints of Allconnex Water in compiling the information to meet the Authority's requirements at the time of this report. The constraints are primarily associated with the data provided by the councils and the timelines associated with competing pressures associated with the operation of a new Entity. Although limitations constrained the availability of support information for this year's information return, Allconnex Water showed a willingness to provide detailed responses to all queries.

The statutory account and budget information, including templates, was partially completed to the detail required by the Authority. An incomplete summary profit and loss statement was included in Allconnex Water's information



return for financial years 2009-2013. As audited accounts had not yet been completed by the three councils in time for the review, no information was available for 2009-10. A summary balance sheet was provided, but it does not include data for 2009-2010. A summary balance sheet was not provided in the supporting information. As is the case for the profit and loss statement, the forecasts are linked to Allconnex Water's EFM instead of audited financial statements. Allconnex Water noted these limitations and is working towards addressing these information gaps for the next submission. In providing the cashflow statement, Allconnex Water incurred similar constraints in providing the summary profit and loss statement and balance sheet. As such, no estimates for 2009-10 were provided.

The revenues provided in the information template were completed for both geographic areas and service categories in Schedule 5.2.1 for FY2009 to 2013. Some inconsistencies were identified when cross-checking for internal consistency with the revenue information provided in alternative Schedules. The information on revenues generally met the Authority's requirements. However, the information gaps which will have to be addressed in future submissions.

The RAB information provided, including templates, was substantially completed to the detail required by the Authority. In future submissions, further information to explain the causal allocation should be provided, particularly between different service types. Future submissions should also ensure that depreciation is clearly allocated and tax written-down values provided, based on State Government advice.

Allconnex Water did not complete the full information return required for the contributed, donated and gifted assets.

Allconnex Water also provided information for existing useful lives which attach to individual assets from 1 July 2008 as per section 5.8 (depreciation). Allconnex Water noted that the useful lives for existing assets were based on the existing *accounting* useful lives (weighted average useful lives from each district's fixed asset register as at 1 July 2008) and that new assets were allocated *economic* useful life, developed as part of the Water Reform Program (WRP). This sufficiently explains why the asset lives for new assets may be different from the remaining asset life on existing assets. SKM notes that for regulatory purposes, economic useful lives may be more relevant than the accounting concept.

SKM believes Allconnex Water has provided sufficient details of their allocation methodology.



4. Unitywater

Unitywater is jointly owned by the Sunshine Coast Regional Council (SCRC) and the Moreton Bay Regional Council (MBRC) and provides water and wastewater services to residents of these regional councils.

4.1. Statutory accounts and budget information

4.1.1. Information return

The statutory account and budget information was partially completely to the detail required by the Authority. However, Unitywater acknowledged limitations in providing audited financial statements due to the information provided to them by the councils.

Unitywater provided a summary profit and loss statement for financial years 2009-2013. Although based solely on council forecasts, Unitywater provided a complete information template for this section. SKM analysed the profit and loss statement for various line items in the template, including revenues, expenses, depreciation and amortisation. SKM's analysis indicates that these items can be reconciled with information provided within the relevant sections of the template as identified in Table 4-1.

■ Table 4-1 Unitywater - statutory accounts consistency check

Item	Profit and Loss (Schedule 5.1.1)	Revenue (Schedule 5.2.1)	Contributions (Schedule 5.7.1)	Operating (Schedule 5.11.1)	Check
	2010-11 (\$'000)	2010-11 (\$'000)	2010-11 (\$'000)	2010-11 (\$'000)	
Revenue from services	376,072.50	376,072.50			✓
Investment Income	2,004.90	2,004.90			✓
Contributions	75,772.95		75,772.95		✓
Operating expenditure	234,163.84			234,163.84	✓

Unitywater's summary balance sheet included forecasts for financial years 2011-2013. However, balance sheet information for financial years 2009 and 2010 was not provided.

For 2009/10, the Entity did not provide the supporting information required by the Authority. However, the Entity noted that the councils did not keep separate full financial statements for their water businesses for this reporting period and therefore could not provide balance sheets and cashflow statements for these preceding years. Although SKM acknowledged these constraints, Unitywater provided detailed forecasts for the 2011-2013, based on forecast budgets developed by the councils.



Unitywater incurred similar constraints in providing their cashflow statements. As such, only forecasts for 2011-2013 were provided. SKM acknowledged that these cashflows were appropriately entered into the relevant template and did not identify any information gaps.

Several regulatory adjustments were made to Unitywater's statutory accounts, including \$93 million for property, plant and equipment and \$5.6 million for depreciation. These adjustments were correctly entered in the templates to match the accounting valuation advised by the Minister for Natural Resources, Mines and Energy (The Minister) for the initial RAB. The adjustments were subsequently included to derive the regulatory profit and loss and balance sheet required by the Authority.

4.1.2. Supporting information provided

Unitywater provided limited supporting information for the statutory accounts and budget information. At the time of the report, audited financial statements were not available for review.

4.1.3. Identified information gaps/inconsistencies

SKM recognises that Unitywater faced constraints gathering this information from the councils. These constraints led to several information gaps in Unitywater's statutory accounts and budget information, of which further clarification was sought. The information gaps included:

- Appropriate supporting documentation
- Investment income for FY2010 is notably less than the years prior and subsequent.
- Audited financial statements were not provided
- Bad debts were recorded for FY2010 and not recorded/estimated for prior or subsequent years
- Borrowing costs increase significantly in FY2011 from previous years
- The cash end within the cashflow statement (Schedule 5.1.3) did not reconcile with current cash in the balance sheet (Schedule 5.1.2)

4.1.4. Response to identified information gaps

SKM requested additional information from Unitywater to determine the comprehensiveness and accuracy of their information return. At the time of this report, Unitywater provided verbal and written responses to these information gaps, including:

- Audited financial statements will be available in the near future, however, not in time to be included in this report
- Unitywater recognises that *"a small amount of bad debts for FY2010 were populated by the Sunshine Coast Regional Council for use by Unitywater but as no supporting documentation was provided, Unitywater was obliged to reflect that forecast.* Unitywater noted that the historical debt figures reflect the debt recovery power attributed to the councils. In the future, the councils will retain this power, however, the water Entities will not.



Unitywater will be required to use other methods to encourage payment and recovery of outstanding debts. Therefore, the Entity does not anticipate any significant bad debts in the foreseeable future.

- Unitywater provided the rationale for the increase in borrowing costs, namely, establishment costs and additional borrowings from Queensland Treasury Corporation for additional project funding.
- The inconsistency identified between the balance sheet and the cashflow Schedule was sourced to the balance sheet and appropriately modified.

Unitywater also appropriately modified the cashflow statement. The template modifications are presented in Appendix A.

4.1.5. Summary of accounts and budget information

Unitywater's compliance in providing statutory accounts and budget information is provided in Table 4-2.

- **Table 4-2 Unitywater compliance with information return requirements (statutory accounts and budget information)**

■	Profit and Loss (Section 5.1.1)
■	Balance Sheet (Section 5.1.2)
■	Cashflow Statement (Section 5.1.3)

Unitywater's submission on statutory accounts and budget information had limited compliance with the Authority's requirements. This was due to the availability of supporting information which Unitywater acknowledged in its information return.

A summary of the accuracy and comprehensiveness of the statutory accounts and budget information provided is presented in Table 4-3.

- **Table 4-3 Unitywater comprehensive and accurate template (statutory accounts and budget information)**

■	5.1 Comprehensive and accurate return
■	Profit and Loss (Schedule 5.1.1)
■	Balance Sheet (Schedule 5.1.2)
■	Cashflow Statement (Schedule 5.1.3)
■	Regulatory Adjustment Journals (Schedule 5.1.4)
■	Adjusted Profit and Loss Statement (Schedule 5.1.5)
■	Adjusted Balance Sheet (Schedule 5.1.6)
■	Profit and Loss – Regulatory Values (Schedule 5.1.7)
■	Balance Sheet – Regulatory Values (Schedule 5.1.8)



Overall, the accuracy and comprehensiveness of Unitywater's information templates are suitable at this stage. The amber results reflect the missing supporting information and values for FY2009/10. The inconsistencies have been modified. Although there were some minor issues, these were generally beyond the control of Unitywater. Unitywater indicates that these issues will be addressed in time for the next period of price monitoring.

