Gladstone Area Water Board

WATER SECURITY ASSETS *Price Review*

GAWB SUBMISSION

2027–30 Period

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1. Introduction

Gladstone Area Water Board (GAWB) presents this submission to the Queensland Competition Authority (QCA) regarding the bulk water prices that would need to be levied to recover the prudent and efficient costs of GAWB's Water Security Assets, including the Fitzroy to Gladstone Pipeline (FGP). Approved by the Queensland Government in February 2023 after detailed investigations, the $983 million FGP is one of the most significant investments in GAWB's history, enabling long-term water security for GAWB's customers and the Gladstone region.

The 117 kilometre pipeline will run from the Lower Fitzroy River in Rockhampton and connect to GAWB's existing water network at Yarwun. The FGP comprises a water treatment plant, reservoirs and pumping stations at locations along its alignment including at Laurel Bank, Alton Downs and Aldoga. When fully commissioned, the FGP will have the capacity to transport 30 gigalitres (GL) of partially treated raw water per annum from the Fitzroy River to Gladstone. The pipeline is owned, operated and managed by GAWB.

1.1 Referral Notice

The QCA's price monitoring investigation of GAWB's bulk water prices for the FY2026-30 regulatory period was concluded in May 2025 (the 2025 price monitoring investigation). Under the Amending Referral and Direction Notice issued by the relevant Minister for that review on the 23rd of May 2024, the costs associated with the FGP were excluded from that review to allow additional time to assess the implications of the FGP on GAWB's operations, including related cost increases and the impact on bulk water prices for GAWB's customers. GAWB was therefore also required to satisfy the QCA that the costs that were used to set its 'business-as-usual' (BAU) bulk water prices to apply from 1 July 2025 did not include any incremental costs associated with the FGP.

On 16 June 2025, the relevant Minister issued a Referral Notice to the QCA directing it to undertake a price monitoring investigation of the Appropriate Prices for the Water Security Assets for the period from 1 July 2026 to 30 June 2030. Water Security Assets are defined in the Referral Notice to include the FGP and water allocations purchased for the purpose of transporting water via the FGP. The scope of GAWB's Allowable Costs to be considered for pricing purposes includes:

- contracted costs for operating and maintaining the Water Security Assets;
- prudent and efficient operating, maintenance and connection costs;
- water allocation costs, excluding the upfront capital component met by the capital grant (and associated interest earnings) provided by the Queensland Government;
- forecast prudent and efficient capital expenditure associated with the renewal and replacement of the Water Security Assets; and
- consistent with the building blocks approach used to set GAWB's bulk water prices, allowances for the return on capital, return of capital, tax and working capital (where appropriate) associated with the inclusion of the above costs.

Under the Referral Notice, the QCA has been directed to accept the $983 million forecast capital cost of the FGP, less a $200 million capital grant provided by the Queensland Government, into GAWB's Regulated Asset Base (RAB). Forecast Interest During Construction associated with the construction of the FGP, along with an appropriate allowance for prudent and efficient forecast capital expenditure related to the connection, integration, renewal and replacement of GAWB's Water Security Assets is also to be included in the RAB.

In determining Appropriate Prices for the Water Security Assets, it will be necessary for GAWB to demonstrate that the Allowable Costs relating to its Water Security Assets are additional (or incremental) to the costs used to set its actual BAU bulk water prices. That is, there is no double counting.

These prices will also be within the scope of the QCA's mid-term review that compares the QCA's findings (as reflected in its indicative prices) against GAWB's actual prices. This review will occur in 2028.

1.2 Current status

In February 2023 the Queensland Government announced the approval by the Cabinet Budget Review Committee of funding for the $983 million FGP. This approval included that GAWB will build, own, operate and maintain the pipeline and can progress construction activities.

After a detailed competitive tender process, GAWB awarded the McConnell Dowell BMD Joint Venture (MCD BM JV) the Design and Construct (D&C) Contract. The MCD BM JV was also awarded the Operations and Maintenance (O&M) Contract for the FGP for the first five years of operation, with an option to extend for a further five years.

The construction of the FGP is currently well on track and it is anticipated to be operational in FY2026 year as scheduled, weather and other conditions permitting. As will be outlined in this submission, GAWB must also undertake capital expenditure in parts of its existing network (mainly involving upgrades to key water treatment plants) as part of the integration of the FGP into GAWB's existing network.

While detailed work has been undertaken in the planning, design and construction of FGP, apart from the capital cost of the pipeline itself (the value of which the QCA has been directed to accept, net of the associated capital grant), there are still some challenges for GAWB in submitting robust cost forecasts at this point in time, as it is well in advance of the commissioning date of the FGP. Further, there are some uncertainties associated with integration, including the full implications of the differences between the characteristics and quality of the water transported via the FGP from the Fitzroy River and the characteristics and quality of water sourced from the Awoonga Dam.

As relevant and appropriate, GAWB may therefore need to update aspects of its cost forecasts provided in this submission prior to the conclusion of the QCA's price monitoring investigation.

1.3 Confidentiality

Key information and documentation that will inform the QCA's assessment of the Allowable Costs of the Water Security Assets, including third party contracts, are commercial-in-confidence.

When entities make a submission to the QCA they may claim confidentiality in respect of material that forms part of the submission, and the QCA will assess any such claims in accordance with the relevant provisions of the *Queensland Competition Authority Act 1997 (Qld)*. GAWB's submission has been drafted to ensure that confidentiality has been appropriately protected.

Separately, to ensure that the QCA has sufficient information to properly conduct its review in accordance with the Referral Notice, GAWB has provided numerous supporting documents to the QCA that are subject to commercial-in-confidence. GAWB will continue to engage with the QCA to facilitate its assessment of those claims as required.

1.4 Structure of this submission

This submission is structured as follows.

- Chapter 2 provides an overview of the FGP, including a summary of the history of the development and the processes that underpinned its approval by the Queensland Government;
- Chapter 3 provides information on the FGP asset value to be included in GAWB's RAB;
- Chapter 4 describes associated capital investments being undertaken by GAWB that are necessary to integrate the FGP;
- Chapter 5 addresses forecast operating expenditure, which comprises the O&M Contract costs as well as GAWB's own costs. It also discusses the costs associated with the water allocation;
- Chapter 6 addresses the Weighted Average Cost of Capital and working capital; and
- Chapter 7 summarises the total revenue requirement and the indicative prices for the Water Security Assets.

2. Overview of the FGP

2.1 History

Gladstone is one of Queensland's most important industrial hubs. The demands of the various industries that operate in the region require access to large volumes of reliable water supply, in addition to the needs of households and businesses in the region.

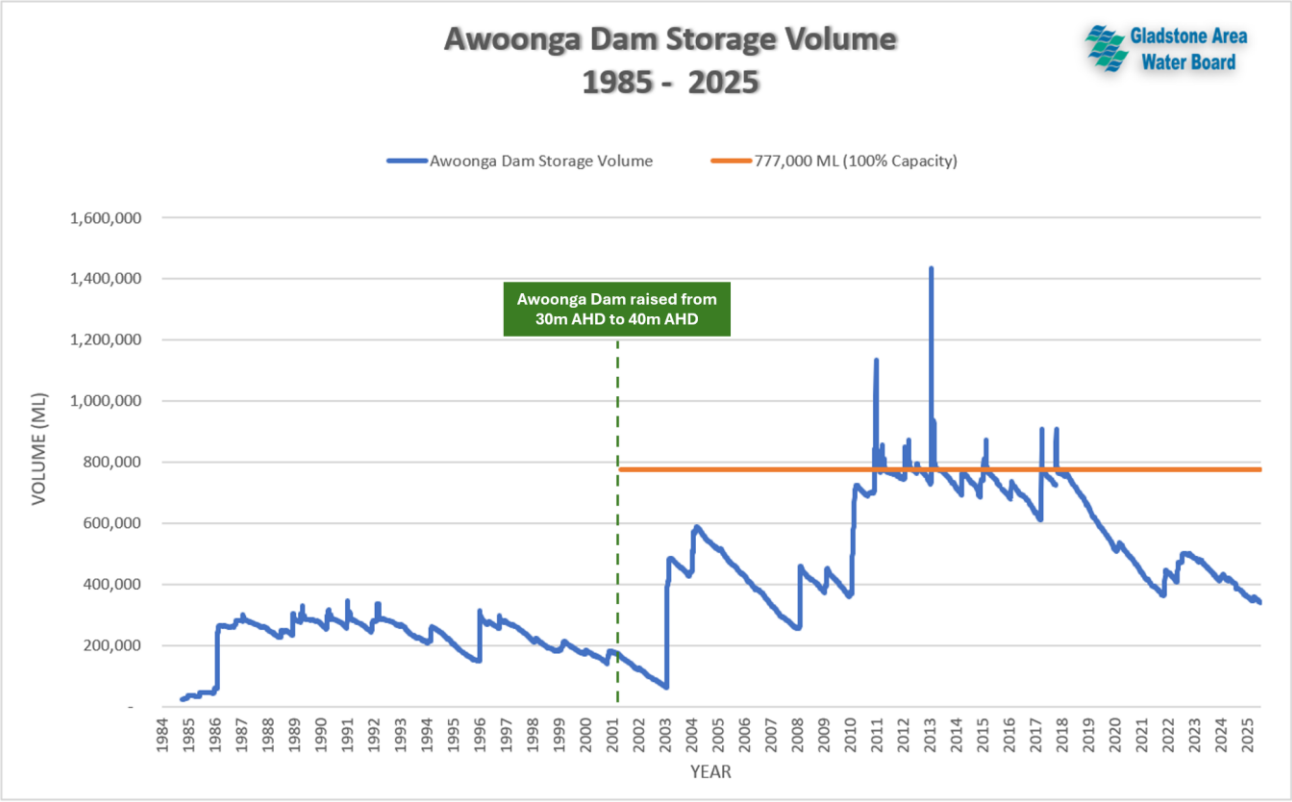
Awoonga Dam is the single source of water supply for Gladstone, with a primary function to assure water supply for Gladstone's residential, commercial and industrial sectors. The impact of severe water restrictions or failure to supply water is likely to be significant, not only on those residential, commercial and industrial customers, but on the Queensland economy as a whole.

Over the past two decades GAWB, and most recently, the Queensland Government, have undertaken a range of studies to evaluate potential solutions to increase water supply and address the single source supply risk from Awoonga Dam. Studies commencing in 2019 and concluding in 2023 confirmed that a pipeline between Rockhampton and Gladstone was required to address drought relief and provide long-term water security for the region.

2.1.1 The need for improved water security in Gladstone

The service need for a water security solution in Gladstone is driven by water demand and supply conditions in the region. In recent years, prolonged drought conditions have seen reduced inflows into the Boyne River catchment area for Awoonga Dam. The Awoonga Dam wall was raised from 30 metres to 40 metres in 2002 but since that time, it has continued to experience significant periods of low inflows. Historical Awoonga Dam Storage volumes are shown in the figure below.

Figure 2-1 Awoonga Dam Storage Volume: 1985 – 2025



At the end of August 2025, Awoonga Dam storage volumes were at 45% of capacity.

GAWB's Drought Management Plan (DMP) sets out its system operations and management strategy for the Awoonga Dam.[1] This sets out demand-side measures that commence with a Low Supply Alert, followed by five levels of water restrictions (ranging from Level One to Emergency). Under the current DMP, a Low Supply Alert is announced when Awoonga Dam is 60 months from failure.

GAWB issued its most recent Low Supply Alert in April 2021 in accordance with the DMP. While that was able to be lifted in June 2023 (following the announcement from the Queensland Government for the approval of the FGP), this event, and the continuing low inflows into Awoonga Dam, further underlined the criticality of a water security solution for the region.

The FGP will deliver water security benefits to the Gladstone region from the first day of operation because every litre of water delivered to Gladstone customers through the FGP is a litre of water that is not drawn from the Awoonga Dam, thereby building supply security for the region. In light of this, it is timely to note that under the DMP, as at the date of preparing this submission, if the FGP project was not on track to start delivering water during FY2026, GAWB would have already had to issue a Low Supply Alert. In the absence of further material inflows, GAWB may have had to consider moving to Level 1 restrictions in November 2025.

The imposition of water restrictions and the risk of a supply failure incur significant economic costs to Gladstone and the State. The Gladstone region is highly dependent on water to support economic production that in turn supports the regional population and industry supply chains. Water supply failure, or water restrictions, would pose a risk to many industrial operations in the region as well as having an adverse impact on the local community.

Gladstone is home to high value industries that support both the Queensland and Australian economies. Its Gross Regional Product is estimated to be $6.476 billion, accounting for around 1.3% of Queensland's Gross State Product and 0.3% of Australia's Gross Domestic Product.[2] This includes the aluminium processing supply chain, electricity generation, liquified natural gas production, ports and cement production. These industries are highly dependent on water to support economic production that in turn supports the regional population and industry supply chains. Combined, these activities directly support over 5,000 jobs in Gladstone, highlighting the significance of industrial activity to sustaining the regional economy and community.

Water supply failure, or significant water restrictions, will therefore limit the economic viability of many industrial operations in the Gladstone region, have a severe impact on the local community and more broadly the State's economy. The economic cost of a water supply failure event in Gladstone (for a 12-month duration) is estimated at $1.7 billion.[3] This includes the lost surplus for high value industries and the cost of water being carted to households as the likely main alternative source of supply. Additionally, water supply risk could act as a deterrent to investment by industry, particularly if there are opportunities in other regions that have a lower level of risk.

All water users in the Gladstone region, including residential customers of the Gladstone Regional Council, are exposed to the water security risks associated with GAWB's single supply source. Improving water security will also benefit local residents through improvements to quality of life and in

[1] https://www.gawb.qld.gov.au/planning/drought-management-plan/
[2] https://app.remplan.com.au/gladstone/economy/industries/gross-regional-product
[3] Department of Regional Development, Manufacturing and Water (2023). Fitzroy to Gladstone Pipeline Project – Detailed Business Case Stage 2 (DBC2), p.4.

more severe water security events, the continued supply of water necessary for basic consumption and hygiene needs.

The development of the FGP has therefore been solely driven by the need to improve water security, that is, to ensure that all water users in the Gladstone region - residential, commercial and industrial - can continue to have reliable access to adequate quantities of water of an appropriate standard, including safe drinking water. While important to the Gladstone region, enabling future potential regional growth opportunities is not a driver of the FGP.

