

17 October 2025

The Chair
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Chair.

Gladstone Area Water Board – Water Security Assets Price Review 2027-30 Period

Gladstone Regional Council appreciates the opportunity to provide feedback on the Gladstone Area Water Board's (GAWB) Water Security Asset Price Review submission for the 2027–2030 period. Council acknowledges the importance of ensuring long-term water security for the region. However, Council holds significant concerns regarding the proposed Water Security Assets Price and its disproportionate impact on households and small businesses, particularly given the initial industrial focus of the Fitzroy to Gladstone Pipeline (FGP) and the lack of affordability assessments or stakeholder engagement. This submission outlines Council's position on the fairness, transparency, and economic implications of the proposed pricing structure, and advocates for a more equitable approach that reflects the true beneficiaries of the water security assets.

Background

Gladstone Regional Council (GRC) purchases bulk water from Gladstone Area Water Board (GAWB) at prices which are monitored (not set) by the Queensland Competition Authority (QCA).

On 16th June 2025, the Treasurer and Minister for Finance, Trade, Employment and Training (Minister) directed the QCA to conduct a price monitoring investigation relating to the monopoly business activities of GAWB for the period from 1 July 2026 to 30 June 2030, including the appropriate prices for water security assets (including the Fitzroy to Gladstone Pipeline¹ (FGP) and associated water entitlements) for the period that provide GAWB sufficient revenue to recover certain costs. GAWB's water security assets price review submission was provided to the QCA on 5th September 2025.

Proposed Water Security Price and Treatment of Reserved Demand in Price Setting

GAWB's submission (p.58) indicates that it proposes to establish a new price, the Water Security Price, to its existing tariff structure to recoup costs associated with the water security assets from customers. GAWB also proposes that the indicative Water Security Price of \$1,406.88 per ML (2026/27 dollar terms) be levied on all existing and new customers based on their relevant demand reservation. Under such circumstances, Council would be levied \$1,406.88 per ML of reserved demand it holds with GAWB.

¹ The FGP is a unidirectional raw water pipeline to transport 30,000ML per annum from the Fitzroy River to GAWB's network in Gladstone.

GAWB's submission (p.54) indicates that the reserved demand forecasts used to derive the Water Security Price are:

- 63,355ML in 2026/27.
- 63,836ML in 2027/28.
- 63,973ML in 2028/29.
- 64,151ML in 2029/30.

GAWB's submission (p.54) indicates that these reserved demand forecasts are consistent with those applied in the determination of bulk water prices to apply from 1st July 2026 under the 2025 price monitoring investigation. GAWB's submission (p.54) also indicates that it undertook a review of its water seeker queue under its Queuing Guideline (Source Capacity) and did not have any new water allotments subject to a water supply proposal, meaning that the full cost of the water security assets is to be fully funded from existing customers. Such treatment appears unfair, and a portion of the costs incurred must be attributable to making additional allocations available for future use and new/augmented customer demands.

The Minister's referral mentions appropriate prices as being:

Prices for the Water Security Assets that are consistent with the following:

- (a) Allowable Costs;*
- (b) Reserved Demand; and*

Prices that are:

- (a) smoothed over the Price Monitoring Period; and*
- (b) allow GAWB sufficient Allowable Revenue to recover the Allowable Costs of providing the Monopoly Business Activities.*

Reserved demand in the referral is defined 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).

Water security assets in the referral are defined as:

The Fitzroy to Gladstone Pipeline (FGP), and Water Allocations purchased for the purpose of transporting via the FGP.

Water Security Assets and associated Allowable Costs are to be allocated to all customers based on Reserved Demand.

GAWB's submission (p.56) indicates that the above is a firm direction from the Minister for the cost of water security assets being assigned equally to all reserved demand customers. It is interesting to note that the second sentence above is included within the meaning of water security assets rather than within the Section 24- Directions of the referral.

GAWB's submission indicates that the FGP is being constructed entirely to ensure water security for existing users rather than for the purposes of facilitating increased water availability for new users, via the following statements:

*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 more severe water security events, the continued supply of water necessary for basic consumption and hygiene needs. (pp.10-11)*

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, small business, 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. (pp.10-11)

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. (p.15)

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. (p.15)

It is extremely unfair to expect that Council and its ratepayers should contribute to the cost of GAWB's water security assets for several reasons. The detailed assessment and detailed business case outcomes prepared by the then Queensland Government Department of Regional Development, Manufacturing and Water highlight net benefits of proceeding with the FGP, however, the focus of the assessments was firmly on the estimated impacts of water restrictions on industrial users under the status quo. The benefits versus costs for Council's water users were relatively minor, particularly given the high degree of reliability for Awoonga Dam relative to other regions. Further, affordability was never appropriately considered in assessing whether to proceed with the project.