4.2. Information on revenues

4.2.1. Information return

Unitywater's information on revenues partially met the Authority's requirements. Revenues were also allocated across customer groups as required in Schedule 5.2.2. These values were successfully reconciled with complete tariff structures in Schedule 5.2.3.

SKM cross-checked the values for both geographic areas and service categories in Schedule 5.2.1 for FY2009 to 2013 for internal consistency with the revenue information provided in alternative Schedules. Initial cross-checks have identified internal consistency once minor template errors were corrected.

Unitywater acknowledged several constraints in providing the information required by the Authority. In particular, they acknowledged that in undertaking forecasts from FY2010 to FY2013, original budgets were made before taking possession of the assets and with limited historic information to base projections.

In determining the current tariff structure, Unitywater noted that the tariff structure for the FY2011 is the same for future years with the exception of:

- Separating the bulk water charge on the utility charge notice
- Moving to equalise the pricing level for residential customers within each region
- Increasing the pricing level for non-residential customers within each district by the percentage increase applicable to residential customers in the respective districts
- Passing on the increase in the bulk water charge in full

Due to information constraints, including uncertainty of the opening RAB, Unitywater noted that a pricing policy was adopted to achieve full cost recovery at its preliminary estimate of the MAR. However, for subsequent years, it will be amended to reflect the finalisation of several key assumptions. Therefore, Unitywater's price smoothing policy will be determined once these assumptions are finalised.

Unitywater provided revenues from other sources to the adequacy of the Authority which was disaggregated into revenues offset (and not offset) against revenue. Other revenues for Unitywater include contributions of \$75.7 million and investment income of \$2.0 million in 2011. Contributions were accurately reconciled to values in the contributed assets section of the information template.

SKM cross-checked Unitywater's published prices with the prices identified in the information return for several charges for residential and non-residential customers. A summary is presented in Table 4-4. SKM's review



indicated that although some variable costs exist in the published information, general consistency exists between prices provided in Unitywater's information return and those in Unitywater's publicly available information.

■ **Table 4-4 Unitywater – Tariff cross-check**

			Moreton Bay		Sunshine Coast	
			2011 Unitywater's published prices	Prices for Unitywater's information return	2011 Unitywater's published prices	Prices for Unitywater's information return
Tariffs 2011						
Drinking water	Access charge	Residential	333.68	333.68	224.00	224.41
Drinking water	Access charge	Business	333.68	333.68	224.00	224.41
Drinking water	Bulk water charge	Residential	1.65	1.65	1.07	1.07
Drinking water	Bulk water charge	Business	1.65	1.65	1.07	1.07
Drinking water	Tier 1 volumetric charge	Residential	0.17	0.17	0.52	0.52
Drinking water	Tier 1 volumetric charge	Business	0.17	0.17	0.52	0.52
Drinking water	Tier 2 volumetric charge	Residential	0.82	0.82	1.00	1.00
Drinking water	Tier 2 volumetric charge	Business	0.82	0.82	1.00	1.00
Drinking water	Tier 3 volumetric charge	Residential	1.26	1.26	N/A	N/A
Drinking water	Tier 3 volumetric charge	Business	1.26	1.26	N/A	N/A
Wastewater Via sewer	Sewage charge	Residential	718.64	719.00	551	551.32
Wastewater Via sewer	Sewage charge	Business	718.64	719.00	Variable	551.32

4.2.2. Supporting information provided

Unitywater provided the following spreadsheets as supporting information to their information return:

- Services Revenue
- Utility Revenue Reconciliation
- Demand

The supporting documentation, in particular, the Services Revenue and Utility Revenue Reconciliation spreadsheets, provided the information required to support the tariffs in the templates for FY2011.

4.2.3. Identified information gaps/inconsistencies

Having reviewed Unitywater's information return, SKM identified the following information gaps:

- Revenues in Schedule 5.2.2 cannot be reconciled with total revenues for 2011 in template 5.1.1
- Tariffs for financial years prior to 2011 and subsequent years were not provided in Schedule 5.2.3
- Supporting documentation for pricing policies were generally not provided in sufficient detail
- The expected date at which any change to forecast revenues is to take place and the revenues that would apply before and after the change was not provided



- Detailed split between customer groups for particular tariffs was not undertaken but allocated to 'other'

4.2.4. Response to identified information gaps



In response to SKM's request for additional information to determine the comprehensiveness and accuracy of its revenue information, Unitywater provided the following responses:

- Unitywater acknowledged that tariffs for future years will be subject to the pricing policy set by the Authority and the finalisation of key assumptions to achieve full cost recovery. This explains the omitted response to the requirements to identify the expected date at which any change to forecast revenue is to take place. Once these details are finalised, Unitywater should be in a position to identify any expected changes to revenues, including tariffs and their impact.
- Adjustments were made to the information templates to allow for the reconciliation of revenues in Schedule 5.2.2 and total revenues in Schedule 5.1.1 for FY2011 (Appendix A).
- Unitywater provided additional information on tariffs for 2010. This information was not incorporated into Schedule 5.2.3 of the information template due to time constraints.
- Further supporting documentation on pricing policies and historical revenues were not provided at the time of the report.

4.2.5. Summary of revenues

Unitywater's compliance in providing the information required by the Authority is provided below in Table 4-5



■ Table 4-5 Unitywater compliance with information return requirements (revenues)

	Revenue from Prices (Section 5.2.1)
	Revenue from Other Sources (Section 5.2.2)

The amber result reflects that this section is partially compliant. However, as noted previously, supporting information on the pricing policy and changes in forecast revenues was omitted. However, this would likely be rectified as information provided to the Authority is finalised.

A summary of the accuracy and comprehensiveness of the revenue information is presented in Table 4-6.

■ Table 4-6 Unitywater comprehensive and accurate template (revenues)

	Revenue by Geographic Area (Schedule 5.2.1)
	Revenue by Customer Group (Schedule 5.2.2)
	Revenue – Tariff Structures (Schedule 5.2.3)



SKM did not identify any major issues pertaining to revenues. The tariff structures in Schedule 5.2.3 contain two minor issues, including the inability to split a number of tariffs by customer group and tariffs not provided for years prior and subsequent to FY2011. However, all values provided in the tariff register were reconciled to the values in revenue Schedules 5.2.2 and 5.1.1.

The amber measure reflects that Unitywater made no reference to supporting documentation to validate the revenue values in the information template.

4.3. Values for the initial RAB

4.3.1. Information return

The RAB information, including templates, was partially completed to the detail required by the Authority. As noted previously, Unitywater acknowledged that financial statements were not provided.

SKM noted that Unitywater's data relating to the RAB was provided Authority in separate working files, as agreed by the Authority. The reason for this was understood to be "ease of data handling" due to the size of some of the files. Several excel files formed the basis of the information template and supporting documentation for this section of Unitywater's response and are listed in the section below.

4.3.2. Supporting information provided

The following spreadsheets accompanied the Unitywater information return:

- SC RAB – Opening Assets
- SC Opening Assets Summary
- MBW Sewerage Initial RAB & Depn
- MBW Water Initial RAB & Depn
- MBW Other Initial RAB & Depn
- MBW RAB 1 July 2008

SKM conducted a preliminary review of each of these spreadsheets. The cross-checking did not uncover any significant errors in their internal processes, and the output data produced by each spreadsheet was matched the relevant figures in Unitywater's templates. SKM's review found that Unitywater's initial RAB values as at 1 July 2008 for the various geographic areas reconcile with the values provided by the Minister as identified in Table 4-7 below.

■ Table 4-7 Unitywater - 2008 initial RAB

Location	Minister's approved RAB ('000)	Information return RAB ('000)
Caboolture	\$475,449	\$475,449
Pine Rivers	\$532,355	\$532,355
Redcliffe	\$102,213	\$102,213



Total MBRC	\$1,110,017	\$1,110,017
Caloundra	\$303,192	\$303,192
Maroochy	\$514,857	\$514,857
Noosa	\$101,804	\$101,804
Total SCRC	\$919,853	\$919,853
Total Unitywater	\$2,029,870	\$2,029,870

SKM also conducted the following review to determine the comprehensiveness and accuracy of the RAB provided in the Unitywater information return:

- Sunshine Coast geographic location (SC RAB – Opening Assets.xls)
- Unique identifiers provided for each individual asset
- Each asset allocated to regional location, product and asset class
- Audited written-down values provided for 14 March 2008. These values were rolled forward to 30 June 2008 by the calculated depreciation value to derive written-down values for 30 June 2008 and allocated to the Minister’s approved RAB values for each council for 2008
- RAB asset values internally consistent when aggregated by asset class and compared to the initial RAB values in the information template

The workbook used to derive the initial RAB values used the individual council asset registers (by asset) which facilitated a simple cross-check to the asset values in the information template.