This is further evidenced by the detailed investigations that have been undertaken by GAWB and the Queensland Government, as summarised below.

2.1.2 Development path

Early developments

Gladstone suffered its driest ever consecutive three-year period on record between 2004 and 2007. The need for supplementary water storage to service water users in the Fitzroy Basin and Gladstone region had been discussed in various regional and state government reports over several decades. In 2006, the Central Queensland Regional Water Supply Strategy (CQRWSS)[4] identified:

- the Lower Fitzroy was the next main source of supply for the urban and industrial needs of the Rockhampton, Fitzroy and Livingstone council areas and GAWB; and
- the development of a new weir at Rookwood, or the raising of the existing Eden Bann Weir, were the preferred infrastructure solutions to provide high reliability water to meet the urban and industrial needs of the area.

It also identified the need for a pipeline to connect key water infrastructure in Rockhampton and Gladstone.

In 2007, ongoing drought conditions resulted in GAWB developing an initial business case for a 30GL per annum pipeline connecting Rockhampton and Gladstone (the FGP). This led to the development and lodgement of an Environmental Impact Statement (EIS) in 2008 and a supplementary EIS in 2009.

Following significant rainfall events in the Boyne catchment area in December 2010 and January 2013, Awoonga Dam remained largely at full supply volume from 2010 to 2017. This therefore reduced the degree of urgency in progressing the FGP at that time.

While subject to separate business cases led by the Queensland Government, the Rookwood Weir and FGP are interdependent in addressing water security needs in the region. In May 2016, the Commonwealth Government allocated funding for the preparation of a business case for the Lower Fitzroy River Infrastructure Project (LFRIP). Following on from the CQRWSS, the LFRIP business case further investigated a new supply source to service the Rockhampton, Livingstone and Gladstone areas, which was needed to address water security and support the needs of local communities, industry and agriculture. The detailed business case was developed by Building Queensland, in partnership with Sunwater and GAWB as joint proponents.

[4] https://riverhealth.org.au/wp-content/uploads/Central-Queensland-Water-Supply-Strategy.pdf

The detailed business case for the LFRIP, completed in late 2017, recommended the construction of the Rookwood Weir. One of the key assumptions underpinning the recommendation to proceed was a commitment by GAWB to a 30GL allocation, which was required for its water security needs. The LFRIP business case also recognised that the FGP would be required to deliver GAWB's allocation, which was subject to a separate investigation and approval process.[5] The Government committed to the development of the Rookwood Weir in 2018 and it was commissioned in late 2023.

Concurrent with this, GAWB commenced further investigations of the need for the FGP and the required capacity. This involved a series of new studies in 2019 and 2020, including hydrological modelling and engineering assessments. In 2019 GAWB also engaged an independent consultant to undertake a survey of its customers regarding the value they place on reliability of supply, including the economic impact of restrictions.

Building Queensland conducted further work between June 2020 and February 2021, which further concluded that short- and long-term water security needed to be investigated for Gladstone and the Central Queensland region.

Options Analysis and Detailed Assessment of the FGP

In February 2021, an options analysis was undertaken, led by the (then) Department of Regional Development, Manufacturing and Water (DRDMW). The options analysis focused on:

- hydrological modelling to determine the possible frequency of water restrictions and potential for a failure to supply scenario from Awoonga Dam;
- the economic impact of water restrictions and a failure to supply, and a cost-benefit analysis of supply from a second source; and
- engineering studies of unidirectional and bidirectional pipeline options from the second source of supply with pipeline capacities of 15, 20 and 30GL per annum.

In October 2021, DRDMW completed its Detailed Assessment report focussing on two options – a 15GL or 30GL per annum unidirectional pipeline.[6] This was supported by a detailed hydrological assessment, along with an economic evaluation.

The economic evaluation estimated the net economic benefits informed by the hydrological modelling, which estimated the probability that each water restriction level (including Level 1 to 4 as well as minimum operating level or supply failure) is required at least once from 2021 to 2051. The analysis considered the avoided costs of water restrictions to industrial users as well as the avoided costs to residential water users and the avoided cost of emergency supply measures.

The hydrological assessment concluded that a 30GL per annum FGP is required for GAWB to meet the hydrology conditions for a drought response. The economic analysis estimated that both options (a 15GL or 30GL per annum pipeline) would generate positive economic benefits.

Based on this analysis, DRDMW's Detailed Assessment report recommended the progression of the FGP to mitigate the identified drought risk. This was based on a 30GL per annum unidirectional 117km

[5] https://www.statedevelopment.qld.gov.au/__data/assets/pdf_file/0016/54520/LFRIP-detailed-business-case.pdf

[6] https://www.dlgwv.qld.gov.au/__data/assets/pdf_file/0016/2030281/fitzroy-gladstone-pipeline-detailed-assessment.pdf

pipeline, connecting the Lower Fitzroy River, upstream of the Fitzroy Barrage, to GAWB's existing network. The premise of that recommendation is that the 30 GL per annum FGP was assessed as being essential to address water security risks for the Gladstone region. It was not in response to, or in anticipation of, future growth opportunities, as evidenced by the specific exclusion of this from the scope of the report.

The Detailed Assessment also identified that water security is a risk for the Rockhampton Regional Council (RRC) and Livingstone Shire Council (LSC). The State Government recognised the need for further study to investigate water security initiatives, such as a bi-directional FGP. To that end, the study recommended that appropriate provisions be made to 'future proof' the FGP development to enable a future second stage upgrade to bidirectionality, if required.

The Detailed Assessment, developed by DRDMW, was approved by the GAWB Board in October 2021.

The next stage of study, a Detailed Business Case Stage 1 (DBC1), considered the primary problem of water security for Gladstone and water security for RRC and LSC, along with potential agricultural opportunities. It examined asset and non-asset solutions, including the FGP. The findings of the DBC1 considered converting the unidirectional 30GL per annum pipeline to bidirectional and extending the connection of the FGP direct to Awoonga Dam.

In December 2022, DRDMW completed a further Detailed Business Case Stage 2 (DBC2) assessing the options of a unidirectional or bidirectional 30GL per annum pipeline[7]. The DBC2 report recommended the future conversion of the unidirectional FGP to a bilateral pipeline as a means of further addressing water security for Central Queensland.

It is important to note that all investigations were focussed on addressing the service need of improved water security. The needs of the emerging hydrogen industry were excluded from the scope of the above studies and were examined as part of a separate exercise.

Customer and stakeholder engagement

The Queensland Government led the preparation of the Detailed Assessment, along with DBC1 and DBC2, while GAWB's role was the provision of relevant information and noting of the recommendations.

GAWB's limited role in the recent development and ultimate approval of the FGP has meant it was not in a position to conduct customer consultation regarding the FGP, nor was GAWB permitted to share any study findings with customers due to confidentiality arrangements.

Investment decision

In August 2021, GAWB was appointed by the Queensland Government as the Delivery Management Proponent for pre-construction activities for the FGP and commenced planning, design and procurement for the project, in preparation for a potential investment decision.

Based on analysis summarised above, on the 23rd of February 2023 the Queensland Government announced the approval by the Cabinet Budget Review Committee of funding for the $983 million

[7] https://www.dlgwv.qld.gov.au/__data/assets/pdf_file/0018/2030283/fitzroy-gladstone-pipeline-detailed-business-case.pdf

FGP. This was based on the recommended option of a 30GL per annum unidirectional pipeline, with provision to upgrade to bidirectionality, if required. This approval included that GAWB builds, owns, operates and maintains the pipeline and can progress construction activities. Construction commenced in August 2023 following pre-construction mobilisation activities.

A summary of the key activities in the FGP's development timeline is provided below.

2007	The initial design of the FGP is commissioned to provide up to 30GL of water per annum of partially treated raw water to improve water security. Application including Initial Advice Statement submitted. Project deemed a controlled action by Commonwealth Minister for Environment. Gazettal of 'significant project' declaration. Public consultation on draft terms of reference for EIS.
2008	Public consultation on EIS.
2009	Supplementary EIS submitted in response to the submissions received from stakeholders, including individual landowners, regional councils, State government departments and the Commonwealth.
2010	EIS report is released by the Coordinator-General.
2011	Commonwealth Minister for the Environment approved the controlled action for the FGP, subject to conditions.
2013	Coordinator-General extended the currency period for the EIS Evaluation Report from 3 February 2014 to 2 February 2016.
2015	Coordinator-General extended the currency period for the EIS Evaluation Report from 3 February 2016 to 2 February 2018.
2019	GAWB commences studies on improving water security for the Gladstone region.
2020	Queensland Government commences studies on improving water security for the Gladstone region.
2021	An options analysis is undertaken in February, which concludes a detailed assessment is required to determine a solution. A unidirectional FGP is recommended by a Detailed Assessment. A Detailed Business Case Phase 1 examines regional water security further. A Detailed Business Case Phase 2 examines delivery of a unidirectional or bidirectional FGP. GAWB issues a Low Supply Alert on 7 April 2021. A separate Detailed Options Assessment considers the emergent hydrogen production in Gladstone. GAWB appointed by the Queensland Government in August 2021 as Delivery Management Proponent to commence pre-construction activities for the pipeline. These activities included: updating the existing design; undertaking a range of surveys and land investigations, including ecology surveys; advancing permits and approvals required to successfully deliver construction; and managing a competitive tender process for the construction contractor to build the pipeline.

2023	Queensland Government announces the approval for funding the $983 million FGP on 23 February. GAWB appointed to build, own, operate and maintain the pipeline and can progress construction activities. Permanent construction commences in August.

Summary

The development of the FGP has spanned nearly two decades, involving extensive analysis that included consideration of various options. Ultimately, while GAWB has had detailed involvement in that process, including undertaking its own studies, the more recent development process leading up to the investment decision for the FGP has been led by the Queensland Government.

As evident from the above, the driver for the development and assessment of the FGP is water security. The detailed analysis that has been undertaken, informed by practical experience in managing recurrent periods of drought, confirmed that the Gladstone region's sole reliance on Awoonga Dam as a single supply source is not sustainable. The assessment of these risks and the potential economic and social impacts on the region necessitates the FGP becoming core to ongoing supply. In other words, it is not a contingent supply source that is only operated in periods of drought.

While the FGP may have the potential to enable the provision of additional water supply to support new developments in the region, such as hydrogen (which remains uncertain), demand from these new sources was excluded from the scope of the Detailed Assessment, DBC1 and DBC2 and is instead being considered as part of separate processes. As such, the investment decision for the FGP was made solely to address the water security risk and was independent of any future regional growth opportunities.

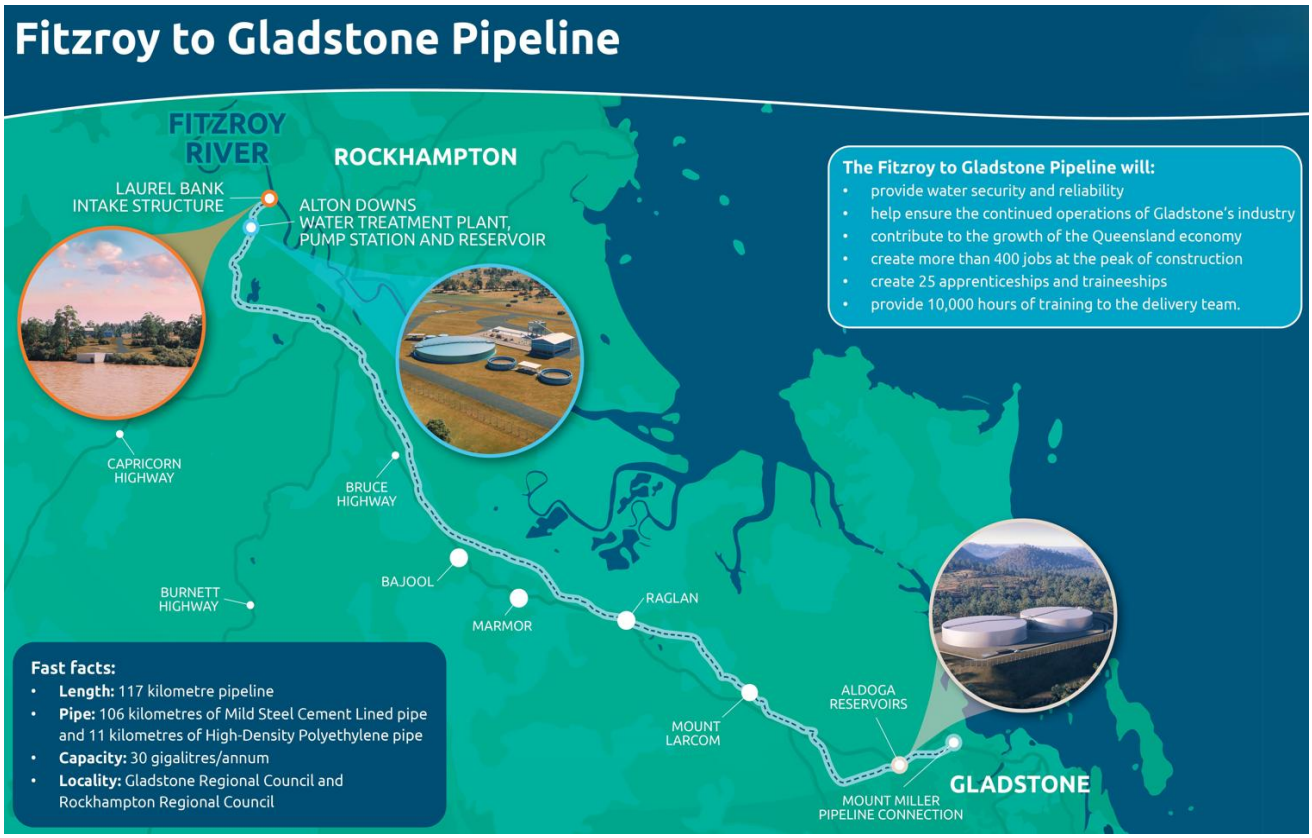
2.2 Project description

The key elements of the FGP design include the following:

- an intake and pumping facility on the western bank of the Fitzroy River at Laurel Bank;
- a 3km pipeline connecting the intake facility to a new water treatment plant (WTP) at Alton Downs, with a capacity of 100 megalitres (ML) per day;
- a 10ML Alton Downs pre-treated water storage reservoir and pump station at the Alton Downs WTP;
- a 105km pipeline between the Alton Downs pump station and reservoirs at Aldoga;
- 2 x 50ML reservoirs at Aldoga (hydraulically acting as one); and
- an 8km pipeline between the Aldoga reservoirs and the connection into GAWB's existing distribution system on the Mt Miller pipeline.