As such, inclusion of Council's reserved demand in recouping the cost of water security assets, including any new water allocations that may be assigned to new or existing customers, is inappropriate as the benefits derived from the water security assets are heavily weighted towards industrial users.

Decision to Proceed with the Pipeline

The then Queensland Government Department of Regional Development, Manufacturing and Water's detailed assessment (p.10) indicated that water restrictions beyond level 1 would have a material impact on industrial users, with a water security assessment for industries at most risk (i.e., aluminium processing, electricity generation, gas production, cement production) emphasising the importance of water security and the need for a long-term solution to mitigate the risk to these industries.

The heavy focus on the industrial benefits of the FGP is highlighted by the considerable number of example statements in the attached to this briefing note which are sourced from the then Queensland Government Department of Regional Development, Manufacturing and Water's detailed assessment (2021) and detailed business case (2024).

On 23rd February 2023, a joint statement was also made by the then Premier and Minister for the Olympic and Paralympic Games, the then Treasurer and Minister for Trade and Investment, the then Minister for Regional Development and Manufacturing and the then Minister for Water that firmly suggested that the pipeline would lock in water security for existing industries and unlock jobs in renewable hydrogen and manufacturing, with these activities generating considerable jobs and gross regional product and depending on significant quantities of water now and into the future.

No mention of Council's water demands was made in the statement, with the focus of the reported benefits instead being on securing water sources for industrial activity and development, including

hydrogen proponents under development (i.e., hydrogen electrolyser manufacturing facility, hydrogen to green methanol plant, central Queensland hydrogen project, green ammonia plant, hydrogen plant).

Importantly, the need for the FGP as a water security response mechanism and intervention by the Queensland Government to ensure it is delivered was indicated to be as follows in the detailed assessment and detailed business case:

DRDMW does not typically set water security benchmarks from an industry perspective, despite water supply failure having severe economic consequences for industry in many instances. Some of Gladstone's industrial activities have been identified to be of particular importance, having been deemed 'essential' in Queensland's Water Act 2000. (Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.10)

In the Base Case, the long-term hydrological assessment suggests that Level 1 water restrictions would be required once in every 26 years on average, with Level 4 restrictions and supply failure occurring once in every 290 years and once in every 1,136 years on average, respectively. This level of water security is below the ideal range advised by the Department of Regional Development, Manufacturing and Water (DRDMW), in which supply failure could be expected on average once every 5,000 to 10,000 years. (Detailed Business Case Stage 2 – Chapter A3 – Service Need and Business Case, p.3)

The potential impacts of possible water supply failure from Awoonga Dam on households under the status quo are relatively minor compared with the costs to deliver the project and the benefits attributable to new and existing industrial demands, with the following statements of note from the detailed assessment and detailed business case:

...the cost of water being carted to households, which is assumed to be the alternative sources of supply.” (Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.6)

The social cost to households in Gladstone with Level 2 water restrictions is estimated to be \$5.7 million per annum. (Detailed Assessment – Chapter 5 – Strategic Considerations and Public Interest Considerations, p.13 + Detailed Business Case Stage 2 – Chapter B5 – Public Interest Considerations, p.9)

...the value of water security to residential water users was estimated based on a study conducted in 2006 that measured the economic cost of water restrictions in SEQ. The study found that the economic cost of water restrictions to households was moderate. (Detailed Business Case Stage 2 – Chapter B9 – Economic Analysis, p.13)

An improvement in water security also delivers benefits to local residents through improved amenity and quality of life, and in more drastic water security events, by providing basic water needs for consumption and hygiene. While many of these benefits do not translate to a financial payoff, there is value associated with amenity, quality of life, and provision of needs.² (Detailed Assessment – Chapter 9 – Economic Analysis, p.7 + Detailed Business Case Stage 2 – Chapter B9 – Economic Analysis, p.13)

Gladstone residents undergo some of the harshest water restrictions when water supply is low, with Level 2 restrictions immediately constraining water supply to only 50%. Residential water users have a willingness to pay to avoid water restrictions, as water generates value for each user. With a population of approximately 64,000 residents, the economic cost associated with water restrictions in Gladstone is expected to be significant. (Detailed Business Case Stage 2 – Chapter A3 – Service Need and Business Case, p.21)

² This statement is reiterated in the detailed business case (p.4) with slightly amended wording.

The proposed FGP will provide water security to residents in the Gladstone region, subsequently reducing the risk and frequency of domestic water restrictions. With residents already experiencing a history of low supply alerts that can be attributed to the community's single source water supply, the pipeline will improve long-term water security during future droughts. A reduced risk of domestic water restrictions will allow community members more autonomy and security with water for domestic uses, in addition to providing reassurance to manage population growth into the future. (Detailed Business Case Stage 2 – Chapter B7 – Social Impact Evaluation, p.13)

In assessing the potential benefits of increased water security attributable to the FGP, consideration must be given to the level of risk associated with high-level water restrictions.