- Moreton Bay geographic location (MBW RAB 1 July 2008.xks, MBW Sewerage Initial RAB & Depn.xls, MBW Water Initial RAB & Depn.xls, MBW Other Initial RAB & Depn.xls)
- Unique identifiers provided for each individual asset
- Each asset allocated to regional location, product and asset class
- Audited written-down values provided for 1 July 2008. Asset values were grossed up and allocated to the Minister’s approved RAB value for each council
- RAB asset values internally consistent when aggregated by asset class and compared to the initial RAB values provided in the information template

SKM believes Unitywater provided sufficient supporting documentation for the RAB review.

4.3.3. Identified information gaps/inconsistencies

In Section 1.8 of Unitywater’s information return, the Entity states that “due to information constraints arising from an absence of council data, the opening RAB at 1 July, 2010 is an interim value.”

This lack of finality in the data was deemed an information gap. Unitywater also identified several information gaps in their return, including:



- 1) Opening Asset Base 1 July 2008 – interim statement values and back solved written-down values were not all supported by asset detail
 - a) Unitywater requested the councils substantiate reported values with individual asset details and assess the accuracy of individual asset classes
- 2) RAB roll-forward 1 July 2009 – Moreton Bay Regional Council assets as provided in financial statements were not supported by individual asset detail (developer provided assets \$19 million and asset acquisitions \$8 million – estimated 2% of RAB)
 - a) Unitywater request the councils to substantiate reported values with individual asset details and assess the accuracy of individual asset classes
- 3) RAB forward 1 July 2010 – Moreton Bay Regional Council has large outstanding work in progress and no developer provided assets recognised at March. No detail for Sunshine Coast acquisitions and developer provided assets.
 - a) Unitywater requested the councils substantiate reported values within individual asset details and assess the accuracy of individual asset classes
- 4) Establishment costs – quantum and treatment of establishment costs were not clear. The Authority's templates showed establishment costs as operating expenditure whereas information requirements classified them as capital
 - a) No establishment costs were included in information templates, but this should be rectified when the value is finalised and the pricing treatment is confirmed.

4.3.4. Response to identified information gaps

SKM requested additional information from Unitywater to determine the comprehensiveness and accuracy of their information return.

At the time of this report, Unitywater was not able to source the supporting documentation requested by SKM, despite their endeavours to address these queries. Therefore, although Unitywater acknowledged information gaps, they were not rectified at the time of this review.

4.3.5. Summary of the Regulatory Asset Base


SKM understood that once the councils submitted final data to Unitywater, there may be some revision to the opening RAB at 1 July 2010 as listed in the Unitywater pricing template. It is anticipated that these revisions will provide minor amendments to the initial RAB.

Unitywater's compliance in providing the information required by the Authority is provided below in Table 4-8. Unitywater addressed the values of the initial RAB and provided comprehensive supporting documentation.

■ Table 4-8 Unitywater compliance with information return requirements (RAB)








■ Regulatory Asset Base as at 1 July 2008 (Section 5.5.1)



 Rolling Forward the RAB (Section 5.5.2)

Although Unitywater's response to the RAB meets the Authority's information requirements, the information gaps identified by Unitywater cast significant doubt over the accuracy of the values provided. Therefore, until the information gaps are addressed, the accuracy of the initial RAB base cannot be verified. These issues were reflected in the return summary (Table 4-9 below) where the amber results reflect the interim nature of the data provided.

■ **Table 4-9 Unitywater comprehensive and accurate template (RAB)**

	Opening Asset Base as at 1 July 2008 (Schedule 5.5.1)
	Allocation of Opening Asset Base (Schedule 5.5.1 SD01)
	Pro Forma Workpaper for RAB Value Allocation (Schedule 5.5.1 SD02)
	Opening Regulatory Asset Base as at 1 July 2008 (Schedule 5.5.1 SD03)
	Opening Asset Base as at 1 July 2008 (Tax Values) (Schedule 5.5.1 SD04)
	Other Asset Base Information (Schedule 5.5.2)
	Disposals for Asset Base Roll (Schedule 5.5.2 SD01)

Once the audited financial and asset information is provided to Unitywater and their initial RAB is finalised, SKM recommends the Authority reviews the information to ensure it is comprehensive and accurate. SKM recognises that this may not be achievable until the 2012 interim price monitoring period.

4.4. Contributed, donated and gifted assets and capital contributions

4.4.1. Information return

Unitywater provided the information for this section to the detail required by the Authority. As noted previously, Unitywater acknowledged the absence of the financial statements.

4.4.2. Supporting information provided

The following spreadsheet files were provided to support the values of contributed, donated and gifted assets and capital contributions:

- SCW Capital Revenue FY10
- Developer Contribution Revenue060410
- 5.7.1 Worksheet

SKM conducted a high-level review of each of these spreadsheets, and found the contributed, gifted and donated assets reconciled with the revenue section as intended. This check uncovered a small error in the consistency of



values. However, the output data produced by each spreadsheet matched the relevant figures in the information templates.

4.4.3. Identified information gaps/inconsistencies

In Section 1.10 (page 13) of Unitywater's information return, it states that "Unitywater has been unable to obtain complete and final information about contributed, donated and gifted assets from the councils for FY2009 and FY2010.2010 is based on Council third Quarter estimates". This statement acknowledged the requirement to update and revise the FY2010 estimates to provide a more comprehensive return.

Unitywater indicated that developer provided assets for FY2011 to FY2013 were forecast "from historic trends taking into consideration expected development growth", but it did not have underlying and verifiable information relating to either the historic trend or the expected development growth.

SKM also identified that the supporting Schedule, 5.7.1SD03 was not populated and therefore could not be reconciled with Schedule 5.7.1.

Additionally, the supporting documentation (5.7.1 Worksheet.xls) for the contributed assets provided some internal inconsistencies with the information presented in the template for the Moreton Bay geographic location for FY2009. The inconsistencies are presented below in Table 4-10.

■ Table 4-10 Unitywater consistency check - contributed, Gifted and Donated Assets

	2009		
	5.7.1 Worksheet.xls	Information Template (Schedule 5.7.1)	Difference
Contributed, donated and gifted assets	2,368.3	9,570.0	-7,201.7
Capital contributions (cash and infrastructure charges)	3,587.7	3,587.7	0.0
Planning scheme policy charges	13,242.8	7,524.4	5,718.3
Total for water activity	19,198.7	20,682.1	-1,483.4
Contributed, donated and gifted assets	3,663.5	9,775.0	-6,111.5
Capital contributions (cash and infrastructure charges)	37,958.2	33,276.2	4,682.0
Planning scheme policy charges	17,012.2	9,576.6	7,435.6
Total for wastewater activity	58,633.9	52,627.7	6,006.1

4.4.4. Response to identified information gaps

At the time of this report, SKM could not verify the internal inconsistency of the 2009 values with Unitywater.



SKM requested further information on whether the additional/revised council data was expected within the timeframe relevant to this current review as it is anticipated that this would alter the values provided for contributed, donated and gifted assets and capital contributions.

Unitywater noted that although Schedule 5.7.1 SD03 was not completed in the information templates, the information requested in the Schedule was not necessary for Unitywater. Schedule 5.7.1 split the cash contributions as far as the current process and information available permits; it cannot be split into individual asset categories.

Unitywater also noted that the information in the supporting information Schedule 5.7.1, which was noted as inconsistent with the information templates, was incorrectly included in the information submission and should be deleted or updated.


Although additional supporting information that showed the historic trend in developer provided assets was not provided at the time of the report, Unitywater advised SKM that developer-provided assets were based on historical estimates from 2008 and forecast by a growth rate above CPI of around 2.77% per annum and satisfies this information requested by SKM.