The pipeline traverses the Rockhampton and Gladstone Regional Council areas utilising the Stanwell to Gladstone Infrastructure Corridor (SGIC) and the Gladstone State Development Area (GSDA). To supply water via the FGP, GAWB holds 30.99GL per annum of medium and high priority water allocations at the Rookwood Weir. Sunwater is the counterparty to these allocations.

Figure 2-2 The Fitzroy to Gladstone Pipeline



As noted above, the FGP has been designed and constructed as a unidirectional raw water pipeline to transport 30GL per annum from the Fitzroy River to GAWB's network in Gladstone. Having regard to the findings of the reviews led by the Queensland Government, the project design makes minimum provisions to allow for the efficient future retrofitting of the infrastructure to enable the transport of raw water in the reverse direction i.e., from Gladstone to the Fitzroy River. These provisions include land tenure at key infrastructure locations, confirmation of the hydraulic characteristics of the reverse flow, bypass sections around FGP infrastructure not used in the reverse direction and the installation of tees for the future connection of a pump station at Aldoga reservoir.

2.3 Tender process

As the Delivery Management Proponent for pre-construction activities, GAWB conducted a market sounding and expressions of interest process for the construction of the FGP in early 2022. GAWB commenced an Early Contractor Involvement (ECI) phase with two Project Proponents - MCD BM JV and another party - on 21 March 2022.

The 12-week ECI phase involved briefings by GAWB to each Project Proponent on project objectives, the importance of the FGP to the region and elements of the project design. Both Project Proponents maximised the opportunity to interact with GAWB, with each scheduling nine interactive sessions. The ECI phase culminated in the submission of an offer from each Project Proponent on the 10th of June 2022.

On receipt of the offers, the evaluation panel, comprising GAWB personnel supported by a panel of specialist advisors, commenced the detailed analysis of the non-price and price elements. This assessment was conducted over an eight-week period.

The non-price element of the offer related to:

- organisational structure and key personnel;
- key management plans;
- construction methodology;
- design development and innovations;
- operations and maintenance plans;
- collaboration (i.e., between GAWB and the proponent, as the foundation for an effective working relationship); and
- local content and training, having regard to Best Practice Principles relating to:
  - health and safety management;
  - trainees and apprentices;
  - local engagement and local benefits;
  - diversity of workforce;
  - engagement of Aboriginal and/or Torres Strait businesses;
  - industrial relations; and
  - subcontractors.

The price element of the contract required the Project Proponent to present an offer that aligned to the bill of quantities issued by GAWB (i.e., over 14,000 line items) to permit the assessment of cost and productivity on a comparable basis.

The evaluation of price considered both the D&C Target Price and the O&M Cost Plan for a 25-year period. An O&M period of 25 years was selected as this provides insight into sustaining capital (replacement of equipment) and routine maintenance requirements. The executed O&M Contract term is five years with an option to extend for a further five years. This requires the D&C Contractor to remain accountable for the newly constructed asset within the defect liability period.

Risk under the O&M Contract was assessed and measured based on the party best placed to manage the identified risk. Arrangements in relation to abatements for under-performance, and incentives for out-performance (with reference to KPIs), were also addressed during contract negotiations. While the original project scope remained the foundation of the project, consideration was given to improvements to the design to improve sustainability of the project, better reflect the project objectives and consider whole of life cost/performance.

The evaluation panel considered that the MCD BMD JV outperformed the other party in non-price criteria and, following analysis by the expert advisors, also outperformed the other party on price criteria. The MCD BMD JV was therefore appointed as the Contractor for the D&C component of the project, along with operations and maintenance of the FGP once completed (based on the terms of the O&M Contract).

2.4 Current status

As at the date of preparation of this submission, construction of the FGP is well progressed. Activities completed to date include:

- clearance of the 117km of pipeline alignment;
- installation of 116km of mainline pipe (trenching, laying and backfilling); and
- 107km of rehabilitation.

Construction activities at the Alton Downs WTP and the Laurel Bank River intake are advancing towards the scheduled completion date.

Other points to note include that to date:

- $147 million of the project budget has been expended in the Gladstone and Rockhampton regions with approximately 135 Gladstone and Rockhampton businesses having supplied goods or services to the project;
- 26 trainees have been working on the project, equating to over 66,000 traineeship hours; and
- female workforce hours have exceeded 198,000 hours.

The FGP is scheduled to be operational as planned in FY2026, weather and other conditions permitting.

2.5 Integration of the FGP

2.5.1 Uncertainties associated with integration

Despite the extensive analysis, planning and design that has been carried out as part of the development of the FGP, there remain some uncertainties regarding aspects of its operations, including how the new Water Security Assets will perform within the context of GAWB's existing delivery and water treatment network. This performance is only likely to become more clearly evident once the FGP has been commissioned and is operational for a period of time. These uncertainties will have implications for the way the FGP and GAWB's existing network are operated, along with the associated costs.

One of the main areas of uncertainty that still exists for the integration of the FGP is the implications of introducing a secondary water source from the Fitzroy River. The Fitzroy River water chemistry and quality is materially different from that of Awoonga Dam. As such, the management and treatment of this water will necessarily be different from GAWB's current experience of water management requirements for the production of potable water.

Additionally, the comingling within GAWB's network of water sourced from the Awoonga Dam and water sourced from the Fitzroy River will require different management and treatment requirements. GAWB is yet to have experience in the management of Fitzroy River water or the resultant comingled water that will come with the integration of the FGP. This will necessitate a transition period for GAWB to fully understand and respond to the implications for the operation, maintenance and management of its water network.

GAWB has sought to mitigate some of the risk relating to the treatment of the Fitzroy River water with the O&M Contractor. In the Contractor's ECI offer to GAWB, the MCD BM JV included Ventia as a preferred key subcontractor during the O&M phase. The MCD BM JV's D&C offer included the Suez Densadeg clarifier technology at the Alton Downs WTP, with Ventia nominated as the key subcontractor due to its prior history in operating this equipment.

Subsequent to engaging the Contractor, GAWB requested the MCD BM JV to undertake an investigation into the potential impacts on their Total Outturn Cost and the Contract Program by changing the water treatment technology from the Suez Densadeg system to the Veolia Water Technologies (Veolia) Actiflo proprietary product, as the Veolia system was proven to operate on the Fitzroy River. GAWB subsequently approved the Contractor's quotation to incorporate Veolia's Actiflo system into the scope of the D&C Contract.

Veolia currently operates the Actiflo clarifier at the Stanwell Power Station that draws water from the Fitzroy River adjacent to the FGP intake, thereby providing valuable proven experience and knowledge transfer to the FGP and GAWB. Veolia has an extensive network of specialist O&M providers, including chemical supply, and have an existing positive relationship with both BMD and MCD. In addition, Veolia has local personnel who currently reside in the Rockhampton region, minimising contractor staffing risk.

In addition to the uncertainties regarding the treatment of water from the Fitzroy River and the resultant comingled water, uncertainties still exist for GAWB as to how the introduction of the FGP and the water it delivers will impact GAWB's existing water network (this is discussed further in Chapter 4). Once operational, GAWB will have a more detailed understanding of the WTP operation and the performance of other components within the project.

2.5.2 Implications for GAWB's submission

The current QCA price monitoring investigation is unique for GAWB in that the scope of the investigation is solely focused on assets that have yet to be commissioned or operated. Generally, operating and capital cost forecasts that are included in a regulated entity's proposed Annual Revenue Requirement (ARR) and subsequent service pricing are heavily informed by its prior understanding of its assets and the historic level of costs needed to manage and maintain these assets to deliver the relevant service.

In the case of the integration of GAWB's Water Security Assets, GAWB has no precedent or historic evidence on which to base its forecast of operating and capital costs. However, it understands the importance of an appropriate degree of price certainty for customers and stakeholders. It has therefore sought to develop this submission using its best estimates of its forecast costs, based on the information that is currently available.

As will be outlined in Chapter 5, GAWB has forecast its operating expenditure based on its current expectations as to system operations, including water quality. It has also provided a preliminary estimate of the costs of upgrading its WTPs at Yarwun and Gladstone (see Chapter 4) and while this may be able to be updated further in GAWB's response to the QCA's Draft Decision, GAWB is proposing to manage this uncertainty via a capital true-up at the end of the FY2026-30 regulatory period.

It is expected that as the FGP approaches commissioning, GAWB will look to provide the QCA with updated information where relevant.

2.6 Water allocations

GAWB has acquired the following water allocations from the Rookwood Weir Water Supply Scheme (WSS) (Zone A) through:

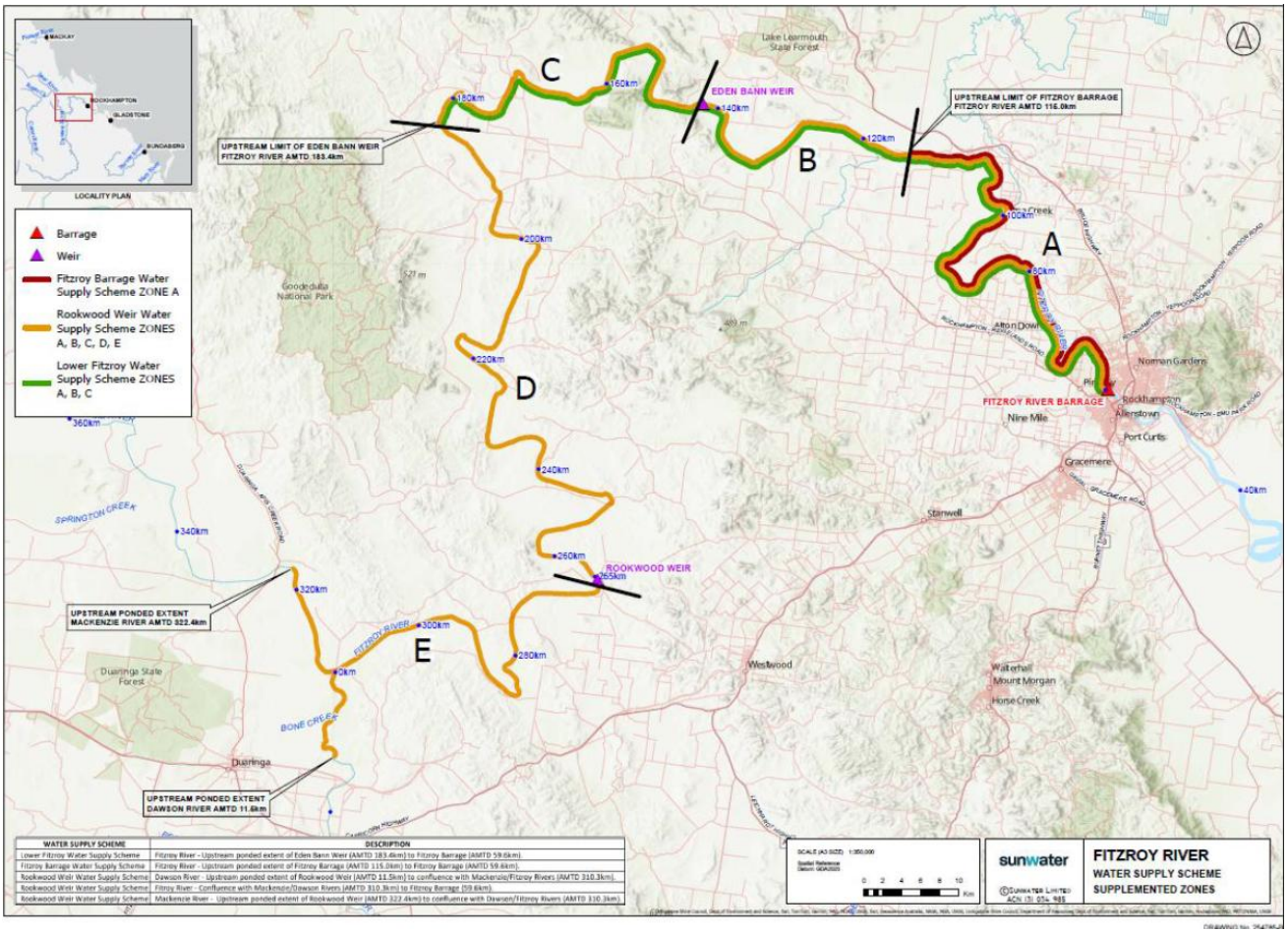
- a Contract of Sale of Water Allocation (with Sunwater); and
- a Water Allocation Sale Agreement (with an existing holder under a secondary market purchase).

Table 2-1 GAWB's water allocations from the Rookwood Weir

Priority	Nominal Volume (ML) per annum
High (from Sunwater)	16,250
Medium (from Sunwater)	7,182
Medium (from existing holder)	7,560
Total	**30,992**

These water allocations provide GAWB with the right to take water from the Rookwood Weir WSS, which is administered and managed by Sunwater, and deliver 30GL per annum to its network via the FGP. GAWB has high and medium priority allocations (with high priority allocations having fewer restrictions than medium priority). There are rules and targets associated with this scheme to ensure that Sunwater can manage the efficient delivery of water to allocation holders. For example, this includes that all customers must place water orders in line with the travel time of each zone. The significant size of the Rookwood Weir WSS is shown below.

Figure 2-3 Map of Rookwood Weir Water Supply Scheme



Source: Rookwood Weir Water Supply Scheme, Scheme rules and targets, Version No: 2, Version date: July 2025.
https://www.sunwater.com.au/wp-content/uploads/Home/Projects/Rookwood/Rookwood_Weir_-_Scheme_Rules_Targets_Jun25_Final.pdf

The Water Allocation Contracts described above relate to the purchase of GAWB's water allocation. For the ongoing delivery of these allocations, GAWB has also entered into associated River Supply Contracts with Sunwater where it provides water supply and related services to GAWB.

The total cost of GAWB's water allocations from the Water Allocation Contracts and River Supply Contracts therefore comprises two main components:

- an upfront capital component (refer Chapter 3); and
- an ongoing annual payment for water supply and related services under GAWB's River Supply Contracts (Chapter 5).