The modelled supply failure for Awoonga Dam is extremely low relative to other regions of Queensland, significantly limiting the potential negative social impacts on households mentioned above, confirmed by the following statements from the detailed assessment and detailed business case:

In the Base Case, the long-term hydrological assessment suggests that Level 1 water restrictions would be required once in every 26 years on average, with Level 4 restrictions and supply failure occurring once in every 290 years and once in every 1,136 years on average, respectively. (Detailed Business Case Stage 2 – Chapter A3 – Service Need and Business Case, p.3)

There is currently a potential for the Fitzroy Barrage to reach supply failure in 1 in 123 years, compared to supply failure of 1 in 1,136 years at Awoonga Dam. Imposing severe restrictions (such as Level 4 restrictions) on average around once in 290 in Gladstone... (Detailed Business Case Stage 2 – Executive Summary, p.7)

While it is acknowledged that economic activity and jobs associated with existing and new industrial users are considerable benefits for the Gladstone region, this does not mean that Gladstone households and small businesses should fund the delivery of facilitating infrastructure such as the FGP through higher water charges. To do so would create an inefficient, unnecessary and unfair wealth transfer from local households and businesses to industrial users.

The detailed assessment and detailed business case also appear to give a green light to the project from a community perspective based on some very high-level assumptions and statements and the 'social licence status' of the project, including:

Through consultation, the stakeholders have indicated a positive perception of the reference project. Water security is seen as a benefit to the region for both current needs and future urban and industrial development. Water is a critical input into many industries' production and with industry being a major employer in the region this is an additional positive benefit. Residents also value their water use/consumption and the prevention of water restrictions through added security is increasing social liveability. (Detailed Assessment – Chapter 5 – Strategic Considerations and Public Interest Considerations, p.13)

Based on stakeholder engagement activities, feedback has demonstrated a widespread positive perception of the reference project. Water security is seen to deliver significant benefits to the local community and wider region, delivering essential water infrastructure and security to meet the current needs and future urban and industrial development of Central Queensland. (Detailed Business Case Stage 2 – Chapter B5 – Public Interest Considerations, p.11)

Based on the above factors, the social license for the project is deemed to be at the approval/support level subject to the following:

- *More detail being provided on the reference project allowing internal assessment on what options are best for the individual stakeholders*
- *Costs to be incurred from the reference project to customers (Detailed Assessment – Chapter 5 – Strategic Considerations and Public Interest Considerations, p.13 + Detailed Business Case Stage 2 – Chapter B5 – Public Interest Considerations, p.11)*

Despite a lack of recent community consultation and rigorous stakeholder engagement, it can be assumed that public support would be granted for the project, based on previous engagement activities and desktop findings. (Detailed Business Case Stage 2 – Executive Summary, p.8)

Affordability Considerations

No consideration was ever given to willingness to pay and affordability for potentially affected households and businesses in the region in the detailed assessment and detailed business case. Instead, it was just assumed that revenue would be sufficient to cover project costs, with water charges adjusted accordingly.

Mention was made many times of the need to understand willingness to pay and affordability, yet no such assessments were undertaken at that time or subsequent to the delivery of the assessments.

In line with the full cost pricing approach, affordability analysis found a nearly zero project NPV. While this is the intended outcome of this approach, research and engagement will need to be undertaken to understand users ability and willingness to pay. If there is an inability or unwillingness to pay, the project will require government contributions which would in turn reduce the revenue required to be charged. (Detailed Assessment – Chapter 8 – Commercial & Affordability Analysis, p.5)

The affordability of the project capital costs must be considered specifically for the customers of the entity undertaking the project. (Detailed Assessment – Chapter 8 – Commercial & Affordability Analysis, p.17)

Limited stakeholder engagement has been undertaken on pricing. As a result, it is unknown whether customers have the ability and willingness to pay the charges. The project should engage with the market and seek to understand current prices to determine feasibility in the next stage of analysis. (Detailed Assessment – Chapter 8 – Commercial & Affordability Analysis, p.17)

Research will need to be undertaken to understand water users' ability and willingness to pay. If there is an inability or unwillingness, government contributions may be required for initial capital costs to reduce the revenue required and prices charged. (Detailed Business Case Stage 2 – Executive Summary, p.11)

The average household use of water is high for Central Queensland residents (300-400K/L per annum). GRC noted they only account for 20% of GAWB's water allocation so any water pricing increase should not be passed onto GRC/residents. The price of water for GRC residents is also perceived to be high by community members compared to RRC/LSC and is a topic of debate between GRC and residents during rate notice time. (Detailed Business Case Stage 2 – Chapter B5 – Public Interest Considerations, p.8)