4.4.5. Summary of Contributed, donated and gifted assets and capital contributions

SKM understands that additional information related to the Unitywater's contributed; donated and gifted assets and capital contributions potentially requires a revision of the data populating the sections of the information template related to such assets. As this data was unavailable at the time of the review, the information templates for this section remain unaltered.

Unitywater's compliance in providing the information required by the Authority in their information return is provided below in Table 4-11.

■ Table 4-11 Unitywater compliance with information return requirements (contributed, donated and gifted assets)

 Contributed, donated and gifted assets (Section 5.7.1)

Unitywater's information return met the Authority's requirements as specified in Section 5.7.1 of the information return.

A summary of the accuracy and comprehensiveness of the contributed, donated and gifted asset information provided is presented in Table 4-12.

■ Table 4-12 Unitywater comprehensive and accurate template (contributed, donated and gifted assets)

 Contributed, Donated and Gifted Assets (Schedule 5.7.1)



- Allocation of Contributions to Asset Classes (Schedule 5.7.1 SD01)
- Pro Forma Workpaper for Allocation of Contributions (Schedule 5.7.1 SD02)
- Cash Contributions Structure (Schedule 5.7.1 SD03)

4.5. Existing useful lives attach to individual assets from July 1 2008

4.5.1. Information return

This section of the information response pertains to the application of depreciation in the RAB. The Authority's information requirements are presented in section 1.1.2.5. Unitywater provided an information return outlining nominal asset lives for use in economic regulation to depreciate at the asset-class level.

The information template required asset life details within the following two Schedules:

- 5.8.1.1 Asset Lives Details for Regulatory Asset Base
- 5.8.1.2 Asset Lives Details for Regulatory Asset Base – Tax Purposes

Categories of asset lives included:

- Useful lives for new assets
- Remaining asset lives for existing assets – as at 1 July 2008

Useful lives for new assets are considered in detail below.

Unitywater provided supporting documentation to illustrate the rationale for selecting asset lives. A summary from "QCA Asset Class and lives.xlsx" is shown below.

■ Table 4-13 Unitywater – nominal asset lives

Description	Nominal Life
Reservoirs	80
Pump stations	60
Treatment	
Associated telemetry and control systems	20
Meters	15
Billing systems	5
Corporate systems	5
Sundry property, plant and equipments	8
Land	0
Buildings other than infrastructure housing	60
Distribution infrastructure not listed above	70
Other	10



Source: Unitywater – QCA Asset Class and Lives

In addition to the above table, Unitywater provided tables showing its draft standard asset lives for post 1 July 2010 acquisitions. The source of this information is from the GHD report, “Water Reform Program Asset Assessment Phase 1 – Water Business” (Table 4-14). This document provides disaggregated information for water and sewerage pump stations. SKM considered the information shown in Table 4-13 and Table 4-14 to be consistent, with the exception of sewerage pump stations (buildings and pump well) which have a useful life of 80 years. A summary of the reasonableness of the asset lives of each asset is provided in Table 4-16.

■ **Table 4-14 Unitywater useful lives - pump stations**

Water pump stations	Useful life	Sewerage pump stations	Useful life
Buildings	60	Buildings	80
Control equipment	20	Control equipment	20
Pipework	50	Pipework	50
Pumps	20	Pumps	20
Telemetry	20	Pump well	80
Electrical	20	Telemetry	20
		Switchboard	20

Source: GHD report

4.5.2. Supporting information provided

Unitywater provided the following spreadsheets to support their information return:

- SC Depreciation Summary.xls
- MBW Regulated Depn.xls
- QCA Asset Class and lives.xls
- 5.5.2 Worksheet.xls

SKM conducted a high-level review of these spreadsheets. Each spreadsheet functioned as intended. This review did not uncover any significant errors in their internal processes, and the output data produced by each spreadsheet matched the data provided in the information templates.

SKM believes Unitywater provided sufficient supporting documentation for this section of the response.

4.5.3. Identified information gaps/inconsistencies

The existing useful lives recorded in the asset register as at 1 July 2008 corresponded with the lives provided in Unitywater’s RAB at that date.

However, SKM considered several issues relating to this information. In Section 1.11 (page 15) of Unitywater’s information return, Unitywater stated that “complete information was not always available from the councils for



some assets, in which case a useful life of 50 years was assumed. This will be revised once more complete information is available”.

SKM noted that the supporting RAB spreadsheets, in particular *SC RAB – Opening Assets.xls*, the remaining useful lives of certain assets did not seem appropriate considering their purchase date. For example, the asset life for a “Blower” purchased in 1969 was noted as 20 years. However, the remaining useful life was listed as 14.29 years at 1 July 2008. Although SKM verified that the remaining useful life of the asset was based on a proportion of the written-down value to the purchase price, it was considered unreasonable that the asset in this example still had a remaining useful life of 14 years.

The lack of further information relating to these two issues constituted an information gap.

SKM analysed the remaining useful lives, in particular, where assets were grouped by asset class. In grouping by asset class, assets should be of similar nature and life. An analysis of the remaining useful lives of assets within each asset class for drinking water assets for the Moreton Bay region is provided in Table 4-15.

■ **Table 4-15 Unitywater remaining asset lives by asset class (Moreton Bay)**

QCA asset class	QCA Asset sub-class	Caboolture		Pine Rivers		Redcliffe	
		Minimum useful life	Maximum useful life	Minimum useful life	Maximum useful life	Minimum useful life	Maximum useful life
Drinking water	Associated telemetry and control systems			15	100	5	5
	Distribution infrastructure not listed above	5	100	15	100	30	80
	Meters	10	50	15	100	15	70
	Pump stations	25	50	15	100	10	81
	Reservoirs	25	80	15	80	50	80
	Sundry property, plant and equipment	15	25	30	40	10	80

As identified above, the range of remaining useful lives for each asset class varied. For instance, meters range from 15 to 100 years across the councils’ areas. Therefore, it is clear that grouping assets into asset classes may not be appropriate in all instances. SKM recommends a standard and unified approach to grouping assets by asset class be developed to determine an appropriate classification of asset lives between the Entities and the Authority before the next price monitoring period.



4.5.4. Response to identified information gaps

SKM sent a request for additional information to clarify why a default useful life of 50 years was assumed, given the variety of alternative asset lives available within Unitywater's information submission. In response, Unitywater noted that the assumed 50-year useful life was a high-level average provided by GHD.

SKM also enquired whether any additional council data was expected within the timeframe for this review, (ie before the 30 September 2010), that would cause the provided estimates to be altered within the depreciation section (Section 1.11).

SKM also requested further clarification of remaining useful lives. SKM believes this issue is unlikely to be an isolated issue and may have ramifications for the depreciation estimates provided. After consultation with the Authority, this issue was identified as outside of the scope of this commission. However, in response, Unitywater identified that a council "re-lived" some assets and updated their asset register accordingly. Therefore, the remaining useful lives are accurate to the information provided by the relevant council.

4.5.5. Summary for existing useful lives

Regarding specific asset lives, SKM presents the following conclusions of key assets in Table 4-16 below.

■ Table 4-16 Unitywater asset life summary

Asset	Comment	Benchmark
Reservoirs	The assumption of an 80-year asset life appears reasonable.	The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 50 years for reservoirs.
Pump stations	Pump stations have several civil, mechanical and electrical assets. The assumption of a combined 60-year asset life for pump stations appears high. As highlighted in the more detailed table above, it would be expected that the mechanical and electrical assets would reduce this combined asset life.	The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 20 years for pumps, 15 years for SCADA.
Treatment	Treatment consists of a number of civil, mechanical and electrical assets. A combined asset life of 35 years appears reasonable.	No combined treatment asset life is provided.
Distribution infrastructure not included in another category (Water and wastewater Distribution infrastructure)	The GHD recommended lives indicates a range from 70 to 100 years. The assumption of a 70-year asset life is reasonable.	The WSA 07-2007 Pressure Sewerage Code of Australia V1.1 suggests a nominal asset design life of 100 years for pressure sewers and laterals and property discharge lines, 20-30 year valves. The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 100 years for water mains, 30 years for valves.