3. FGP asset value

This Chapter summarises the FGP asset value, including addressing matters identified in the Referral Notice.

The Referral Notice directs the QCA to accept the forecast $983 million capital cost of the FGP, less the $200 million capital grant provided by the Queensland Government. As the QCA is therefore not required to undertake a review of the capital cost of the FGP, a high-level overview is provided in this Chapter. GAWB has also provided more detailed supporting documentation to the QCA having regard to the matters it is to consider under the Referral Notice.

Other capital expenditure associated with the Water Security Assets is addressed in Chapter 4.

3.1 Referral Notice

The Referral Notice provides that the opening RAB of the FGP as at 1 July 2026 is to be determined as follows:

- accepting the forecast $983 million (excluding GST) FGP capital cost minus the Queensland Government's $200 million capital grant provided to support construction;
- inclusion of the capital expenditure associated with GAWB's Water Security Assets, minus the Queensland Government's $365 million capital grant provided to GAWB to support construction of the Fitzroy to Gladstone Pipeline and to make it operational;
- inclusion of forecast Interest During Construction (IDC), where appropriate, including IDC associated with the construction of the FGP; and
- adjusting for depreciation and actual inflation over the period.

3.2 FGP capital value

3.2.1 The FGP project asset value

The $983 million FGP capital cost consists of $950 million associated with the construction of the FGP and $33 million for pre-construction and ancillary activities.

As described in section 2.1, investigations into, and preparation for, the construction of the FGP have been underway for a number of years prior to the Queensland Government approving its construction. As such, costs have been incurred by GAWB in undertaking preliminary work in preparation for a final investment decision. These costs have yet to be capitalised. GAWB understands that the Queensland Government’s intent is that GAWB be allowed to recoup these costs, as recognised by the inclusion of the $33 million in the funding approval for the FGP, along with its inclusion in the Referral Notice.

Some of the costs included in the $33 million pre-construction activities have previously been captured in GAWB’s RAB. These capital costs, totalling approximately $1.21 million, were incurred during FY2016 to FY2020 and were included in GAWB’s RAB roll-forward when determining the opening asset value to apply from 1 July 2020 as part of the QCA’s 2020 price monitoring investigation.

As these costs are therefore already captured in GAWB’s RAB, to ensure there is no double-counting the FGP asset value that is to be included in the RAB from 1 July 2026 will exclude this $1.21 million in costs.

3.2.2 Water allocations asset value

As described in Chapter 2, GAWB has secured the water allocation rights for 30.99GL per annum for the Rookwood Weir. After direction from the Queensland Government, the purchase of these water allocations was executed under arrangements with Sunwater and an existing water allocation holder. The purchase price of these allocations constitutes the upfront capital component of the water required to operationalise the FGP.[8]

3.3 Funding arrangements

The details of GAWB's funding arrangements with the Queensland Government and Queensland Treasury Corporation (QTC) are confidential. GAWB has provided documentation to the QCA to enable it to consider the relevant matters under the Referral Notice, in particular, that the value of the Water Security Assets that GAWB has included in the opening RAB excludes the value of capital grants provided by the Queensland Government.

3.4 Opening RAB value - Water Security Assets

3.4.1 Relevant costs

As provided in the Referral Notice, the opening RAB as of 1 July 2026 is to be determined with reference to the capital costs associated with the Water Security Assets net of the associated grant funding provided to construct the FGP and make it operational.[9] Additionally, the Referral Notice requires the associated interest earnings from the capital grants provided by the Queensland Government to be offset against the upfront capital component for the purchase of GAWB's water allocations.[10]

Having regard to the above, the opening value of the RAB for the Water Security Assets as at 1 July 2026 therefore reflects:

- the $950 million construction cost of the FGP less the $200 million capital grant provided by the Queensland Government (i.e., $750 million); less
- $1.2 million in pre-construction costs that are already included in GAWB's RAB; plus
- IDC associated with the FGP (see Section 3.4.2).

As GAWB's current assumption is that the upfront capital cost associated with the water allocations will likely be fully funded by the capital grant from the Government (depending on final interest earnings), no value for these costs has been included in the RAB.

3.4.2 Interest during construction

Consistent with the Referral Notice and past regulatory practice, GAWB includes a return on the funds invested over the duration of a construction project (i.e., IDC) in the capitalised project costs. IDC

[8] The arrangements between GAWB and these parties are commercial in confidence and further information on these arrangements, including the negotiated pricing, has not been documented in this submission.
[9] As provided for under the definition of the RAB in the Referral Notice.
[10] As provided for under the definition of Allowable Costs in the Referral Notice.

associated with the FGP project is included in the RAB and has been calculated on the adjusted FGP asset value of $781.8 million.

The proposed approach used by GAWB to determine the appropriate level of forecast IDC associated with the FGP project is different from the typical approach GAWB has used in the past. Historically, GAWB has used a simplified approach where project expenditure is spread evenly over the construction phase, i.e., a monthly straight-line profile. This approach has previously been endorsed by the QCA[11].

For the purposes of determining the appropriate IDC for the FGP project, a profile based on actual and forecast monthly expenditure has been used. This results in a contoured, or S-curve, expenditure profile, which is more typical of significant construction projects. Using this approach allows for a more accurate estimation of interest incurred during the construction period.[12] Given the size of the capital investment associated with the FGP, in this instance GAWB considers it prudent to depart from its standard, more simplified approach to the calculation of IDC.

The resultant IDC associated with the FGP project that has been included in the RAB as at 1 July 2026 is $95.2 million. Details of this calculation and methodology used will be provided to the QCA in supporting documentation.

[11] Queensland Competition Authority (2005). Gladstone Area Water Board, Investigation of Pricing Practices, Final Report, March, p.97.

[12] For example, the QCA has applied the s-curve approach in calculating IDC for capital expenditure incurred by Queensland Rail and Aurizon Network. Refer: https://www.qca.org.au/wp-content/uploads/2025/02/queensland-rail-2023-24-capital-expenditure-claim-redacted.pdf; https://www.qca.org.au/wp-content/uploads/2023/09/an-fy2023-capital-expenditure-claim-submission.pdf

4. Other capital expenditure

This Chapter addresses other necessary capital expenditure being undertaken by GAWB, which is being incurred as part of the integration of the Water Security Assets into its existing network. At this stage in the development and construction process the amount of that expenditure is highly uncertain. The proposed treatment of this expenditure is also discussed.

4.1 Water treatment plant upgrades

4.1.1 Investment driver

Differences in the characteristics and quality of water sourced from the Fitzroy River

As described in Chapter 2, to improve water security for all customers and the Gladstone region, GAWB will deliver its services utilising water from the Fitzroy River (via the FGP) along with water from Awoonga Dam. The water delivered via the FGP will therefore become part of GAWB's core water supply.

This will result in the comingling of water from both sources in GAWB's existing delivery and water treatment network. Customers' water supply may therefore originate from more than one source and/or may be a blended product of both water sources.

Fitzroy River water chemistry and attributes differ significantly in characteristics and quality from Awoonga Dam. Each differing characteristic between Fitzroy River water and Awoonga Dam water carries implications for how supply is managed. The Fitzroy River water has higher turbidity, elevated concentrations of metals such as iron and manganese and tends to have higher pH and alkalinity. Periodic cyanobacterial blooms in the Fitzroy River also pose a risk, potentially introducing toxins and taste or odour compounds into supply that require proactive management.

These characteristics are critical to consider because they directly influence treatment performance, infrastructure requirements and GAWB's ability to maintain compliance with the Australian Drinking Water Guidelines (ADWG). While the full operational implications will become clearer once the system is active, these factors are central to planning and risk mitigation as the FGP is integrated into the broader network.

In supplying treated water through its network, GAWB is required to comply with the ADWG and operate under a Drinking Water Quality Management Plan (DWQMP) approved by the Regulator[13]. These obligations require mandatory compliance to ensure the safety and reliability of the drinking water supply.

As part of the integration of the FGP, GAWB will need to obtain a revised approval of its DWQMP to reflect the introduction of a new water source and associated treatment infrastructure. This process is essential to ensure that all operational and regulatory requirements are met prior to commissioning the new supply. It also provides assurance to stakeholders that water quality standards will continue to be maintained as the network evolves. GAWB will be unable to supply treated water from the FGP until its amended DWQMP is approved by the Regulator.

The design philosophy guiding the development of the FGP has been to closely replicate the water quality characteristics of Awoonga Dam as much as practicable. This approach is fundamental to

[13] Currently, the Department of Local Government, Water and Volunteers.

ensure continuity and reliability across GAWB's network and for customers. In many cases, customers have made significant investments in infrastructure and operational processes that are specifically tailored to these existing water quality parameters.

GAWB has therefore sought to maintain this general alignment for technical compatibility and also with the objective of minimising adverse customer impacts, including disruptions to supply, to the extent possible. However, despite this design philosophy, due to the nature of the water sources the characteristics of water supplied to customers following the introduction of Fitzroy River water may change.

To assist customers, and for information purposes, in November 2024 GAWB provided correspondence to all its existing and potential customers that utilise GAWB's water delivery services. This correspondence provided advance notice that the source of water may change with the introduction of the FGP water[14] and that the blending of water from these different water sources may occur within the network, which in turn, may affect the characteristics of water supplied.

It also notified them that the water chemistry data relating to the Lower Fitzroy River that GAWB has been collecting was available to them via their individual customer portal located on GAWB's website.

What is the issue that needs to be addressed

The design approved by the Queensland Government for the FGP includes the construction of a new WTP at Alton Downs. This facility will partially treat water sourced from the Fitzroy River before it is transferred to downstream treatment plants in GAWB's network. This initial treatment process effectively reduces the volume of silt in the Fitzroy River water, which can be characterised as heavily silted or 'muddy' in appearance. The inclusion of the Alton Downs WTP was a key component of the infrastructure package assessed through the Detailed Business Cases and associated evaluations undertaken by the Queensland Government.

The cost of the Alton Downs WTP is incorporated within the broader $983 million investment allocated to Water Security Assets under the FGP program. This strategic infrastructure is essential to managing the unique water quality challenges posed by the Fitzroy River source and ensuring the reliability and safety of supply to industrial, commercial and residential customers.

The partial treatment of Fitzroy River water at the Alton Downs WTP (by reducing turbidity/suspended solids) is extremely important. In the absence of this, the characteristics of that supply could create significant issues for the pipeline infrastructure, which would necessitate additional maintenance and remediation. The silt, if not removed, acts as a scouring agent, reducing the design life of the pipeline by degrading its interior cement lining.

In supplying GAWB's treated water customers, this partially treated raw water still needs to be treated to meet drinking water standards. As part of the integration of the FGP, GAWB will need to obtain revised approval of its DWQMP to reflect the introduction of a new water source and associated treatment infrastructure. The need to treat partially treated raw water to meet drinking water standards (under the ADWG) is unprecedented in Australia.

[14] The potential for supplied water to originate from more than one water source and the occurrence of the blending of that water within GAWB's network is provided for in GAWB's Standard Terms & Conditions and Water Supply Contracts for customers whose services include water delivery.

Further analysis and investigations

Recognising that there is no similar experience to draw from, GAWB has undertaken further analysis, including procuring reports from industry experts (Engeny and Bligh Tanner) to further investigate the issues and risks and consider options to address them.

In 2024, Engeny was engaged to conduct a process review at the Gladstone and Yarwun WTPs (the GWTP and YWTP) to understand the implications and risks in managing the partially treated raw water from the FGP. This confirmed that once partially treated, the GWTP and YWTP are not currently designed and configured to effectively treat that water to meet the ADWG.

This review included consideration of potential modifications to the treatment strategy at the Alton Downs WTP. For example, consideration was given to modifying the treatment strategy at the Alton Downs WTP to deliver fully treated water to GAWB's network that meets the ADWG. This found that fully treating the Fitzroy River water at Alton Downs WTP would result in a material shift in GAWB's operational model. This would require customers who currently rely on raw water to potentially invest in additional infrastructure to maintain their production processes and would also require GAWB to invest in additional distribution infrastructure. This would have significant financial and commercial implications for GAWB and those customers.

The optimal strategy determined from these investigations is to upgrade the GWTP and YTWP to be able to effectively treat the partially treated raw water from the FGP to consistently produce safe drinking water that complies with the health-based requirements of the ADWG.

As noted above, approval of an amended DWQMP by the Regulator is a necessary pre-condition before GAWB is able to treat and supply water sourced from the FGP for drinking purposes. In the absence of implementing the controls and additional treatment barriers (such as UV disinfection) identified as part of these necessary upgrades, this approval would not be able to be obtained.

4.1.2 Current status

This project is still in its planning phase with GAWB currently in the process of firming the design of the necessary GWTP and YWTP upgrades as part of its standard capital planning and governance process. As a next step, Engeny has been engaged to prepare an options analysis report and the detailed design. Its report, which is due to be delivered by October 2025, will enable GAWB to go to tender for the upgrade works and will also provide greater clarity on the scope, cost, timeframes and future operating requirements of the GWTP and YWTP.

Based on currently available information, GAWB has identified a high-level indicative capital allowance for the WTP upgrades of $50 million, with planned completion by 31 December 2026. GAWB currently anticipates that the cost estimates will be able to be refined by a quantity surveyor towards the end of 2025 based on the detailed design, which will then be further updated during the procurement phase of the project.

Pending completion of that work the FGP will initially operate at less than full capacity during this period (i.e., until 31 December 2026).

4.2 Proposed treatment in prices

4.2.1 Forecast capital allowance

Given the uncertainty associated with the forecast costs of the GWTP and YWTP upgrades, GAWB is proposing to address this in pricing by including an indicative capital allowance, which is then subject to a capital true-up at the end of the FY2026-30 regulatory period. This is consistent with the approach endorsed by the QCA in the 2025 price monitoring investigation for uncertain capital expenditure (in the context of hydrogen).[15]

For the purpose of setting the indicative ARR and prices in this submission, this is based on an indicative capital allowance of $50 million. This will be updated in GAWB's response to the QCA's Draft Report based on further information becoming available as the project is progressed.

GAWB will provide the QCA with more detailed documentation from its analysis and investigations conducted to date to establish the prudency of this capital investment.