Consideration will need to be given to whether users would have the willingness and ability to pay the additional unit charges associated with the use of the water infrastructure delivered by the Project. (Detailed Business Case Stage 2 – Chapter B10 – Financial Analysis, p.3)

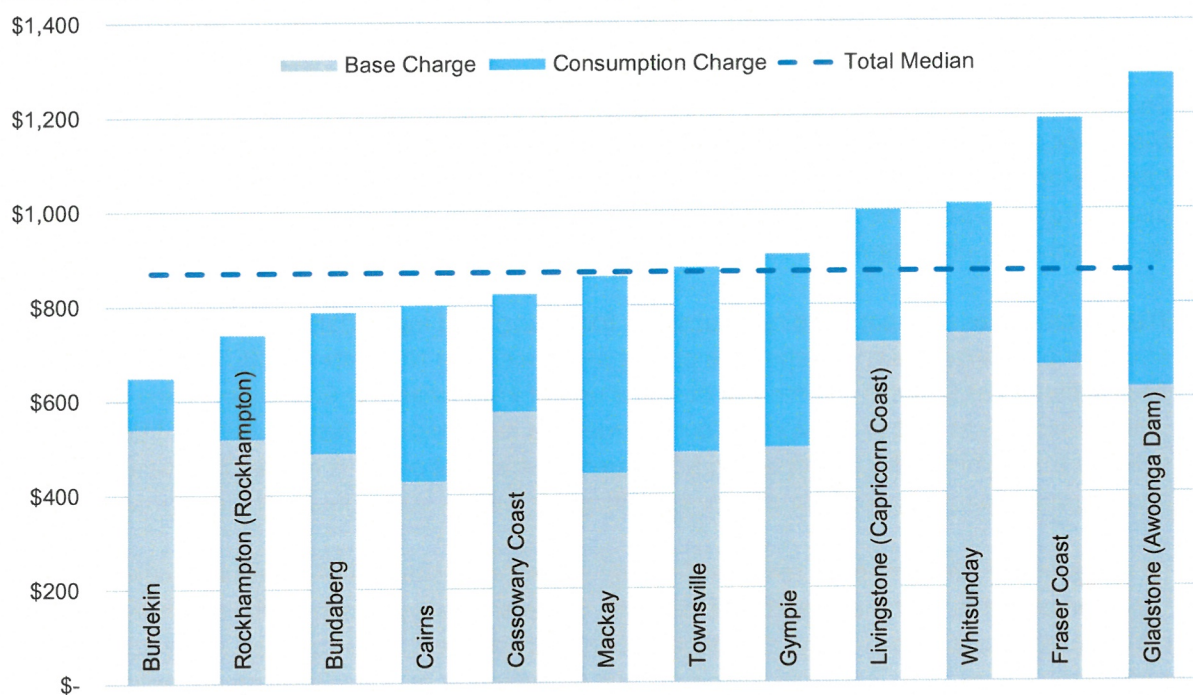
Research will need to be undertaken to understand water users' ability and willingness to pay. If there is an inability or unwillingness, government contributions for initial capital costs may be required to reduce the revenue required and prices charged. (Detailed Business Case Stage 2 – Chapter B11 – Affordability Analysis, p.3)

The affordability of the Project is dependent on whether customers are willing and able to pay. If they are not palatable, government contributions may be required to reduce the revenue required and the charges passed on to customers. Given there has been no stakeholder engagement on pricing (and associated flows to demand) it is not possible to confirm that customers have the capacity or are willing to pay. (Detailed Business Case Stage 2 – Chapter B11 – Affordability Analysis, p.6)

GAWB’s submission also does not give any consideration to capacity to pay and affordability of the project, particularly for households and businesses if its intent was to levy significantly increased water charges on them to fund the FGP and associated assets. No engagement with Council was undertaken by GAWB regarding willingness to pay and affordability to inform its submission and pricing proposal.