Asset	Comment	Benchmark
Telemetry and SCADA	The assumption of a 20-year asset life appears not unreasonable.	The WSA 03-2002 Water Supply Code of Australia suggests a typical asset design life of 15 years for SCADA.

Unitywater's compliance in providing the information required by the Authority in their information return is provided below in Table 4-17.

■ **Table 4-17 Unitywater compliance with information return requirements (asset lives)**

 Useful Lives for Assets (Section 5.8.1)

As identified above, Unitywater complied with the Authority's requirements in identifying existing asset lives. A summary of the accuracy and comprehensiveness of the asset life information provided is presented in Table 4-18.

■ **Table 4-18 Unitywater comprehensive and accurate template (asset lives)**

 Useful Lives for Assets (Schedule 5.8.1)

The asset lives applied to new assets seemed reasonable. However, SKM identified minor issues in populating the remaining useful lives by asset class. Where Unitywater grouped assets by asset class, a wide range of remaining asset lives in each class which were then averaged. SKM recommends a harmonised approach with a greater disaggregation of asset classes may be appropriate for the purposes of interim price monitoring.

4.6. Asset values and existing useful lives for tax purposes

Section 1.18 (page 22) of Unitywater's information return states: *"In all cases tax useful life has been assumed to be the same as the regulatory useful life. This assumption may be revised at a later point by Unitywater pending advice from tax advisors."*

Based on this, no further review of this section of the information response was considered necessary, although the Authority may wish to consider the appropriateness of using the tax useful life for regulatory purposes. Unitywater noted they are seeking clarity from the Queensland Local Tax Equivalents Regime Commissioner on their approach to determining asset values and lives for tax purposes.

4.7. Non-regulated services

4.7.1. Information return

In completing their information return, Unitywater provided revenue, operating and capital expenditure values required by the Authority in the information templates. Unitywater identified two non-regulated services inherited



from the councils, including laboratory services and private works. However, most explanatory notes and supporting information for these services were not provided at the time of this report as detailed financial information for the non-regulated services is not yet available.

4.7.2. Supporting information provided

Section 1.17 (page 22) of Unitywater's information return provided aggregate financial information for the two inherited non-regulated services – laboratory services and private works. A table of aggregate financial details was provided and is reproduced in Table 4-19 below.

■ **Table 4-19 Unitywater - non-regulated services**

Non-regulated Service	\$m
Budgeted revenue	3.79
Operating costs	7.2
Depreciation	0.23
Return on assets	0.75
MAR adjustments	-0.06
Full cost recovery	8.11
Under recovery	4.32

Source: Unitywater information return

Capital expenditure for these services was separately identified, as was direct and indirect operating expenditure. Common costs were allocated to these services in accordance with Unitywater's revenue and cost allocation model.

Although this information was provided in the information return, additional supporting documentation was limited.

4.7.3. Identified information gaps/inconsistencies

Unitywater have acknowledged several information constraints in the estimation financial details for non-regulated service activities for historical years and forecast years.

SKM did not identify other information gaps for non-regulated services.

4.7.4. Summary of non-regulated services

As supporting information for non-regulated services was not available, the verification of the financial information could be completed at the time of this report. However, financial details for both non-regulated activities were addressed in the Authority's information templates (Schedule 5.14), historic and forecast revenues were provided in the revenue template (Schedules 5.2.1) and revenues were directly allocated to 'other' customer group for the FY2011. Until detailed financial statements are available, the impact (if any) to the information return and templates could not be determined and therefore remains unchanged.



Unitywater partially addressed the Authority's requirements. However, more supporting documentation is required. Unitywater's compliance summary for non-regulated services information as required by the Authority is presented in Table 4-20 below.

■ **Table 4-20 Unitywater compliance with information return requirements (non-regulated services)**



Non-regulated Services (Section 5.14.1-4)

The comprehensiveness and accuracy of non-regulated services provided within the information templates by Unitywater has partially been completed as identified in Table 4-20. The amber result reflects the lack of supporting information provided by Unitywater at this time. It should be noted however, that all sections of the information templates have been comprehensively completed.

■ **Table 4-21 Unitywater comprehensive and accurate template (non-regulated services)**



Non-regulated Services (Schedule 5.14.1)

4.8. Allocation of data to categories

As part of the information return requirements, the Authority specified that information had to be disaggregated by each Entity according to the categories outlined in Section 3.4 of their information requirements for 2010/11.

Information that had to be allocated under these principles included:

- Revenue
- The RAB
- Capital expenditure
- Operating costs

Unitywater provided SKM with information on its cost allocation methodology used in populating its information return. SKM believes Unitywater's information was allocated to the categories specified by the Authority.

SKM undertook a preliminary review of Unitywater's cost allocation methodology with the Entity, and although some causal allocation proportions were based on historical estimates from their internal financial models, SKM considers their approach reasonable for the purposes of interim price monitoring.



4.9. Systems progress

Unitywater noted that there are ongoing processes to facilitate regulatory preparedness beyond 2013. Unitywater identified this process to include:

- Reducing its reliance on the councils' systems and resources, and aim to achieve independent resourcing for FY2012. Unitywater has since implemented its own finance and payroll systems.
- Structuring its financial accounts to align with the Authority's data requirements under the interim price monitoring regime
- Implementing governance processes around the capital expenditure programme, including a dedicated sub-committee of the Board to review expenditure and approve variations
- Developing internal performance indicators and measurement systems
- Developing detailed cost allocation methodologies
- Identifying a pathway to finalise its RAB value, based on final, audited financial information from the councils.

Unitywater's progress in achieving the systems required to facilitate a complete, comprehensive and accurate information return is reasonable. During consultation with Unitywater, the Entity noted that finance systems were being implemented in which outputs would align with the Authority's templates. However, it is clear that finalising the RAB is a priority for providing comprehensive information to the Authority. Secondly, independent financial systems and audited financial statements for both geographic regions will be needed to facilitate future information returns.

4.10. Unitywater summary

SKM acknowledged the limitations and constraints of Unitywater in compiling the information to the Authority's requirements. These constraints constitute the main impedance to the accuracy and comprehensiveness of Unitywater's submission. Although limitations constrained the availability of support information for this year's information return, the planned regulatory readiness programme, including detailed financial systems will facilitate the comprehensive submission for future years of the interim price monitoring period.

Overall, the information templates were partially completed to the Authority's requirements, as outlined in their 'Information Requirements for 2010/11'.

SKM identified several issues within the statutory accounts and budget information, in particular, supporting documents were not provided for this section. The information templates also contained minor inconsistencies in the cashflow and balance sheet statements and omitted information for the 2009/10 financial years. Since the inconsistencies were uncovered, Unitywater has addressed them where relevant.

Unitywater's information on revenues met the Authority's requirements for the interim price monitoring period, subject to any demand assumptions. As noted throughout the analysis, supporting information on pricing policies and changes in forecast revenues was not included. The information templates provided for the revenue section were partially completed to the Authority's requirements; however, SKM uncovered a minor internal inconsistency



in this area. The tariffs for the interim period from published documents were successfully cross-checked with the tariffs in the supporting documents.

Unitywater acknowledged several constraints in providing values for the initial RAB in their submission. SKM acknowledged that the values provided for the initial RAB are subject to finalisation once audited asset information is provided by the various councils. Therefore, the accuracy of the initial RAB remains uncertain at the time of this report.

Details of contributed, donated and gifted assets and capital contributions in Unitywater's submission met the Authority's requirements. However, SKM identified several information gaps in its review of this information, including forecasts of assets based on historical data and subjective growth factors, an internal inconsistency between supporting documentation and populated templates and the insufficient disaggregation of assets as required by the Authority. However, Unitywater has since satisfied SKM's concerns for most of these information gaps.

Unitywater was also required to provide information for existing useful lives which attach to individual assets from 1 July 2008 as per section 5.8 of the information return (depreciation). SKM's review of this information identified that asset lives for new assets were reasonable. In reference to the remaining useful lives attached to each asset for historical and forecast years, SKM identified issues in relation to the way in which remaining asset lives are grouped by asset class. SKM's review identified a wide range of asset lives grouped within asset classes which may not be appropriate for price monitoring purposes. As asset values and existing useful lives for tax purposes were identified as the same as the regulatory values, SKM did not review these asset lives for tax purposes further.