4.2.2 Forecast operating cost allowance

With the additional water treatment requirements at GWTP and YWTP due to the introduction of the Fitzroy River water, it is expected that additional costs associated with the operation and maintenance of the WTPs will be incurred. These additional costs will be beyond what was included in GAWB's operating expenditure allowance used to set bulk water prices from 1 July 2025.

Given the final design and operating requirements for the upgraded WTPs is currently under consideration, GAWB has not sought to include additional operating expenditure in the build-up of its proposed ARR at this stage. GAWB will look to provide further information to the QCA on forecast additional operating expenditure associated with the upgraded WTPs throughout this price monitoring investigation as it becomes available. This may be included in an updated operating expenditure forecast in GAWB's response to the QCA's Draft Report.

4.3 Forecast renewal and replacement expenditure

The definition of Allowable Costs in the Referral Notice also includes forecast prudent and efficient capital expenditure associated with the renewal and replacement of the Water Security Assets. As outlined in section 5.2, the Service Fee payable under the O&M Contract includes materials and maintenance costs that are to be capitalised and hence are not included in the component of GAWB's forecast operating expenditure related to the Service Fee. These costs reflect any necessary renewal or replacement expenditure for the Water Security Assets. An additional capital amount has therefore been included for this expenditure.

[15] Queensland Competition Authority (2025). section 9.6.3.

5. Operating expenditure

This Chapter describes GAWB's incremental forecast operating expenditure associated with the Water Security Assets. This comprises three main elements:

- the Service Fee payable under the O&M Contract;
- GAWB's forecast incremental operating expenditure; and
- water allocation costs.

It also addresses the escalation approach GAWB has used.

As noted below, the total Service Fee payable to the Contractor under the O&M Contract is commercial-in-confidence. For this reason, GAWB is not able to provide a detailed breakdown of its operating expenditure forecast for the Water Security Assets in this submission. Full detail will be provided in the confidential documentation provided to the QCA.

5.1 Operating assumptions

To deliver the water security benefits for which the Water Security Assets have been designed, GAWB will need to utilise its full water allocation from the Rookwood Weir. The operating expenditure forecast has been prepared assuming that, when fully operational, the FGP will deliver to its full capacity of 30GL per annum. This assumes continuous operation for 365 days per year, less an allowed number of days per annum for scheduled shutdowns for maintenance.

As noted in section 4.1, until the GWTP and YWTP upgrades are completed (expected by the end of December 2026), the FGP will initially operate at less than full capacity. GAWB has made an appropriate adjustment to its operating expenditure forecast for FY2027, noting that this will only impact variable costs.

Additionally, as the operation of the FGP is forecast to commence prior to the commencement of pricing from 1 July 2026, GAWB will also be incurring additional operating expenditure for the Water Security Assets in FY2026 (including the Mobilisation Fee payable under the O&M Contract). These costs have not been included in the operating expenditure forecast used to determine the proposed ARR for the period from 1 July 2026 and 30 June 2030. GAWB will need to absorb these costs within its existing budget.

5.2 O&M Contract

5.2.1 Procurement

The tender process for the awarding of the O&M Contract was outlined in section 2.3. The bundling of the D&C Contract and O&M Contract into the same bids (while separately evaluated) is a common practice in major infrastructure projects, resulting in improved coordination and the alignment of incentives for the contractor between construction and operation, with the contractor remaining accountable for the performance of the assets once commissioned.

This also results in increased efficiencies in terms of risk allocation and reduced costs. In assuming responsibility for the operation and performance of the assets once commissioned (at least for the initial term), the contractor is incentivised to design the asset to optimise this, as well as ensuring that the costs of maintaining the assets over time are reduced. This includes reducing the risk of premature asset failures and performance issues.

As described in section 2.3, GAWB undertook a detailed ECI phase that explored a range of issues with respect to the construction and ongoing operation and maintenance of the assets. Assisted by expert advisors, the evaluation panel had regard to the competitiveness of the proposed contract terms, including cost elements, within the context of the current market for major infrastructure delivery. Risk allocation, along with appropriate rewards and penalties, was a key consideration in this process.

In being subject to a competitive tender process the composition and amount of the Service Fee, and all provisions relating to its derivation and application, reflect conditions in the competitive market for services of this nature (at the time of that tender). This in turn is therefore reflective of the costs incurred by a benchmark efficient service provider. As such, this should not require the QCA to undertake a detailed prudency and efficiency review from first principles, as is the process that might be applied to costs directly incurred by a monopoly service provider, where there is an absence of competitive market pressure driving the need to incur these costs, the amount of the costs incurred and/or the way in which they might be managed.

At the same time, GAWB recognises that it needs to demonstrate how its forecast of the Service Fee has been determined in applying the terms of the O&M Contract, including any assumptions on which the forecast has been based. GAWB will therefore provide the QCA with full transparency in the derivation of this forecast in the confidential documents provided.

5.2.2 Overview of Service Fee

The Service Fee payable under the O&M Contract covers the costs incurred by the O&M Contractor in operating and maintaining the FGP in accordance with the terms of that contract. The exception is electricity costs, which are directly managed and incurred by GAWB.

The O&M Contract is commercial-in-confidence and a copy of this has been provided to the QCA. GAWB will also provide other supporting material including a model demonstrating how the forecast Service Fee has been derived and the assumptions that have been applied. This information, including the total Service Fee payable each year, is also commercial-in-confidence.

The O&M Contract Service Fee comprises the following:

- a Mobilisation Fee, payable upon commencement of the contract (and hence not recoverable via prices assuming the forecast commencement occurs in FY2026);
- a Fixed Component;
- a Variable Component;
- the Contractor's Margin, which is levied on the total fee payable (including the Mobilisation Fee in the first year); and
- abatement, which reflects adjustments to the Service Fee for Contractor non-performance.

As noted in section 4.3, certain materials and maintenance costs that are identified as part of the Variable Component will be capitalised and hence have been excluded from the operating expenditure forecast. Those costs have been included in GAWB's forecast capital expenditure.

The O&M Contract was originally entered into in December 2022. Schedule 3, which details the Service Fee, includes estimated costs for each component for the first year of operation, based on assumed unit rates and quantities. This also includes the annual adjustment that will be applied each

year, which includes indexation for the Consumer Price Index (CPI) (see below) as well as other potential adjustments for performance and operational factors.

The Fixed and Variable Components payable will be reviewed with the Contractor during the commissioning phase. For the purpose of this submission, GAWB's forecast has been based on the original estimates of unit rates and quantities set out in the O&M Contract, however this may change depending on the final outcome. This is particularly relevant to the Variable Component but could also impact the Fixed Component. This is likely to result in updates to the Service Fee, and hence GAWB's operating expenditure forecast for the Water Security Assets, prior to setting final prices.

A brief overview of the Fixed and Variable components is provided below.

5.2.3 Fixed component

The fixed component comprises allowances for the following:

- the Contractor's permanent **labour force** required to perform its obligations under the O&M Contract;
- the fleet of **vehicles** required by the Contractor to perform its obligations under the O&M Contract;
- an allowance for the Contractor's **administration costs**, including travel, accommodation, PPE/uniforms, training and necessary insurances;
- the costs incurred in ongoing **sampling and analysis** for the purpose of monitoring water quality;
- the Contractor's **design support costs** during the initial term, being the first five years from practical completion;
- other relevant fixed **indirect costs** incurred by the Contractor, which are identified and itemised in the O&M Contract; and
- a **risk allowance** that is applied to the fixed costs, consistent with market practice.

5.2.4 Variable component

As would be expected, the Variable Component is less certain. Over time, it will be dependent on variables such as volume (and the system operating mode) as well as other operating characteristics such as water quality. The Variable Component is payable monthly based on the actual verifiable costs that are properly and necessarily incurred by the Contractor in delivering services under the contract. The variable costs included here are:

- commodities used for water treatment at the Alton Downs WTP; and
- the Contractor's margin, which is based on a rate applied to the total Service Fee.

The other major variable cost component is electricity, which will be directly managed and incurred by GAWB (see below).

5.3 Owner (GAWB's) costs

There are additional costs that GAWB will also incur as owner of the Water Security Assets that are in addition to the O&M Contract and also incremental to the allowance used to set bulk water prices as at 1 July 2025, which reflected BAU activities exclusive of the FGP. As part of the QCA's 2025

price monitoring investigation, GAWB was required to demonstrate that any costs associated with the FGP were excluded from those prices (consistent with the terms of the Amending Referral Notice[16] issued for that review). The QCA found that these costs had been excluded.[17]

5.3.1 Labour costs

The O&M Contract will extend GAWB's capabilities in contract management with the implementation of an outsourcing operating model for this major new asset. GAWB has traditionally managed the operations of its facilities internally through the appointment of a workforce qualified to operate and maintain those facilities. The construction of the FGP required GAWB to consider how it would meet its obligations as a competent operator and, in addition, manage a newly constructed asset through a defect liability period.

GAWB does not have prior experience in O&M contract management of this scale on which to draw. It conducted a review of the ongoing operational and commercial support that will be required to manage the asset and the O&M Contractor, along with other additional activities that GAWB will need to undertake once the FGP is operational. The review identified key tasks and estimated workload requirements, which were then used to assess the extent to which additional resources will be required, having regard to GAWB's existing resources, workloads and skills base in managing BAU activities.

This led GAWB to identify four additional roles required to manage the asset as well as to manage/supervise the Contractor over the term of the O&M Contract. These resources are incremental to GAWB's existing workforce and would not have been employed in the absence of the Water Security Assets. The roles are summarised below. At the time of preparation of this submission GAWB has commenced the recruitment process for all four roles.

Table 5-1 Summary of additional roles

Role	Description
Asset Management Specialist - FGP	The initial focus of this engineering-based position is to support the development and implementation of best-in-class asset management processes for the FGP project. This will cover the full range of FGP assets ranging from pipelines, pump stations and reservoirs through to diesel generation and High Voltage/Low Voltage reticulation. As the FGP project transitions into steady state operations, the role will evolve to focus on asset management governance, ensuring those best practice asset management processes are being actively followed and managed. During this governance phase it is expected that the Asset Management Specialist will be the central point of contact between the O&M Contractor and GAWB's Network team for all asset-management related enquires and guidance.
Drinking Water Quality Specialist - FGP	The introduction of water from the Lower Fitzroy River necessitated an additional drinking water quality specialist to manage potable water production from the Gladstone and Yarwun water treatment plants. Due to the complexity in producing potable water from two raw water sources, GAWB requires an additional resource to cater for the uplift in responsibilities associated with

[16] https://www.qca.org.au/wp-content/uploads/2023/12/amending-referral-notice-gawb.pdf
[17] Queensland Competition Authority (2025).

Role	Description
	ensuring water quality obligations are met as well as provide coverage during periods of leave. The initial focus of this position is to support the operational integration of the FGP into the existing GAWB network and provide specialist advice on GAWB's drinking water quality management system to ensure GAWB meets its customer expectations and regulatory requirements. As the FGP project transitions into steady state operations, the role will evolve to focus on operational governance, ensuring drinking water quality processes are being actively followed and managed. The role has responsibilities in the development and management of quality systems, asset management, operational support, stakeholder engagement and reporting.
Network Operations Specialist - FGP	The initial focus of this position is to support the operational integration of the FGP into the existing GAWB network. As the FGP project transitions into steady state operations, the role will evolve to focus on operational governance, ensuring agreed processes are being actively followed and managed. During this governance phase it is expected that the Network Operations Specialist will be the central point of contact between the O&M Contractor and GAWB's Network team for all operations-related enquires and guidance. Responsibilities span operations, budgeting, reporting and stakeholder engagement.
Commercial Specialist – FGP	The scale, complexity and dollar value of the O&M Contract is significantly larger than any contract that GAWB has previously managed. The effective performance of the O&M Contract will be critical to GAWB in meeting its ongoing responsibilities in managing its contractual and regulatory obligations. Appropriate oversight and management of the O&M Contract will be essential from day one in establishing an efficient and effective working relationship with the Contractor, as well as managing GAWB's ongoing risk. After reviewing the type of work involved, along with the hours that are likely to be required, it was confirmed that GAWB does not currently have the level of resourcing, or skillsets, within the business to actively manage a contract of this nature. This appointment will be GAWB's representative for all commercial aspects of the O&M Contract. They will be accountable for validating monthly payment claims from the Contractor, ensuring payments are made in line with the terms of the Contract and liaising with GAWB personnel and the Contractor for the clarification of any agreed services and resolution of any disputes.

These roles are considered essential for the effective integration and operation of the Water Security Assets into GAWB's network, having regard to the scale and complexity of the changes. Further, while operations and maintenance have been outsourced, GAWB ultimately remains responsible for the asset once commissioned, and has responsibility to its customers for the reliable supply of water to the required standards, while meeting its regulatory obligations. Effective management and oversight of the asset and the O&M Contract, including the activities of the Contractor, is therefore essential for ensuring effective management of the assets and the associated risks.

Further information on these roles will be provided to the QCA.

5.3.2 Electricity

The incremental electricity costs included in GAWB's proposed operating expenditure forecast arises in two main categories.

The first represents the additional costs from the operation of the Water Security Assets, including:

- Fitzroy Pump Station;
- Alton Downs Pump Station;
- Alton Downs WTP; and
- ancillary equipment including at the Aldoga and Mt Miller reservoirs.

The second category reflects changes in electricity costs for GAWB's existing assets due to the introduction of the Water Security Assets. The operation of the FGP will mean a reduction in the pumping load at Awoonga Dam, which will reduce the associated electricity costs. This cost reduction has been factored into the operating expenditure forecast to ensure only forecast net incremental electricity costs are included.

Further, as detailed in section 4.2, with the additional water treatment requirements at the GWTP and YWTP due to the introduction of the Fitzroy River water, it is expected that additional electricity costs associated with the operation and maintenance of the WTPs will be incurred. These additional costs will be beyond what was included in GAWB's operating expenditure allowance used to set bulk water prices from 1 July 2025.

Given the final design and operating requirements for the upgraded WTPs are currently being developed, GAWB has not sought to include any additional electricity expenditure in relation to those assets in the build-up of its ARR at this stage. GAWB will look to provide further information to the QCA on forecast additional electricity expenditure associated with the upgraded WTPs throughout this price monitoring investigation as it becomes available. This may be included in an updated operating expenditure forecast in GAWB's response to the QCA's Draft Report.