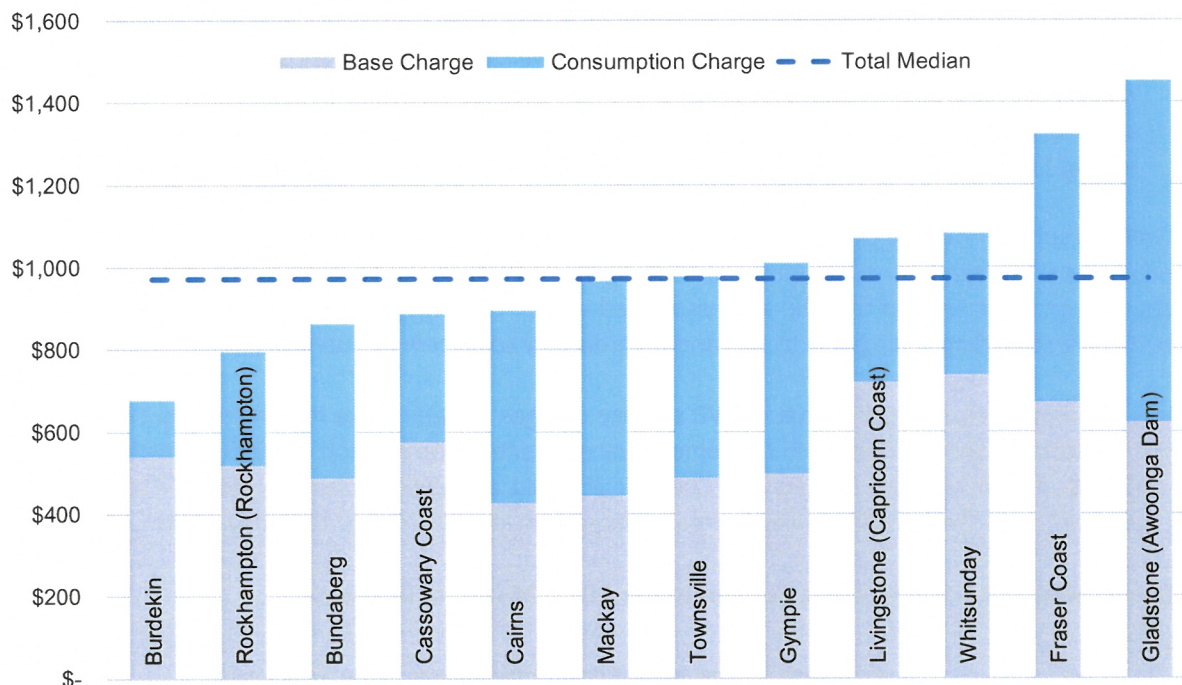
It is important to understand that GAWB’s water charges already make the water bills extremely high for households and businesses in the region. For example, a comparison of 2025/26 water charges were undertaken with 11 other Queensland Councils at 200kL and 250kL consumption for a residential customer³, with Gladstone’s charges already being considerably higher than any other Council.

Residential Water Bill at 200kL Consumption, 2025/26 (net of discount)



³ The average household consumed around 220kL per annum across the region.

Residential Water Bill at 250kL Consumption, 2025/26 (net of discount)



Council has serious concerns about the affordability of water charges for households and businesses in the region, particularly given current GAWB prices exclude implications of the Awoonga Dam Improvement Project. It is clearly apparent that the significant industrial demands met by GAWB are placing upwards pressure on water supply costs in the region, significantly impacting the cost of living for households and commercial viability for businesses.

Treatment of Government Funding / Subsidies for Council and Industrial Customers

AEC Group undertook a comprehensive pricing assessment for NQ Water in 2007 (now part of the Townsville Water Services commercial business unit of Townsville City Council following Council amalgamations) as part of NQ Water's commitment to implementing National Water Initiative best practice pricing principles. Importantly, NQ Water serviced not only the former Townsville City Council and Thuringowa City Council but also two significant industrial customers (QNI and SunMetals).

QCA regulatory decisions prior to the AEC Group pricing assessment and informal discussions with QCA representatives at the time suggested that while Queensland Government subsidies may be considered contributed assets to reduce the end price to Council customers, such subsidies were not meant to reduce the end price to industrial customers due to the intent of State Government policy at that time. As such, the estimated value of historical and anticipated government subsidies was removed from the asset base prior to the determination of return on capital for pricing to Council customers, but no such adjustment was made for industrial customers.

Also of note is the Queensland Government's funding commitment to Seqwater for the Toowoomba to Warwick Pipeline project that covers the full cost of its construction to ensure water security for the Southern Downs region where there are no large industrial users of the nature that exist in Gladstone.

If the same rules were to apply for GAWB's water security assets, then it follows that there should be no return of capital nor return on capital recouped via potential water charges levied on Council.

Costs Associated with the Pipeline

GAWB's submission (p.24) indicates that the regulatory asset base for the water security assets includes construction of the FGP (\$950 million) less the capital grant provided by the Queensland Government

(\$200 million), less pre-construction costs already included in GAWB's regulatory assets base (\$1.2 million), plus interest during construction incurred for the FGP (\$95.2 million).

However, the regulatory asset base value of \$781.8 million subsequently reported in GAWB's submission (p.25) before interest during construction suggests that the opening regulatory asset base calculation provided on p.24 fails to consider the \$33 million in pre-construction and ancillary activities also included in its regulatory asset base calculation. As such, the opening value of the regulatory asset base adopted in GAWB's submission for the FGP is \$877 million.