During the review of Unitywater's provided information for non-regulated services, SKM identified that the required supporting documentation was not provided to support the financial details provided in Unitywater's information return and templates. The provision of detailed financial statements will facilitate an appropriate review of the Entity's non-regulated services.

SKM reviewed Unitywater's method of data allocations to the categories specified by the Authority. Although limited supporting was provided, Unitywater has since provided sufficient details of their allocation methodology. However, SKM recommends that further support information which details the allocation methodology for revenues, the RAB and capital expenditure, be provided in future information returns.



5. Conclusion and recommendations

SKM's review for the 2010/11 South-East Queensland Interim Price Monitoring provides several key recommendations in response to the adequacy of the auxiliary data provided by the water Entities in their information returns and templates.

Overall, all Entities have attempted to provide accurate and comprehensive information returns as required by the Authority. However, in conducting the review, SKM identified several common issues and constraints faced by the Entities.

SKM acknowledges that the adequacy of the Entities' information returns was constrained by the recent establishment of the Entities and lack of rigorous council data. Therefore, the Entities relied on information provided by local councils, which was often inadequate or incomplete. Of particular relevance to this component of works, the Entities were unable to provide detailed and audited financial statements. Where financial statements were provided, the councils often did not disaggregate their water business, and therefore, verification of the financial statements was not possible. It is reasonable to acknowledge these constraints at this time; however, Entities should ensure their ability to provide information for future returns is not limited by these factors in the future.

The Entities note that other information provided by the councils was often inadequate and incomplete to satisfy a verification process. However, many Entities are undergoing various audits and reviews in the attempt to reconcile the data provided by the councils. The Entities note that these processes will provide further clarity for the current information returns when complete. To populate their returns, the Entities relied on various information sources, including the Enterprise Financial Model, various council asset registers and existing tariff structures. It is therefore likely that current and forecast information provided in the various returns will be revised as audited and detailed information becomes available.

Key findings and recommendations from the 2010/11 review include:

- Each Entity prepared an adequate submission in response to the Authority's information request. Information was provided for each particular requirement, however, the level of detail varied, depending on the Entity and the requirement.
- Supporting information was not always comprehensive and did not meet the Authority's requirements, particularly the requisite to provide audited financial statements and detailed asset information. SKM recognises that the Entities have faced considerable constraints in providing this information to the Authority at the time of this report. It is anticipated that this information is likely to be available to the Authority in the near future. This was largely outside the Entities' control. This meant, that in some cases, the accuracy of the information returns and values in the information templates could not be confirmed. A lack of supporting information casts doubt over the derivation of the values in the information templates. SKM believes this information is likely to be available as data is transferred between the councils and the Entities.
- Each Entity is preparing or updating their financial and business systems to collect and prepare the necessary information required by the Authority for future price monitoring.



- Supporting spreadsheets provided by Entities did not contain explanatory notes. Entities should provide a 'technical note' over the top of models they have used to populate the information templates so the Authority can review the formulae and data used. The source of data and the assumptions used in the model should also be documented in the model's technical note.
- Audited financial and asset information should be provided to the Authority as soon as available. This will facilitate the finalisation of the RAB valuation for Entities yet to do so.
- Several minor issues were identified for how costs were allocated between services. Entities have generally allocated costs via a best-fit approach as not all cost categories aligned with those of the Authority. SKM recommends the Authority consider developing a cost allocation guideline for retail water businesses.
- SKM recommends the Authority provides clarity on the treatment tax and interest in the cashflow of Entities' regulatory accounts.

SKM's review has to be considered in the context of a significant reform of the urban water industry and the first period of price monitoring for the new south-east Queensland water retailers. All Entities have experienced varying degrees of difficulties in completing the Schedules required by the Authority. This has created data gaps, inconsistencies, and a lack of detail. Therefore, SKM's review concludes that a reasonable level of detail is provided at this interim stage.

However, further work will be required by the Entities to provide the detail and transparency required by the Authority before returns are considered comprehensive and accurate for the purposes of price monitoring. SKM recommends the Authority continues to monitor the Entities' progress in developing internal systems so a complete and transparent information return is provided in the following years.

SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



Appendix A Modifications to information templates

A.1 Queensland Urban Utilities

Amendments to QUU's information templates submitted to the Authority are shown below. Note modified cells shown in 'green'.

A.1.1 Sheet 5.1.4

For Year Ending 30 June 2011:

Journal Number	Account Debited Account Credited		Profit and Loss Statement		Balance Sheet	
			Debit	Credit	Debit	Credit
2011 Adjustmnets						
1	Non-regulated services revenue	\$'000	13,110.9			
1	Regulatory adjustments	\$'000		13,110.9		
	<i>Remove non-regulated revenue from regulatory accounts</i>					
2	Regulatory adjustments	\$'000		10,936.8		
2	Non-regulated services operating costs	\$'000	10,936.8			
	<i>Remove non-regulated operating costs from regulatory accounts</i>					
3	Budget depreciation & loss on disposal (exc Non-Reg Services)	\$'000		132,444.9	132,444.9	
3	Regulatory depreciation	\$'000	155,121.3			155,121.3
	<i>Reversal of current period accounting depreciation charge with regulatory annual charge</i>					
4	Regulatory adjustments	\$'000	0.0			
4	Interest expense	\$'000		0.0		
4	Tax expense	\$'000		0.0		
	<i>Remove interest expense and tax expense from regulatory accounts</i>					
2009 adjustment						
5	Fixed assets - water donated assets (financial accounting values)	\$'000				11,092.3
5	Revenue - customer contributions	\$'000	11,092.3			
	<i>State donation to Somerset of water assets to a value that is much higher than ongoing developer donations and too high to be offset against utility charges</i>					

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Queensland Urban Utilities, Allconnex Water and Unitywater



A.1.2 Sheet 5.1.5

For Year Ending 30 June 2011				
Account heading		Consolidated Statement Value	Regulatory Adjustments	Regulatory Value
Revenues				
Revenue from services	\$'000	732,778.7	-13,110.9	719,667.8
Investment income	\$'000	2,114.2		2,114.2
Net profit / (loss) from sale of regulatory assets	\$'000	-10,845.0		-10,845.0
Net profit / (loss) from sale of unregulated assets	\$'000	0.0		0.0
Contributions	\$'000	147,170.0		147,170.0
Other 2 - [specify]	\$'000	0.0		0.0
Total Revenue	\$'000	0.0		0.0
Total Revenue	\$'000	871,217.9	-13,110.9	858,107.0
Expenses				
Operating expenditure	\$'000	410,879.7	-10,936.8	399,942.8
Bad debts	\$'000	3,575.0		3,575.0
Other 2 - [specify]	\$'000	0.0		0.0
Total Expenses	\$'000	0.0		0.0
Total Expenses	\$'000	414,454.7	-10,936.8	403,517.8
EBITDA	\$'000	456,763.2	-2,174.0	454,589.2
Depreciation	\$'000	132,444.9	22,676.4	155,121.3
Earnings Before Interest, Tax and Amortisation	\$'000	324,318.3	-24,850.4	299,467.8
Borrowing costs	\$'000	160,046.9	0.0	160,046.9
Profit/Loss Before Tax	\$'000	164,271.4	-24,850.4	139,421.0
Tax Expense	\$'000	49,281.4	0.0	49,281.4
Profit/Loss After Tax	\$'000	114,990.0	-24,850.4	90,139.5

SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



A.1.3 Sheet 5.2.2

CUSTOMER GROUPS:					
	Residential	Non-residential	Commercially Negotiated Agreements	Other	Total

Geographical Area 3 - Lockyer Valley

REVENUE FROM SERVICES

Water:

Drinking water	\$'000	5,792.0	773.2		6,565.2	OK
Other core water services	\$'000				0.0	OK
Aggregate non-core water services	\$'000	46.5			46.5	OK

Wastewater:

Wastewater via sewer	\$'000	2,150.6	124.1		2,274.7	OK
Trade waste	\$'000		0.0		0.0	OK
Other core wastewater services	\$'000		0.0		0.0	OK
Aggregate non-core wastewater services	\$'000	46.5			46.5	OK

Non-regulated:

Aggregate non-regulated services	\$'000	0.0			0.0	OK
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Subtotal Revenue from Services	\$'000	8,035.6	897.3	0.0	0.0	8,932.9 OK
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SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