The incremental electricity costs associated with the Water Security Assets have been forecast using GAWB's whole of business electricity cost forecasting model, which was reviewed by the QCA in the 2025 price monitoring investigation. In that review the QCA found that GAWB's procurement approach for electricity was efficient.[18]

5.3.3 Insurance

GAWB's forecast incremental insurance cost for the Water Security Assets reflects the additional premium to increase its Industrial Special Risk (ISR) cover (including terrorism) for these assets. In October 2023, GAWB obtained an indicative (non-binding) quote from its insurance broker, Marsh, on the additional premium payable upon inclusion of the FGP in GAWB's asset base in 2026. This indicative quote is effectively the increase in premium from extending GAWB's existing ISR cover amount by $983 million.

[18] Queensland Competition Authority (2025). pp.34-35.

A detailed review of the insurance cover for the FGP is currently being undertaken, which will inform an updated quote of the ISR premium applicable to these assets. For the purpose of this submission, GAWB has therefore based its operating expenditure forecast on the indicative quote obtained in October 2023 (adjusted for indexation).

In setting final prices for the Water Security Assets, GAWB's insurance costs will be updated for the revised quote applicable for the first year of cover following commissioning. This is consistent with the approach GAWB has applied in updating its insurance costs prior to setting final bulk water prices for the existing assets.

No further growth in premium has been assumed, apart from the application of the escalation factor (see section 5.5). In the 2025 price monitoring investigation, the QCA endorsed a step change in GAWB's operating expenditure for increased insurance costs. This included an allowance for future RAB growth. As noted in GAWB's submissions, that step change (including the allowance for RAB growth) did not include any amounts associated with the Water Security Assets.

5.3.4 Sludge Removal

The disposal of sludge is a non-core activity for GAWB that is more clearly separable from other core operating and maintenance activities that are essential to the effective operation of the pipeline. It was therefore always contemplated by GAWB that this activity would be outsourced to a third party.

As it was too early in the process to go to market for this particular activity, it was originally included in the O&M Contract as one of the variable cost elements. To enable GAWB to gain a full and complete understanding of the estimated cost of offsite WTP solids disposal, the most informed party at the time to provide this estimate was the O&M Contractor - MCD BM JV. This allowed a cost of disposal to be estimated by a competent service provider.

As GAWB is currently conducting this procurement process, the forecast costs remain confidential so as not to jeopardise the outcome of the process. Details will be confidentially provided to the QCA and incorporated in the operating expenditure forecast. For the purpose of setting its indicative ARR and prices in this submission, GAWB has applied the initial estimate contained in the O&M Contract, as described above.

Pending the outcome of the procurement process, this is likely to result in updates to the operating expenditure forecast in GAWB's response to the Draft Decision.

5.3.5 Other costs

Professional services

As noted above, GAWB does not have experience in managing an outsourced contract of the size and complexity of the O&M Contract. An additional allowance has therefore been forecast for professional services support.

Necessary support is likely to be required for expert advice in the areas of contract law, contractor management, mechanical and electrical engineering related to maintenance and long-term planning for maintenance. GAWB will require additional funding for the audit of contractor deliverables and the potential for contractor dispute (or dispute avoidance).

Fees payable pursuant to land licence agreements

GAWB has entered into two licences with the Queensland Government for land required for the FGP, as summarised below.

The SGIC SDA Licence

The Stanwell-Gladstone Infrastructure Corridor State Development Area (SGIC SDA) is a defined area of land established to facilitate infrastructure development, specifically pipelines, between the Stanwell Energy Park and the Gladstone State Development Area. The Coordinator-General manages development within this State Development Area (SDA). SDAs are designated areas in Queensland where the Coordinator-General has special powers to manage and promote development.

This SGIC SDA is a 30m wide, 90km long corridor designed for multiple underground pipelines. It aims to streamline the construction and operation of essential infrastructure, like pipelines, by providing a designated corridor and a streamlined development assessment process that regulates planning and development within the area, including how applications for development are made and assessed. Applications for development within the SGIC SDA, such as material changes of use, are assessed by the Coordinator-General.

GAWB holds a 30m Temporary Construction Area (TCA) licence and a 10m permanent licence for the FGP.

The Gladstone State Development Area (GSDA) Licence

The GSDA is a designated area in Gladstone established to facilitate and manage development, particularly in industrial and infrastructure sectors (e.g., manufacturing and energy production), governed by a development scheme that outlines planning and assessment processes. The FGP pipeline and Aldoga reservoirs are in the GSDA.

Forecast Licence Fees

Under each Licence agreement, GAWB paid a one-off Licence Fee to Government in 2023. It is also currently paying annual fees for the TCA Licence under each agreement. Once construction of the FGP is completed, while the TCA Licence fees will no longer be payable, under the terms of each Licence agreement GAWB will need to pay annual administration and tenure costs to the Co-ordinator General and/or the relevant Department.

The types of costs are specified in the Licence agreements however the actual amount of those costs, which is determined by the Co-ordinator General, could vary each year. GAWB is unable to forecast these costs and has no influence over the amount of the costs that will be incurred by Government. It has therefore used the TCA fees payable under its Licence agreement as a basis for that forecast.

QCA Fee

The QCA levies fees to GAWB for the cost of it undertaking its price monitoring investigations of GAWB's business activities. These fees are passed on in full when setting bulk water prices.

The QCA Fee has traditionally been treated by GAWB as a direct cost pass-through. That is, forecast operating expenditure in each subsequent regulatory period is adjusted to capture the difference between GAWB's forecast of those fees over the previous regulatory period and the actual QCA fees for that period. Effectively, this results in a 'true-up' of the QCA Fee at the end of a regulatory period and allows GAWB to fully recover these costs.

Similarly, while the QCA Fee associated with this current price monitoring investigation will be incurred by GAWB during FY2026, GAWB has included these estimated costs in its operating expenditure forecast for the period from 1 July 2026 to 30 June 2030.

GAWB has not sought to include an additional allowance for the QCA Fee associated with the QCA's 2028 mid-term review of its proposed prices for the Water Security Assets. It is anticipated that this review will be conducted in conjunction with the mid-term review of GAWB's BAU bulk water prices. The forecast QCA Fee associated with that 2028 mid-term review has already been captured under GAWB's BAU bulk water prices and GAWB is not anticipating that an increase in the QCA Fee will be required to cater for this additional scope.

The QCA has provided GAWB with an estimate of its anticipated fee for the current price monitoring investigation that has been used to inform GAWB's expenditure forecast for this cost item.

Incremental climate change response costs

The vast majority of GAWB's Scope 1 and Scope 2 Greenhouse Gas (GHG) Emissions are from the consumption of electricity. When the FGP becomes operational, there will be a significant increase in GAWB's annual electricity consumption (see above), which will drive a proportional increase in GHG emissions. GAWB's obligations under the Federal Government's Renewable Energy Target Scheme resulting from this increased electricity consumption will be met through GAWB's electricity contracts.

GAWB is committed to reducing carbon emissions and responding to climate change risk in line with the Queensland Government's Climate Change Policy. In doing so, GAWB is also sensitive to the potential additional financial cost to customers of GAWB pursuing voluntary renewable energy or GHG reduction targets in addition to any mandated targets. GAWB's approach to GHG emissions reduction in accordance with its Climate Change Policy follows an emissions reduction hierarchy that first addresses 'Avoid' and 'Reduce' actions such as energy efficiency initiatives.

The significant increase in electricity consumption driven by the FGP may also trigger new mandatory reporting requirements (such as under the National Greenhouse and Energy Reporting Scheme) and new mandatory requirements for the purchase of renewable energy or carbon credits in accordance with Federal or State government policies. This could lead to material additional costs to GAWB to action climate change response requirements and/or meet community expectations.

At this time, significant uncertainty remains regarding the scale of any potential increases in costs driven by incremental climate change response costs stemming from the operation of the Water Security Assets. GAWB has not sought any specific allowance for these potential cost increases at this time, nor is it likely to be in a position to do this during the course of this price monitoring investigation.

Any such increases will therefore need to be borne by GAWB for the remainder of the FY2026-30 regulatory period. If required, GAWB will review this as part of its operating expenditure forecast for the subsequent period, having regard to the QCA's 2023 Guideline on climate change related expenditure[19].

[19] https://www.qca.org.au/wp-content/uploads/2023/09/qca-climate-change-guideline-september-2023.pdf

5.4 Water allocation costs

As previously outlined, GAWB has entered into River Supply Contracts with Sunwater for the delivery of water supply and related services for 30.99 GL per annum of medium and high priority water allocations at the Rookwood Weir.

Under the terms of the River Supply Contracts with Sunwater, GAWB must pay Sunwater annually for water supply and related services for the Rookwood Weir WSS, increased annually in accordance with the terms and conditions of applicable supply contracts. The annual water supply charge consists of Part A (Fixed Charge) per ML of water allocation and a Part B (Variable Charge) per ML of water taken. There are different charge amounts for high priority water and medium priority water. The River Supply Contracts do not entitle GAWB to take water.

The annual water supply charges are available publicly[20] and are detailed in the below table. GAWB's water allocations, both medium and high priority, are drawn from Zone A.

Table 5-2 Sunwater: Rookwood Weir WSS fees and charges – effective 1 July 2025

Tariff Group	Product		Measure	$/ML
Zone A to D – Medium Priority	Allocation charge	Part A	Per ML of water allocation	21.77
	Allocation water	Part B	Per ML of water taken	4.76
Zone A to D – High Priority	Allocation charge	Part A	Per ML of water allocation	353.46
	Allocation water	Part B	Per ML of water taken	4.76

5.5 Escalation

5.5.1 Background

As part of the application of the base-step-trend approach in GAWB's 2025 price monitoring investigation, the base year operating expenditure was escalated using a weighted escalation factor (i.e., the trend factor). In developing this trend factor, GAWB had regard to the QCA's Inflation Forecasting Position Paper, where its preferred approach is to:

- where appropriate, apply CPI inflation; and
- apply an alternative escalation factor where the underlying cost driver is materially different from CPI inflation.

[20] https://www.sunwater.com.au/wp-content/uploads/Home/Customer/Fees-Charges/Rookwood_Weir_Water_Supply_Scheme_-_Fees_and_Charges_2025_-_2026.pdf

The trend factor used in GAWB's 2025 price monitoring investigation was determined by weighting the appropriate escalation factors, e.g., the CPI and the Wages Price Index (WPI), based on FY2023 base year operating cost categories.

In setting prices for the Water Security Assets for the first time, the 'base year' operating expenditure will be the first full financial year of operation, being FY2027. These costs then need to be escalated for the remainder of the period to 30 June 2030. The Referral Notice states that Forecast Inflation is to be "determined consistent with the Authority's previous approach in GAWB's Previous Price Monitoring Investigation." It does not prescribe where Forecast Inflation is applied.

The forecast operating costs for GAWB's Water Security Assets have not been developed using a base-step-trend approach as no base year operating costs are available for the assets under review. Instead, a build-up of individual cost items, as detailed above, has been used to determine the appropriate operating expenditure allowance.

Given this, GAWB does not consider that the application of the weighted trend factor determined in its 2025 price monitoring investigation is appropriate. Further, the weightings applied to the relevant escalators in that review were based on the composition of GAWB's cost base for its existing assets in the base year (FY2023). This is not considered representative of the composition and drivers of the costs of operating and maintaining the Water Security Assets from 1 July 2026.

In determining the escalation to apply to each cost item, GAWB has used the same methodology as set out by the QCA in its Final Report to determine the forecast CPI and WPI[21], unless specified otherwise. The application of the indices (or the combination of them) used to escalate costs is explained below.

5.5.2 Escalation of O&M Contract costs

Schedule 3 of the O&M Contract contains specific provisions for escalation of the Fixed and Variable components of the Service Fee. This provides for escalation at CPI, based on the All Groups CPI for Australia.

There are two potential ways of viewing the appropriate escalation rate to apply to the Service Fee for the purpose of setting prices for the Water Security Assets. The first is to align the escalation approach with the method specified in the O&M Contract. This is because:

- the terms of that contract, including the escalation provisions, reflect competitive commercial market provisions that would be applied by a benchmark efficient service provider; and
- while GAWB's operating expenditure allowance is not intended to operate as a direct pass through, given the materiality of this cost item, to adopt a different escalation approach would permanently entrench a mismatch between its actual costs and the allowance used to set prices, which it would be unable to manage (noting that GAWB's actual escalation could be lower or higher).

To the extent that the O&M Contract comprises a major cost category, the second way to look at this is to apply the principles in the QCA's Inflation Forecasting Position Paper. This recommends applying

[21] Queensland Competition Authority (2025).

CPI inflation "where appropriate", unless the underlying cost driver is materially different from CPI inflation. In the case of the Service Fee, from GAWB's perspective the underlying driver is CPI inflation (for Australia), recognising that the O&M Contract allows for other adjustments for performance and operational matters, which are not possible to forecast.

Based on the above considerations, GAWB proposes to index the full amount of the Service Fee using CPI, consistent with the O&M Contract. It also proposes to base this on the All Groups CPI for Australia, as this is the relevant driver in escalating the Service Fee under the O&M Contract. GAWB notes that the QCA's preferred approach in its Inflation Forecasting Position Paper is to "use location-specific (Brisbane) cost escalators in cases where there are underlying cost drivers that are materially different to the national CPI inflation measure."[22] While the use of the Brisbane index is appropriate for GAWB's own costs, the national CPI measure is the relevant measure to apply to the Service Fee.[23]

GAWB has forecast CPI for Australia using the same approach that it used, and was approved by the QCA, in the 2025 price monitoring investigation[24]. This estimated forecast CPI with reference to the Reserve Bank of Australia's (RBA) CPI forecast for FY2026 and FY2027 is sourced from its most recent *Statement on Monetary Policy* and a linear glide path from the FY2027 forecast to a rules-based anchor-point forecast of 2.5% in FY2030.

This has resulted in the following forecast CPI that has been applied to index forecast costs associated with the O&M Contract.

Table 5-3 Forecast All Groups CPI, Australia

FY2027	FY2028	FY2029	FY2030
2.60%	2.57%	2.53%	2.50%

The main difference between GAWB's escalation of the Service Fee for the purpose of setting prices for the Water Security Assets and the actual escalation applied under the O&M Contract will be timing. For pricing purposes escalation will be applied on a financial year basis, to align with GAWB's pricing approach. Under the O&M Contract, escalation will be applied at each (annual) anniversary date, which is referenced to the date of commencement of the contract.