In addition to the \$200 million capital grant, the referral notice references an additional \$365 million grant provided by the Queensland Government to GAWB to support construction of the FGP and to make it operational. GAWB makes no reference to this capital grant which should be specifically linked to the construction cost of the FGP in the regulatory asset base calculation under the Minister's referral notice. At face value, GAWB appears to be overstating the value of the regulatory asset base for the FGP.

Specific mention is also made in the meaning of allowable costs in the Minister's referral notice to a \$55.5 million capital grant provided by the Queensland Government for water allocation costs. GAWB's submission (p.24) indicates that it has assumed the upfront capital cost associated with the water allocations will likely be fully funded by the capital grant from the Queensland Government and therefore these costs have been excluded from the regulatory asset base.

There is potential that GAWB overpaid for its Rookwood Weir water allocation and the capital grant for the FGP mentioned in the Minister's referral notice was instead used for this purpose, although there is no evidence of this⁵.

In addition to the FGP, GAWB's submission (p.30) indicates that additional capital costs will be incurred for the water security assets, including upgrades to its water treatment plants (estimated at \$50 million) to deal with the different water quality from the Fitzroy River and to ensure raw water is still able to be supplied through the pipeline to meet the needs of certain industrial users.

From an operational perspective, GAWB's submission (pp.35-36) indicates that it does not have prior experience in the scale of contract management required for operations and maintenance and indicates a need for four additional staff members dedicated to the FGP, including an asset management specialist, drinking water quality specialist, network operations specialist and commercial specialist.

In addition to this, GAWB's submission (p.38) indicates that it has included additional costs needing to be recouped relating to professional services support in the areas of contract law, contractor management, mechanical and electrical engineering related to maintenance, long-term planning for maintenance, audit of contractor deliverables and contractor dispute/avoidance.

The need for these additional resources/costs is questioned as they seem excessive and inefficient, particularly given the significant step changes in labour included in GAWB's pricing submission as part of the 2025 price monitoring investigation.

GAWB's submission (p.32) also indicates that it will need to utilise its full water allocation from the Rookwood Weir on an annual basis, delivering 30,000ML per annum via continuous operation during the year. This is despite no new demands beyond marginal growth from existing customers being forecast. The appropriateness of this assumption is also questioned, particularly given GAWB is providing the opportunity for new customers to access new reserved demands from this allocation.

Some costs are missing from the submission (e.g., electricity, sludge removal) and therefore their appropriateness cannot be commented on.

Provisions for Potential Future Bidirectional Use of the FGP

GAWB's submission (p.16) indicates that the FGP's project design makes minimum provisions to allow for the efficient future retrofitting of the infrastructure to enable the transport of raw water from Gladstone to the Fitzroy River, including 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.

These costs should be excluded from the regulatory asset base of the water security assets in addition to the two capital grants provided to GAWB for the FGP from the Queensland Government.

Overarching Findings and Suggestions

GAWB is proposing to levy the indicative Water Security Price of \$1,406.88 per ML (2026/27 dollar terms) on all existing and new customers based on their relevant demand reservation, including Council. No differentiation in the allocation of water security asset costs is made between Council and industrial users. Further, GAWB has not included any new customer demands in its price setting calculations, thereby placing the entire cost impost on existing customers only through to 2029/2030.

The biggest potential hurdle for Council in putting forward a case to not be levied the Water Security Price from GAWB is the inclusion of the following sentence in the meaning of Water Security Assets in the Minister's referral notice:

Water Security Assets and associated Allowable Costs are to be allocated to all customers based on Reserved Demand.

The QCA may argue that its hands are tied on the treatment of Council's reserved demand based on the above. Whilst not included in Section 24- Directions of the referral, it is indirectly referred to via the meanings section of the referral notice.

However, the project benefit cost ratio in the detailed assessment and detailed business case underpinning the investment decision was clearly heavily influenced by the benefits attributable to the removal of the need for potentially frequent water restrictions for industrial users as the potential benefits for other users were relatively low compared to associated costs. This is particularly the case given that the reliability of Awoonga Dam as a water source is relatively high compared to other regions across Queensland.

There was a distinct lack of engagement regarding the potential pricing implications of the FGP and willingness to pay and affordability considerations were excluded from the detailed assessment and detailed business case underpinning the investment decision, despite both assessments indicating the importance of undertaking such activities. The water charges levied on Gladstone's households and businesses are already very high relative to other regions because of GAWB's current high prices.