A.1.4 Sheet 5.2.2

	CUSTOMER GROUPS:				
	Residential	Non-residential	Commercially Negotiated Agreements	Other	Total

Total

REVENUE FROM SERVICES

Water:

Drinking water	\$'000	252,603.8	107,582.5	0.0	0.0	360,186.3	OK
Other core water services	\$'000	0.0	0.0	0.0	0.0	0.0	OK
Aggregate non-core water services	\$'000	4,950.4	0.0	0.0	0.0	4,950.4	OK

Wastewater:

Wastewater via sewer	\$'000	209,341.0	106,359.3	0.0	0.0	315,700.3	OK
Trade waste	\$'000	0.0	21,357.0	0.0	0.0	21,357.0	OK
Other core wastewater services	\$'000	0.0	10,549.3	0.0	0.0	10,549.3	OK
Aggregate non-core wastewater services	\$'000	6,924.5	0.0	0.0	0.0	6,924.5	OK

Non-regulated:

Aggregate non-regulated services	\$'000	13,110.9	0.0	0.0	0.0	13,110.9	OK
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Subtotal Revenue from Services	\$'000	486,930.6	245,848.0	0.0	0.0	732,778.7	OK
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OTHER REVENUES

SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



A.2 Allconnex Water

Amendments to Allconnex Water's information templates submitted to the Authority are shown below. Note modified cells shown in 'green'.

A.2.1 Sheet 5.1.5

For Year Ending 30 June 2011				
Account heading		Consolidated Statement Value	Regulatory Adjustments	Regulatory Value
Revenues				
Revenue from services	\$'000	602,332.5		602,332.5
Investment income	\$'000	0.0		0.0
Net profit / (loss) from sale of regulatory assets	\$'000	6,012.1		6,012.1
Net profit / (loss) from sale of unregulated assets	\$'000	0.0		0.0
Contributions	\$'000	0.0		0.0
Other 1 - [specify]	\$'000	90,206.8		90,206.8
Other 2 - [specify]	\$'000	0.0		0.0
Total Revenue	\$'000	0.0	0.0	698,551.4
Expenses				
Operating expenditure	\$'000	366,714.6		366,714.6
Bad debts	\$'000	0.0		0.0
Other 1 - [specify]	\$'000	0.0		0.0
Other 2 - [specify]	\$'000	0.0		0.0
Total Expenses	\$'000	366,714.6	0.0	366,714.6

SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



A.2.2 Sheet 5.5.1 SD02

Reporting year	Asset Allocation Workpaper for Allconnex Water		
R e t u r n M a i n M e n u	Reporting year 2011		
	Unique Identifier:	Gold Coast	
	Asset Name:	Trade Waste Assets	
	Type of Allocation:	Causal allocation	
		Value as at 1 July 2008	WATER
			Drinking water
	Opening RAB value for the asset (\$'000)	1,281,178.5	
	Basis of allocation:	100%	
	Allocation of Wastewater Asset to Trade Waste and Sewerage		
	Reason for choosing this basis:		
Estimated percentage volume of trade waste to sewerage			
R e t u r n M a i n M e n u	Unique Identifier: Logan		
	Asset Name: Trade Waste Assets		
	Type of Allocation: Causal allocation		
		Value as at 1 July 2008	WATER
			Drinking water
	Opening RAB value for the asset (\$'000)	570,283.9	
	Basis of allocation:	100%	
	Allocation of Wastewater Asset to Trade Waste and Sewerage		
	Reason for choosing this basis:		
	Estimated percentage volume of trade waste to sewerage		
R e t u r n M a i n M e n u	Unique Identifier: Redland		
	Asset Name: Trade Waste Assets		
	Type of Allocation: Causal allocation		
		Value as at 1 July 2008	WATER
			Drinking water
	Opening RAB value for the asset (\$'000)	248,864.1	
	Basis of allocation:	100%	
	Allocation of Wastewater Asset to Trade Waste and Sewerage		
	Reason for choosing this basis:		
	Estimated percentage volume of trade waste to sewerage		

SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



A.2.3 Sheet 5.7.1

Geographic Area 1 - Gold Coast

WATER - Activity level

Contributed, donated and gifted assets	\$'000	15,534.1	9,600.2	12,418.4	13,039.3	13,691.2	
Capital contributions (cash and infrastructure charges)	\$'000	7,930.4	6,500.0	9,785.0	7,335.4	7,555.4	
Planning scheme policy charges	\$'000	0.0	0.0	0.0	0.0	0.0	
Total for Water Activity	\$'000	23,464.5	16,100.2	22,203.4	20,374.6	21,246.7	
		ok	ok	ok	ok	ok	

by Service

Drinking Water

Contributed, donated and gifted assets	\$'000	15,534.1	9,600.2	12,418.4	13,039.3	13,691.2	
Capital contributions (cash and infrastructure charges)	\$'000	7,930.4	6,500.0	9,785.0	7,335.4	7,555.4	
Planning scheme policy charges	\$'000	0.0	0.0	0.0	0.0	0.0	
Subtotal	\$'000	23,464.5	16,100.2	22,203.4	20,374.6	21,246.7	

Other Core Water Services

Contributed, donated and gifted assets	\$'000						
Capital contributions (cash and infrastructure charges)	\$'000						
Planning scheme policy charges	\$'000						
Subtotal	\$'000	0.0	0.0	0.0	0.0	0.0	

Aggregate Non-core Water Services

Contributed, donated and gifted assets	\$'000						
Capital contributions (cash and infrastructure charges)	\$'000						
Planning scheme policy charges	\$'000						
Subtotal	\$'000	0.0	0.0	0.0	0.0	0.0	

WASTEWATER - activity level

Contributed, donated and gifted assets	\$'000	13,628.8	21,632.4	3,331.7	3,498.2	3,673.1	
Capital contributions (cash and infrastructure charges)	\$'000	22,283.3	22,000.0	37,650.0	28,400.2	29,252.2	
Planning scheme policy charges	\$'000	0.0	0.0	0.0	0.0	0.0	
Total for Wastewater Activity	\$'000	35,912.1	43,632.4	40,981.7	31,898.4	32,925.4	
		ok	ok	2,115	ok	ok	

by Service

Wastewater via Sewer

Contributed, donated and gifted assets	\$'000	12,556.2	19,929.9	3,069.4	3,222.9	3,384.1	
Capital contributions (cash and infrastructure charges)	\$'000	20,529.6	20,268.6	34,853.4	26,165.1	26,950.1	
Planning scheme policy charges	\$'000						
Subtotal	\$'000	33,085.8	40,198.5	37,922.8	29,388.0	30,334.1	

SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



A.3 Unitywater

A.3.1 Schedule 5.1.2

Amendments to Unitywater's information templates submitted to the Authority are shown below. Note modified cells shown in 'green'.

Account heading	For Year Ending 30 June:					For Year Ending 30 June 2011:		
	2009	2010	2011	2012	2013	Ledger Code	Relevant Notes	Supporting Documents
Current Assets								
Cash	\$'000		28,245.2	29,845.6	38,828.9			
Receivables	\$'000		35,569.2	41,631.9	47,736.0			
Other - Inventories & Other	\$'000		1,943.8	2,001.7	2,061.3			
Total Current Assets	\$'000	0.0	0.0	65,758.1	73,479.3	88,626.3		
Non-Current Assets								
Property, plant and equipment	\$'000		2,834,156.5	3,072,324.7	3,278,907.3			
Deferred tax assets	\$'000							
Other - WIP	\$'000		275,892.0	313,223.0	323,143.3			
Total non-current assets	\$'000	0.0	0.0	3,110,048.5	3,385,547.7	3,602,050.6		
TOTAL ASSETS	\$'000	0.0	0.0	3,175,806.7	3,459,026.9	3,690,676.8		
Current Liabilities								
Payables	\$'000		32,038.0	33,718.5	31,440.0			
Interest-bearing liabilities	\$'000		7,598.6	8,248.4	8,953.7			
Current tax liabilities	\$'000							
Provisions	\$'000							
Other - Employee Liabilities & Other	\$'000		9,819.4	10,212.2	10,620.7			
Total current Liabilities	\$'000	0.0	0.0	49,456.1	52,179.1	51,014.4		
Non-Current Liabilities								
Payables	\$'000							
Interest-bearing liabilities	\$'000		1,401,959.7	1,572,224.7	1,696,800.9			
Current tax liabilities	\$'000							
Provisions	\$'000							
Other - Employee Liabilities	\$'000		1,091.0	1,134.7	1,180.1			
Total Non-Current Liabilities	\$'000	0.0	0.0	1,403,050.7	1,573,359.3	1,697,980.9		
TOTAL LIABILITIES	\$'000	0.0	0.0	1,452,506.8	1,625,538.4	1,748,995.3		
NET ASSETS/(LIABILITIES)	\$'000	0.0	0.0	1,723,299.9	1,833,488.5	1,941,681.5		
Shareholders Equity								
Share Capital	\$'000		1,638,684.4	1,638,684.4	1,638,684.4			
Reserves	\$'000		82,013.9	170,919.7	266,002.0			
Retained earnings	\$'000		2,601.6	23,884.5	36,995.2			
TOTAL SHAREHOLDERS EQUITY	\$'000	0.0	0.0	1,723,299.9	1,833,488.6	1,941,681.7		

SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



A.3.2 Schedule 5.1.6

Account heading	For Year Ending 30 June 2011:			Journal Reference
	Consolidated Statement Value	Regulatory Adjustments	Regulatory Value	
Current Assets				
Cash	\$'000	28,245.2	28,245.2	
Receivables	\$'000	35,569.2	35,569.2	
Other	\$'000	1,943.8	1,943.8	
Total Current Assets	\$'000	65,758.1	0.0	65,758.1
Non-Current Assets				
Property, plant and equipment	\$'000	2,834,156.5	92,719.9	2,741,436.6
Deferred tax assets	\$'000	0.0		0.0
Other	\$'000	275,892.0		275,892.0
Total non-current assets	\$'000	3,110,048.5	92,719.9	3,017,328.7
TOTAL ASSETS	\$'000	3,175,806.7	92,719.9	3,083,086.8
Current Liabilities				
Payables	\$'000	32,038.0		32,038.0
Interest-bearing liabilities	\$'000	7,598.6		7,598.6
Current tax liabilities	\$'000	0.0		0.0
Provisions	\$'000	0.0		0.0
Other	\$'000	9,819.4		9,819.4
Total current Liabilities	\$'000	49,456.1	0.0	49,456.1
Non-Current Liabilities				
Payables	\$'000	0.0		0.0
Interest-bearing liabilities	\$'000	1,401,959.7		1,401,959.7
Current tax liabilities	\$'000	0.0		0.0
Provisions	\$'000	0.0		0.0
Other	\$'000	1,091.0		1,091.0
Total Non-Current Liabilities	\$'000	1,403,050.7	0.0	1,403,050.7
TOTAL LIABILITIES	\$'000	1,452,506.8	0.0	1,452,506.8
NET ASSETS/(LIABILITIES)	\$'000	1,723,299.9	92,719.9	1,630,580.0
Shareholders Equity				
Share Capital	\$'000	1,638,684.4	92,719.9	1,545,964.5
Reserves	\$'000	82,013.9		82,013.9
Retained earnings	\$'000	2,601.6		2,601.6
TOTAL SHAREHOLDERS EQUITY	\$'000	1,723,299.9	92,719.9	1,630,580.0

SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



A.3.3 Schedule 5.1.8

For Year Ending 30 June:						
Account heading	Numeration	2009	2010	2011	2012	2013
Current Assets						
Cash	\$'000			28,245.2	29,845.6	38,828.9
Receivables	\$'000			35,569.2	41,631.9	47,736.0
Other	\$'000			1,943.8	2,001.7	2,061.3
Total Current Assets	\$'000	0.0	0.0	65,758.1	73,479.3	88,626.3
Non-Current Assets						
Property, plant and equipment	\$'000			2,741,436.6	3,011,884.1	3,247,904.9
Deferred tax assets	\$'000			0.0	0.0	0.0
Other	\$'000			275,892.0	313,223.0	323,143.3
Total non-current assets	\$'000	0.0	0.0	3,017,328.7	3,325,107.2	3,571,048.2
TOTAL ASSETS	\$'000	0.0	0.0	3,083,086.8	3,398,586.4	3,659,674.4
Current Liabilities						
Payables	\$'000			32,038.0	33,718.5	31,440.0
Interest-bearing liabilities	\$'000			7,598.6	8,248.4	8,953.7
Current tax liabilities	\$'000			0.0	0.0	0.0
Provisions	\$'000			0.0	0.0	0.0
Other	\$'000			9,819.4	10,212.2	10,620.7
Total current Liabilities	\$'000	0.0	0.0	49,456.1	52,179.1	51,014.4
Non-Current Liabilities						
Payables	\$'000			0.0	0.0	0.0
Interest-bearing liabilities	\$'000			1,401,959.7	1,572,224.7	1,696,800.9
Current tax liabilities	\$'000			0.0	0.0	0.0
Provisions	\$'000			0.0	0.0	0.0
Other	\$'000			1,091.0	1,134.7	1,180.1
Total Non-Current Liabilities	\$'000	0.0	0.0	1,403,050.7	1,573,359.3	1,697,980.9
TOTAL LIABILITIES	\$'000	0.0	0.0	1,452,506.8	1,625,538.4	1,748,995.3
NET ASSETS/(LIABILITIES)	\$'000	0.0	0.0	1,630,580.0	1,773,048.0	1,910,679.1
Shareholders Equity						
Share Capital	\$'000			1,545,964.5	1,578,243.8	1,607,681.9
Reserves	\$'000			82,013.9	170,919.7	266,002.0
Retained earnings	\$'000	0.0	0.0	2,601.6	23,884.5	36,995.2
TOTAL SHAREHOLDERS EQUITY	\$'000	0.0	0.0	1,630,580.0	1,773,048.0	1,910,679.1

SEQ Interim Price Monitoring: Auxiliary Data Verification

Queensland Urban Utilities, Allconnex Water and Unitywater



A.3.4 Schedule 5.2.2

	CUSTOMER GROUPS:					Total		For Year Ending 30 June 2011
	Residential	Non-residential	Commercially Negotiated Agreements	Other				
Total								Supporting Documents
REVENUE FROM SERVICES								
Water:								
Drinking water	\$'000	134,319.1	34,024.8	0.0	4,402.3	172,746.2	OK	
Other core water services	\$'000	0.0	0.0	7,758.1	0.0	7,758.1	OK	
Aggregate non-core water services	\$'000	0.0	0.0	0.0	0.0	0.0	OK	
Wastewater:								
Wastewater via sewer	\$'000	153,787.7	33,532.2	1,444.0	169.4	188,933.3	OK	
Trade waste	\$'000	0.0	2,848.0	0.0	0.0	2,848.0	OK	
Other core wastewater services	\$'000	0.0	0.0	0.0	0.0	0.0	OK	
Aggregate non-core wastewater services	\$'000	0.0	0.0	0.0	0.0	0.0	OK	
Non-regulated:								
Aggregate non-regulated services	\$'000	85,077.3	20,694.0	1,444.0	147.0	3,786.9	OK	
Subtotal Revenue from Services	\$'000	373,184.1	91,099.0	10,646.1	4,718.7	376,072.5	OK	
OTHER REVENUES								
Revenue Offset Against Revenue:								
Investment income	\$'000	0.0	0.0	0.0	0.0	0.0	OK	
Net profit from sale of assets	\$'000	0.0	0.0	0.0	0.0	0.0	OK	
Contributions	\$'000	0.0	0.0	0.0	75,772.9	75,772.9	check	
Revenue Not Offset Against Revenue:								
Investment income	\$'000	0.0	0.0	0.0	1,114.5	2,004.9	OK	
Net profit from sale of assets	\$'000	0.0	0.0	0.0	0.0	0.0	OK	
Contributions	\$'000	0.0	0.0	0.0	40,115.1	0.0	OK	
Subtotal Other Revenues	\$'000	0.0	0.0	0.0	117,002.5	77,777.8	check	
TOTAL REVENUE	\$'000	373,184.1	91,099.0	10,646.1	121,721.2	453,850.3	check	

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