GAWB will review the extent to which this treatment remains appropriate at the end of the FY2026-30 regulatory period.

[22] Queensland Competition Authority (2021). Final Position Paper, Inflation Forecasting, October, p.43.

[23] It is further noted that the previous approach used to forecast GAWB's CPI for Brisbane (including in the 2025 price monitoring investigation) also relies upon the RBA forecasts from its Statement on Monetary Policy, which is only a national (not Brisbane) forecast. Consistent with current practice, for GAWB's own costs actual CPI will be based on Brisbane (All Groups) CPI, while actual CPI for the Service Fee component will continue to be based on Australia (All Groups) CPI.

[24] Queensland Competition Authority (2025).

5.5.3 Escalation of water allocation contract costs

Consistent with the above approach, and given GAWB's water allocation costs represent another material third party expenditure, GAWB has escalated the costs payable under its River Supply Contracts with Sunwater based on the All Groups CPI for Brisbane.

5.5.4 Escalation of other operating expenditure

All other operating expenditure for the Water Security Assets will be escalated using GAWB's relevant escalator specific to each cost category, based on the methodology applied in setting bulk water prices from 1 July 2025 and endorsed by the QCA in the 2025 price monitoring investigation.[25]

The table below outlines each cost item, the relevant cost category and how each primary escalator applies.

Table 5-4 Escalation factors applied to GAWB's own costs

Operating expense	Cost Category	Proposed Escalator
Labour costs	Labour – employee expenses	Forecast WPI
Electricity	Electricity	Forecast CPI
Insurance	Insurance	Forecast CPI + 2% premium[26]
Sludge removal	Contractors (service delivery)	Forecast WPI
Professional services	Professional services	Forecast WPI
Land licensing fees	Operations	Forecast CPI
QCA Fee	Operations	Forecast CPI

Having regard to the findings in the QCA's Final Report for the 2025 price monitoring investigation, GAWB detailed the calculation of its final trend factor and associated primary indexes in the letters sent to customers in June 2025, which explained the final bulk water prices applying from 1 July 2025. Applying this methodology, GAWB updated the relevant escalators to reflect the most recent available information.

The updates to actual and forecast CPI are briefly described below.

FY2025 actual CPI

CPI for FY2025 was updated to reflect actual CPI using the Brisbane All Groups CPI, March 2024 to March 2025 indexes (released 30 April 2025). This resulted in a CPI escalator of 2.66% in FY2025 compared to 2.40% in the QCA's Final Report.

[25] Queensland Competition Authority (2025).

[26] Flat CPI was used for escalation of insurance within the calculation of the trend factor in the 2025 price monitoring investigation. However, when determining the quantum of the step change associated with insurance, a 2% premium above CPI was used to escalate the forecast insurance costs. That premium reflects the continued tight conditions in the insurance market. The same approach has been used to escalate forecast insurance costs associated with the Water Security Assets.

Forecast CPI

Forecast CPI for FY2026 to FY2030 was updated to reflect the most recent available information at the time, where:

- FY2026 and FY2027 forecast CPI was updated using forecasts for June 2026 and June 2027 contained in the RBA's May 2025 *Statement on Monetary Policy* (the QCA's Final Report referenced CPI forecasts from the RBA's February 2025 Statement); and
- FY2028 to FY2030 forecast CPI was determined using the QCA's preferred approach as adopted in its Final Report, i.e., based on a glide path from forecast FY2027 CPI to a rules-based anchor point of 2.5% in FY2030.

The updated forecast CPI used to determine final prices to apply from 1 July 2025 as well as the proposed pricing for the Water Security Assets are shown in the following table. The values applied by the QCA in its Final Report are also provided.

Table 5-5 Updated forecast CPI compared to QCA's Final Report

	FY2026	FY2027	FY2028	FY2029	FY2030
QCA Final Report	3.20%	2.70%	2.63%	2.57%	2.50%
GAWB Final	3.10%	2.60%	2.57%	2.53%	2.50%

Wages Price Index

No update was required to the WPI and GAWB applied the QCA's value contained in its Final Report, as provided below.

Table 5-6 Forecast WPI

FY2027	FY2028	FY2029	FY2030
3.25%	3.00%	2.36%	2.36%

Further update prior to setting final prices for the Water Security Assets

GAWB has applied the above CPI and WPI escalators for the purpose of setting its indicative prices for the Water Security Assets. Consistent with the principle of ensuring that prices reflect the most recent information, GAWB intends to update the escalators in setting final prices for the Water Security Assets to apply from 1 July 2026, using the above methodology and the most recent available information at that time. The current escalators are therefore applied as a placeholder.

5.6 Summary: forecast operating expenditure for the Water Security Assets

Based on the methodologies and assumptions applied above, GAWB's total forecast operating expenditure for the purpose of setting indicative prices for the Water Security Assets from 1 July 2026 is as follows.

Table 5-7 Current forecast operating expenditure for Water Security Assets ($M, nominal)

FY2027	FY2028	FY2029	FY2030
26.88	28.79	28.86	31.10

Once final prices are set from 1 July 2026, GAWB will continue to bear the risk of any differences between actual and forecast expenditure for the period from 1 July 2026 to 30 June 2030. At the next price monitoring investigation for the period commencing 1 July 2030, the costs of operating and maintaining the Water Security Assets will form part of GAWB's overall cost base for the purpose of setting prices for that period. GAWB's total forecast operating expenditure is expected to be set using a base-step-trend approach.

Following the first four years of operation of the FGP, it is possible that the actual efficient incremental costs of operating and maintaining the Water Security Assets are materially different from the forecast used to set prices from 1 July 2026 to 30 June 2030. While GAWB bears the risk of this difference over that period, it is likely to need to review its operating expenditure forecast from 1 July 2030 in light of that first four years' of experience (including in the context of the relevant base year). If required, GAWB would seek to discuss this with the QCA at the time, including how this is best addressed under the base-step-trend approach, which is primarily designed for steady state operations.

6. WACC and working capital

This Chapter addresses the following matters:

- the Weighted Average Cost of Capital (WACC)
- the allowance for working capital.

6.1 Weighted Average Cost of Capital

6.1.1 Referral Notice

The Referral Notice defines GAWB's 'Appropriate Rate of Return' for the Water Security Assets as that determined in GAWB's 2025 price monitoring investigation. This is interpreted to mean that in setting Appropriate Prices for the Water Security Assets, GAWB is to apply the same WACC that was used to set bulk water prices from 1 July 2025, having regard to the findings from the QCA's Final Report for the 2025 price monitoring investigation.

The exception to this is the calculation of the trailing average return on debt, with the Referral Notice providing the following:

> In updating the trailing average return on debt for the 2026-27 year, the Authority is to allow the weighting applied to the prevailing market cost of debt in that year to fully reflect the increase in GAWB's benchmark debt accounted for by the inclusion of the Water Security Assets, along with the update that is applied for the refinancing of existing benchmark debt in that year.

GAWB's application of the terms of the Referral Notice is set out below.

6.1.2 Final WACC applied to set bulk water prices from 1 July 2025

Consistent with the approach applied in previous regulatory periods, GAWB updated the final WACC that was applied to set its bulk water prices from 1 July 2025 for the most recently available information. This intent was flagged by GAWB in its response to the QCA's Draft Report, with the update to occur over GAWB's nominated averaging period.[27] The QCA acknowledged this in its Final Report.[28]

For the purpose of that update, GAWB confidentially submitted its averaging period to the QCA prior to the start of that period, which was the 20 business days ending 28 March 2025. This was accepted by the QCA. The risk-free rate was updated using the same methodology and data source applied in setting GAWB's indicative WACC. This resulted in a risk-free rate of 4.47%, which is slightly higher than the QCA's final estimate of 4.31%.

Following the lodgement of GAWB's response to the QCA's Draft Report, the QCA updated its preferred approach to extrapolating the RBA data used to calculate the debt risk premium (DRP)[29], having regard to the method proposed by QTC. The QCA's updated approach was applied by GAWB in updating the DRP for the purpose of setting its final WACC, which was estimated over the same

[27] https://www.qca.org.au/wp-content/uploads/2023/12/gawb-response-to-draft-report-public-version_redacted.pdf, p.26.
[28] Queensland Competition Authority (2025). p.74.
[29] Queensland Competition Authority (2024). Rate of Return Review, Final Report, version 4.

averaging period used to update the risk-free rate. GAWB's updated DRP of 1.18% is materially lower than the QCA's final DRP estimate of 1.91%.

In its Final Report the QCA applied an updated estimate of the market risk premium (MRP) using its preferred approach from its Rate of Return Review report (which is based on the Ibbotson method). Synergies updated the MRP using the Ibbotson method over the period commencing from the same starting point as the QCA's preferred averaging period (1958) and ending on the 28th of March 2025 (whereas the QCA's MRP estimate used data to February 2024). This retains alignment with the QCA's approach while also ensuring that the MRP applied in the WACC used to set GAWB's final prices reflects the most recent market data. This resulted in an updated MRP of 6.6%, compared to the QCA's estimate of 6.3%.

In its submissions to the QCA for the 2025 price monitoring investigation, GAWB proposed that its asset beta should be retained at the current value of 0.45. This was not accepted in the QCA's Final Report, where it applied its estimate of 0.39. While GAWB remains of the view that its systematic risk profile is higher than the businesses referenced by the QCA (including Seqwater), it adopted the QCA's asset beta of 0.39 in setting its final bulk water prices to apply from 1 July 2025. All other parameters are consistent with those applied by the QCA in its Final Report.

Based on the above, GAWB's updated WACC used to set final bulk water prices from 1 July 2025 was 7.29% (post-tax nominal). This is 10 basis points below the QCA's Final Report estimate of 7.39%.

Table 6-1 GAWB's updated WACC used to set final bulk water prices from 1 July 2025

Parameter	QCA's Final Report	GAWB's Final Estimate
Risk-free rate	4.31%	4.47%
Gearing	50%	50%
Corporate tax rate	30%	30%
Gamma	0.484	0.484
Asset beta	0.39	0.39
Equity beta	0.66	0.66
Market risk premium	6.3%	6.6%
Debt risk premium	1.91%	1.18%
Debt raising costs	0.10%	0.10%
Return on equity	8.47%	8.83%
Return on debt	6.32%	5.75%

Parameter	QCA's Final Report	GAWB's Final Estimate
Nominal post-tax (vanilla) WACC	**7.39%**	**7.29%**

6.1.3 Updating the trailing average return on debt

Requirements of the Referral Notice

Consistent with the QCA's findings in GAWB's 2025 price monitoring investigation, which also reflects the QCA's preferred approach following its 2021 Rate of Return Review, GAWB's return on debt will now be estimated using the trailing average approach. This means that in each year of the regulatory period, GAWB's average return on debt will be updated to include the prevailing market rate.[30] Further, this is to be implemented over a ten-year transition period, consistent with the approach applied by the Australian Energy Regulator.

Practically, this update will have no impact on GAWB's existing bulk water prices for the duration of the regulatory period and instead, will be addressed via a true-up that will be applied to allowable revenues from the start of the next regulatory period i.e., FY2031-35.

As noted above, in the Referral Notice for QCA's price monitoring investigation of the Water Security Assets, for the purpose of updating the trailing average return on debt in the FY2027 year, instead of assuming an equal (or 10%) weight to the prevailing market cost of debt in that year, the QCA has been directed to allow the weighting to fully reflect the increase in GAWB's benchmark debt accounted for by the inclusion of the Water Security Assets. This recognises the material increase in GAWB's benchmark debt balance associated with the FGP. This reduces the degree of mismatch between GAWB's regulated return on debt and the actual return on debt, given its new borrowings are being financed at market interest rates prevailing at that time.

Implications

As noted previously and as set out in GAWB's submissions for the 2025 price monitoring investigation, while in some regimes adjustments are made to prices during the period for the annual update to the trailing average return on debt, GAWB will only make a single adjustment at the end of the period for the cumulative difference between its starting return on debt (5.75%) and the annual updates to the trailing average over the course of the regulatory period.

This will be applied as an adjustment to its proposed ARR from the start of the next regulatory period. This could be a positive or negative adjustment depending on interest rate movements over the period and will need to be approved by the QCA as part of the next price monitoring investigation. In the meantime, while it will have no impact on prices during the regulatory period, GAWB intends to inform customers of its updated trailing average calculation in the letters it provides to each customer in June of each year in advising its annual pricing updates under the Water Supply Contracts.

For the purpose of setting prices for the Water Security Assets to apply from 1 July 2026, GAWB is proposing to apply its updated trailing average return on debt for the FY2027 year. This is consistent

[30] The calculation of the prevailing rate in each year will be done over the averaging period that has been nominated by GAWB and endorsed by the QCA at the start of the FY2026-30 regulatory period.

with the principle of ensuring that new prices reflect the most recent information and could also potentially reduce the amount of the true-up required at the end of the period (although that will ultimately depend on the course of interest rates over the period). While applying that updated return on debt may impact the amount of the true-up required at the end of the period, it has no impact on the return on debt that GAWB is entitled to earn over the course of the period based on the application of the trailing average methodology.

The return on debt that is used to set prices for the Water Security Assets for the FY2027 year will only be able to be advised following the update to the trailing average return on debt for that year, which will be over a nominated period that has been confidentially submitted to (and endorsed by) the QCA as part of the 2025 price monitoring investigation. As such, the WACC GAWB has used to inform its proposed ARR and Water Security Price is 7.29% (post-tax nominal), which aligns with the WACC used to set bulk water prices from 1 July 2025.

As noted above, GAWB's advice on the updated WACC used to set the Water Security Price will be provided in the final pricing letters sent to customers in June 2026, prior to the introduction of the pricing arrangements from 1 July 2026. This update will have no implications for existing bulk water prices for the remainder of the FY2026-30 regulatory period, which will remain based on the starting return on debt of 5.75%.

6.2 Working capital allowance

A business is required to retain a working capital balance to allow it to meet its immediate obligations and maintain operational viability. A return on an appropriate working capital allowance, using GAWB's WACC, is included in the build-up of the ARR for the Water Security Assets.