The treatment of the Queensland Government capital grants may be called into question given GAWB's lack of reference to the treatment of the \$350 million provided to support construction of the FGP and to make it operational. There is potential that GAWB had to over-pay for its Rookwood Weir water allocation and at least part of this capital grant was used for this purpose, although there is no evidence of this.

The additional operating costs estimated to be incurred by GAWB because of the water security assets appears excessive, particularly surrounding additional staff and contract management and given the significant step changes in labour costs already included in its 2025 pricing submission.

Summary

In summary Council acknowledges that GAWB needs to be appropriately funded to manage its assets and provide water security and service to the community, however Council has concern about the quantum of the proposed increase that will see a step change of a further 47% on top of the 2025/26 increase of 21%.

While it is acknowledged that economic activity and jobs associated with existing and new industrial users are a considerable benefit for the Gladstone region, this does not mean that Gladstone households and small businesses should fund the delivery of facilitating infrastructure such as the FGP through higher water charges.

Council looks forward to outworking a mutually agreed outcome that minimises the impact to all customers whilst providing water security and continuity of service. Should you seek further information with respect to any issues please contact the General Manager Finance Governance & Risk, Mark Holmes on 4970 0700. Should the opportunity present, Council would welcome the opportunity to discuss the matter directly with relevant QCA officers.

Yours sincerely



LEISA DOWLING
CHIEF EXECUTIVE OFFICER

ATTACHMENT – Focus on Industrial User Benefits in the Detailed Assessment (2021) and Detailed Business Case (2024)

The focus on the industrial user benefits of the FGP in the detailed assessment (2021) is highlighted by the following example statements:

Incurring water restrictions to reduce the likelihood of supply failure could impose large costs to industry, with many businesses shutting down once water supply is too restrictive. The present state of water security in the region is likely to be unsustainable for industrial customers that are highly reliant on receiving reliable water supply to undertake their operations and remain economically sustainable. (Detailed Assessment – Chapter 1 – Executive Summary, p.9)

Gladstone is home to high value industries that support both the Queensland and Australian economies. The Gladstone economy is worth around \$5.0 billion each year and is projected to reach more than \$7 billion by 2031. (Detailed Assessment – Chapter 1 – Executive Summary, p.10)

The total economic cost of water supply failure occurring for 12 months based on production levels for 2021 for both industrial and residential water users in Gladstone is estimated to be \$1.9 billion based on current water usage and output levels. To mitigate the risk of supply failure, water security at Awoonga Dam is proposed to be supplemented with the proposed pipeline options. (Detailed Assessment – Chapter 1 – Executive Summary, p.10)

The need for a water security solution in Gladstone is considered by analysing current and potential future demand, water supply security and the risk of supply failure for industries that rely on water for production. (Detailed Assessment – Chapter 1 – Executive Summary, p.12)

There is a low risk of Awoonga reaching level 4 restrictions prior to commissioning of a proposed FGP in 2025. However, there is significant economic, social and commercial impacts to the Gladstone region and State's economy should this risk occur. A range of Gladstone industries are heavily reliant on water in their production. These industries include aluminium processing, electricity, gas and cement, and are estimates to account for more than 4500 jobs. (Detailed Assessment – Chapter 1 – Executive Summary, p.12)

Water restrictions or water supply failure are expected to result in lost economic surplus and jobs in the region. (Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.3)

Both water restrictions and water supply failure have the potential to impose significant economic costs to Gladstone, and this underpins the service need. Water restrictions and supply failure impose losses in output to businesses, whether through scaled-down operations or complete shutdown. (Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.6)

Incurring water restrictions to reduce the likelihood of supply failure could impose large costs to industry, with many businesses shutting down once water supply is too restrictive. The present state of water security in the region is likely to be unsustainable for industrial customers that are highly reliant on receiving reliable water supply to undertake their operations and remain economically sustainable. (Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.9)

The imposition of water restrictions and supply failure deliver significant economic costs to Gladstone, and Queensland more broadly, where supply chains are impacted. Gladstone is an industrial city that is highly dependent on water to conduct its economic activities, which support the surrounding population and industry supply chains. Water supply failure, or significant water

restrictions, could limit the economic sustainability of many industrial operations in the Gladstone region and have a severe impact on the local community. **(Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.10)**

Industrial water security is important in Gladstone. The Gladstone region is an important employer across several industries, with national significance in the aluminium processing value chain, where more than a quarter of the national workforce is employed in Gladstone. In the event of supply failure, these jobs could be placed at great risk, as these businesses would shut down. In addition to the direct loss of jobs that could occur in the event of supply failure, there would be broader impacts on the industries' supply chains as well as broader impacts on the surrounding economy. **(Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.11)**