GAWB's working capital allowance for its Water Security Assets has been determined on the basis of an assumed level of debtors, less creditors plus inventory.[31] Given the assets being considered under the current price monitoring investigation are yet to be commissioned, GAWB has not been able to rely on historic actual data to inform the forecasting of these inputs. The methodology used to determine an appropriate value for each of these inputs is described below.

Debtors (Receivables)

For the purposes of this submission, forecast receivables have been determined as one-twelfth of the smoothed ARR[32]. This represents one month's worth of revenue expected from the levying of the proposed price for the Water Security Assets. Given GAWB's payment terms, i.e., 30 days from the invoice date (which is billed in areas, one month following the provision of service), this is a conservative estimate of the anticipated level of receivables associated with the Water Security Assets.

Creditors (Payables)

Similarly, forecast payables have been determined as one-twelfth of the total operating expenditure allowance used in the determination of the proposed ARR[33]. This represents one month's worth of

[31] As provided for in GAWB's Pricing Principles contained in Schedule 4 of GAWB's Standard Terms & Conditions.
[32] The first year's debtor balance is set based on one twelfth of the 2026-27 ARR. This balance is then escalated by CPI year on year over the remainder of the regulatory period.
[33] The first year's creditors balance is set based on one twelfth of the 2026-27 operating expenditure. This balance is then escalated by CPI year on year over the remainder of the regulatory period.

anticipated operating and maintenance expenditure associated with the Water Security Assets, assuming an equal distribution of these costs across the year.

Inventories

No value for inventories has been included in the calculation of the working capital allowance. The purchasing and management of inventory needed for the continued maintenance of the FGP will be the responsibility of the Contractor under the O&M Contract.

Additionally, no allowance for inventory associated with the related connection and integration works has been included. It has been assumed that given the assets in question are to be commissioned within the regulatory period and are in as-new condition, the need for the purchasing and retention of inventory for these assets will be limited for this regulatory period.

As the GWTP and YWTP upgrades are progressed and the design and operating requirements of the assets are further developed over the course of this pricing investigation, GAWB may look to review this assumption in its response to the QCA's Draft Report.

7. Indicative revenue and prices

This Chapter summarises the indicative allowable revenue and prices for the Water Security Assets, having regard to the definition of Allowable Costs provided in the Referral Notice (refer Chapter 1).

7.1 Demand

The Referral Notice provides for Reserved Demand to be determined as:

> The total quantity of water reserved by GAWB's customers under their contractual arrangements (including any conditional contractual arrangements) and water that is the subject of a water supply proposal provided under GAWB's Queuing Guideline (Source Capacity).

As noted in the QCA's Final Report for the 2025 price monitoring investigation[34], and consistent with previous regulatory reviews, GAWB updates its demand forecasts using the latest available information prior to setting final prices.

Prior to setting bulk water prices to apply from 1 July 2025, GAWB worked with its existing and potential customers to confirm their water demands for the FY2026-30 regulatory period. The outcome of this engagement resulted in GAWB using the demand reservations confirmed by its existing customers for the FY2026-30 regulatory period to determine these prices.

During the course of FY2025, GAWB also undertook a review of its water seeker queue under its Queuing Guideline (Source Capacity). At the time of lodgement for this submission, GAWB does not have any water allotments that are subject to a water supply proposal.

In determining the appropriate Reserved Demand to use in the determination of the indicative price for the Water Security Assets, GAWB has set the Reserved Demand in line with the reservations applied in the determination of bulk water prices to apply from 1 July 2026, as confirmed by its existing customers. The resultant Reserved Demand is shown below.

Table 7-1 Forecast reserved demand (ML per annum)

FY2027	FY2028	FY2029	FY2030
63,355	63,836	63,973	64,151

7.2 Regulated Asset Base

7.2.1 Proposed asset lives

FGP Asset

GAWB has used a weighted average asset life for the purposes of determining an indicative return of capital (depreciation) for the Water Security Assets.

[34] Queensland Competition Authority (2025).

This weighted average life has been calculated based on a forecast break-up of total capital expenditure (i.e., $983 million) into asset categories. An indicative asset life associated with each of these asset categories has been applied and weighted using the assumed asset value.

Given the FGP is currently under construction, the break-up of the asset into asset categories reflects GAWB's current expectations. The actual break-up of assets and assigned lives will not be fully known until project completion and asset capitalisation has occurred.

Further detail on the calculation of the weighted average life applied to the FGP asset and the associated depreciation calculations will be provided to the QCA to support GAWB's submission.

Other capital

Similar to past price monitoring investigations, GAWB's capital forecast is provided as a set of distinct projects with an indicative average life applied to each project based on the expected life of the predominant asset/s that are the focus of each particular project. Further detail on the asset lives assumed for capital expenditure (other than the FGP project) and the associated depreciation calculations will be provided to the QCA to support GAWB's submission.

7.2.2 Forecast RAB roll-forward

Referral Notice

GAWB's proposed RAB has been determined based on the terms of the Referral Notice, which includes the following:

- forecast FGP Asset Value (refer to Chapter 3);
- capital expenditure associated with GAWB's Water Security Assets, minus the relevant capital grant provided to GAWB by the Queensland Government (refer Chapter 3);
- forecast IDC where appropriate (refer Chapter 3); and
- an appropriate allowance for prudent and efficient capital expenditure related to the connection, integration, renewal and replacement of GAWB's Water Security Assets (refer Chapter 4).

GAWB's approach

GAWB's proposed RAB has been determined based on the terms of the Referral Notice. In determining the RAB roll-forward, GAWB has applied the approach used in past regulatory investigations, including the 2025 price monitoring investigation. This involves determining an opening asset value for the regulatory period, incorporating prudent and efficient capital expenditure, and rolling it forward to account for depreciation and inflation in accordance with the roll-forward methodology.[35]

RAB roll-forward

Based on the above, the roll-forward of GAWB's Water Security Assets RAB for the period from 1 July 2026 to 30 June 2030 is shown below.

[35] Queensland Competition Authority (2025). p.69.

Table 7-2 Forecast RAB roll-forward:[1] Water Security Assets ($M, nominal)

	FY2027	FY2028	FY2029	FY2030
Opening RAB	877.01	936.05	944.55	952.57
Plus forecast capital expenditure[1]	50.00	-	-	-
Plus indexation	23.44	24.03	23.93	23.81
Less regulatory depreciation	14.40	15.52	15.92	16.31
Closing RAB[2]	**936.05**	**944.55**	**952.57**	**960.07**

1. Excludes renewals and replacement capital.
2. Numbers may not add due to rounding.

7.3 Forecast Allowable Revenue Requirement

Based on the inputs outlined above and as described in the preceding chapters, GAWB's forecast ARR from 1 July 2026 to 30 June 2030 is shown below.

Table 7-3 Proposed ARR:[1] Water Security Assets ($M, nominal)

	FY2027	FY2028	FY2029	FY2030
Operating expenditure	26.88	28.79	28.86	31.10
Return on capital[2]	66.10	68.78	69.51	70.19
Return of capital[3]	(8.94)	(8.06)	(7.20)	(6.29)
Taxation[4]	3.43	3.27	3.54	3.50
Total ARR[5]	**87.47**	**92.77**	**94.72**	**98.51**

1. These are unsmoothed revenue amounts.
2. Includes return on working capital.
3. This is also referred to as 'regulatory depreciation', being depreciation less indexation of the RAB, to avoid double-counting of inflation.
4. Net of imputation credits.
5. Numbers may not add due to rounding.

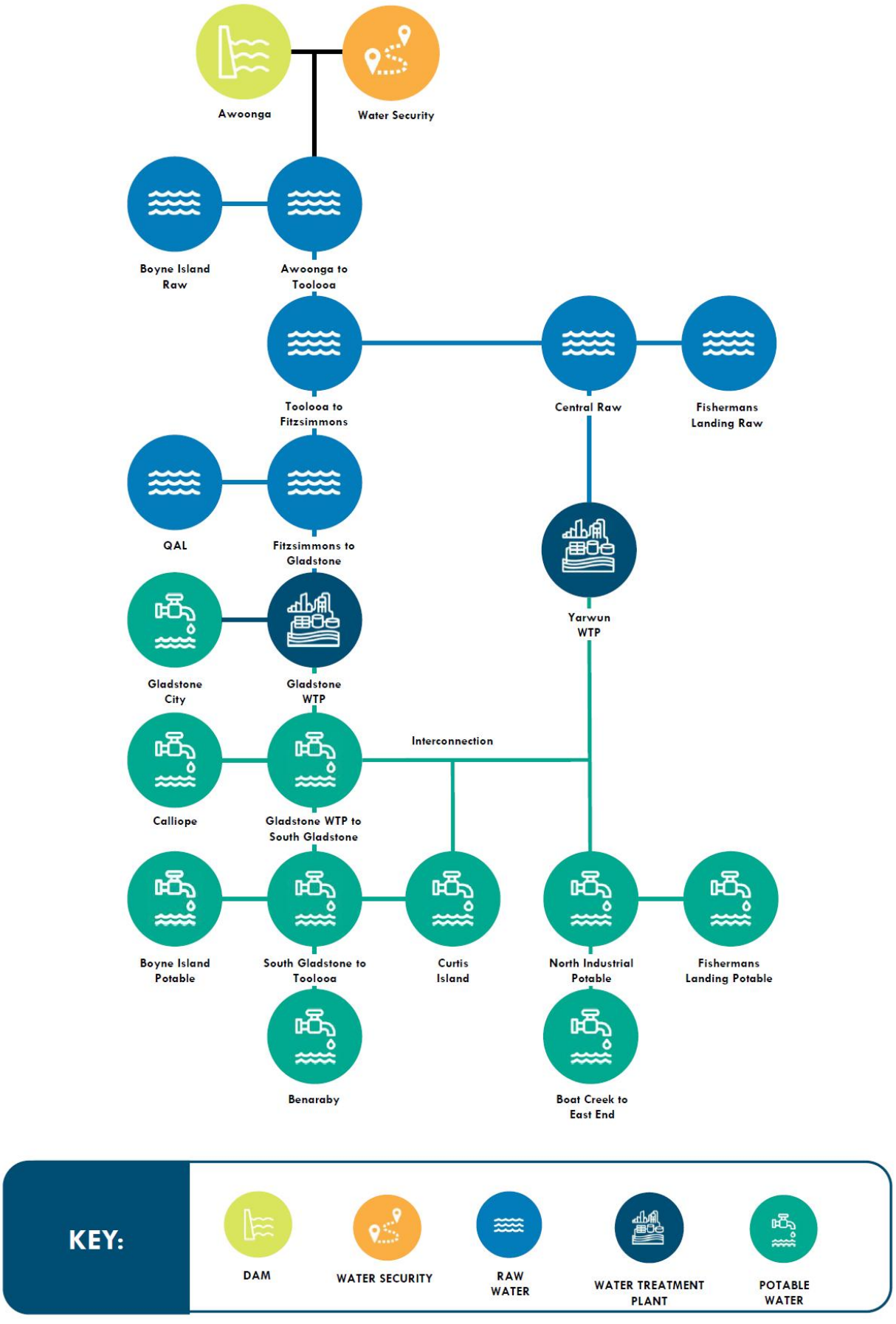
7.4 Indicative prices

7.4.1 Pricing approach

The Referral Notice provides for Appropriate Prices for Water Security Assets that are consistent with Allowable Costs and Reserved Demand. It continues to prescribe the application of price smoothing over the period from 1 July 2026 to 30 June 2030 and that prices will allow GAWB sufficient Allowable Revenue to recover the Allowable Costs of providing the Monopoly Business Activities.

The Referral Notice also stipulates that the Water Security Assets and associated Allowable Costs are to be allocated to all customers based on Reserved Demand.

Figure 7-1 GAWB's Updated Pricing Zones



As described in GAWB's submission for the 2025 price monitoring investigation, GAWB currently has a multi-part tariff structure that is applied across a number of pricing zones to reflect the operational and physical structure of GAWB's network. GAWB is not proposing to change the application of zonal/nodal pricing, however it is introducing a new pricing zone to capture the Water Security Assets and the associated Allowable Costs. GAWB's existing pricing zones with the added Water Security pricing zone are shown above.

GAWB will introduce a new price, the Water Security Price, to its existing tariff structure to recoup the ARR associated with the Water Security Assets and associated assets from customers.

7.4.2 Indicative prices

As provided for in the Referral Notice, the Water Security Price will be a dollar per ML charge based on the ARR and Reserved Demand and will be levied on all customers based on their relevant demand reservation.

The indicative Water Security Price payable by customers in the first year following commissioning (FY2027) is $**1,406.88/ML**. This price will be adjusted annually by CPI.

8. Abbreviations

ADWG	Australian Drinking Water Guidelines
AER	Australian Energy Regulator
ARR	Annual Revenue Requirement
BAU	Business as Usual
CPI	Consumer Price Index
CQRWSS	Central Queensland Regional Water Supply Strategy
D&C	Design and Construct
DBC1	Detailed Business Case 1
DBC2	Detailed Business Case 2
DMP	Drought Management Plan
DRDMW	Department of Regional Development, Manufacturing and Water
DRP	Debt Risk Premium
DWQMP	Drinking Water Quality Management Plan
ECI	Early Contractor Involvement
EIS	Environmental Impact Statement
FGP	Fitzroy to Gladstone Pipeline
GAWB	Gladstone Area Water Board
GHG	Greenhouse Gas
GL	Gigalitre
GSDA	Gladstone State Development Area
GWTP	Gladstone Water Treatment Plant
IDC	Interest During Construction
ISR	Industrial Special Risk
LFRIP	Lower Fitzroy River Infrastructure Project

LSC	Livingstone Shire Council
MCD BM JV	McConnell Dowell BMD Joint Venture
ML	Megalitre
MRP	Market Risk Premium
O&M	Operations and Maintenance
QCA	Queensland Competition Authority
QTC	Queensland Treasury Corporation
RAB	Regulated Asset Base
RBA	Reserve Bank of Australia
RRC	Rockhampton Regional Council
SDA	State Development Area
SGIC	Stanwell to Gladstone Infrastructure Corridor
TCA	Temporary Construction Area
WACC	Weighted Average Cost of Capital
WPI	Wage Price Index
WSS	Water Supply Scheme
WTP	Water Treatment Plant
YWTP	Yarwun Water Treatment Plant