There may also be implications for upstream and downstream supply chains, many of which affect the rest of Queensland if Gladstone's industry cannot access water. For example, water restrictions might impact a large portion of the coal mining sector if coal exports Wiggins Island Coal Export Terminal (WICET) were disrupted; and similarly, Rio Tinto's bauxite operations in Weipa (which supports a large portion of the town's economic activity) might be compromised without sufficient water for RTAY, as the Yarwun facility typically processes bauxite. **(Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.12)**

Electricity generators will be adversely affected by the implementation of water supply restrictions. GAWB supplies water directly (or indirectly) to electricity generators who typically represent a total of 3,220MW of generation or 40% of Queensland's coal fired generating capacity (CS Energy (CSE) 700MW, Callide Power Management (CPM) 840MW and Gladstone Power Station (GPS) 1,680MW8). **(Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.12)**

Water restrictions beyond level 1 will have a material impact on CSE and CPM's operations and financial performance. GPS, unlike CPM and CSE, utilise sea water for cooling. However, water is supplied from Lake Awoonga by the Gladstone Regional Council (as a customer of GAWB) to GPS for dust suppression on the coal stockpiles. The anticipated reduction in generation, particularly at the higher levels of water restrictions, will have a significant negative financial impact on the financial performance of the government owned and/or operated generators. **(Detailed Assessment – Chapter 3 – Service Need, Options Considered and Base Case, p.12)**

The focus on the industrial user benefits of the FGP in the detailed business case (2024) is highlighted by the following example statements:

*There is currently a potential for the Fitzroy Barrage to reach supply failure in 1 in 123 years, compared to supply failure of 1 in 1,136 years at Awoonga Dam. Imposing severe restrictions (such as Level 4 restrictions) on average around once in 290 years in Gladstone and on average once in 29 years in Rockhampton and Livingstone could potentially impose large costs to industry, with many businesses experiencing temporary or permanent shutting down once water supply is too restrictive. The present state of water security in the region is likely to be unsustainable for industrial customers that are highly reliant on receiving reliable water supply to undertake operations and remain economically viable. **(Detailed Business Case Stage 2 – Executive Summary, pp.3-4)***

The economic cost of a water supply failure event (for a 12-month duration) in Rockhampton and Livingstone is approximately \$500 million due to forgone surplus amongst industrial and agricultural users. There is an estimated cost for a similar event in Gladstone of \$1.7 billion. These estimates include the lost surplus for high value industries and the cost of water being carted to households, which is assumed to be the alternative source of supply. There is a high economic cost associated with supply failure, and although supply failure occurs infrequently and water security in all three regions is not considered to be at a high enough Level of Service to avoid incurring

significant cost of such an event to local communities and the State. Water supply issues may be seen as a deterrent to investment by industry, resulting in industry less likely to invest in that region over another region where the problem doesn't exist. **(Detailed Business Case Stage 2 – Chapter A3 – Service Need and Business Case, p.3)**

Incurring Level 4 restrictions every 290 years in Gladstone and every 29 years in Rockhampton and Livingstone on average could potentially impose large costs to industry, with many businesses shutting down once water supply is too restrictive). The present state of water security in the region is likely to be unsustainable for industrial customers that are highly reliant on receiving reliable water supply to undertake operations and remain economically sustainable. **(Detailed Business Case Stage 2 – Chapter A3 – Service Need and Business Case, p.12)**

The Gladstone region is an important employer across several industries, with national significance in the aluminium processing value chain, where more than a quarter of the national workforce is employed in Gladstone. In the event of supply failure, these jobs could be placed at great risk, as these businesses would shut down. In addition to the direct loss of jobs that could occur in the event of supply failure, there would be broader impacts on the industries' supply chains as well as broader impacts on the surrounding economy. **(Detailed Business Case Stage 2 – Chapter A3 – Service Need and Business Case, p.19)**

With water restrictions being a strong possibility in the near future and the current state of long-term water security being lower than it could be, these water security events could impose large costs on the Gladstone region, as well as the rest of Queensland through upstream and downstream supply chains. **(Detailed Business Case Stage 2 – Chapter A3 – Service Need and Business Case, p.22)**

GAWB's larger customers rely heavily on water supply for outputs. These large industrial customers provide direct and indirect employment opportunities for approximately 13,000 Queensland residents, indicating their contribution to the Gladstone and wider Queensland economy. Lack of security of water supply would significantly interrupt the operations of GAWB's industrial customers, potentially causing the closure of several large-scale industrial operations. **(Detailed Business Case Stage 2 – Chapter B7 – Social Impact Evaluation, p.8)**

Gladstone is home to a large regional industrial base that relies heavily on water to meet output levels. GAWB's key industrial user groups are the aluminium processing value chain, electricity generation, gas production, mining supplies, trading ports, and cement production. **(Detailed Business Case Stage 2 – Chapter B7 – Economic Analysis, p.12)**