

15<sup>th</sup> August 2024

GAWB Price Monitoring Review 2025-2030  
Professor Flavio Menezes  
Queensland Competition Authority  
GPO Box 2257  
BRISBANE QLD 4001  
<http://www.qca.org.au/submissions>

Dear Professor Menezes

**RE: CEMENT AUSTRALIA (CA) and Mitsubishi Gas & Chemical Company (MGC) Gladstone Renewable Methanol Project**

**SUBMISSION TO QUEENSLAND COMPETITION AUTHORITY – GLADSTONE AREA WATER BOARD (GAWB) PRICE MONITORING 2025-2030**

CA and MGC welcomes the opportunity to participate in the 2025-2030 price monitoring process and would like to provide the following business context and items for consideration to the Queensland Competition Authority (QCA).

### **Gladstone Renewable Methanol Project**

The Gladstone Renewable Methanol Project proposed between Cement Australia (CA) and Mitsubishi Gas Chemical (MGC) provides an exciting opportunity to produce sustainable Renewable Methanol and “zero” emissions cement. At the forefront of sustainability, the project includes the use of renewable electricity as well as the replacement of fossil fuels with hydrogen and oxygen generated in the Gladstone Region.

The project plans to use Green Hydrogen from the future Gladstone Hydrogen hub and captured CO<sub>2</sub> emitted by CA’s Gladstone operations to produce Renewable Methanol based on MGC’s Circular Carbon Methanol (“Carbopath™”), a technology for recycling CO<sub>2</sub>, waste plastics, biomass, and other inputs into methanol. Methanol is used extensively in chemical products in a wide range of industries including construction, automotive, pharmaceutical, and other high functional materials. Carbopath™ uses proprietary catalysts that MGC has developed over many years and because methanol can be produced from CO<sub>2</sub> and green hydrogen, it is expected to be a powerful resource for building a carbon-neutral society through the deployment of CCU.

### Appropriate Prices

Under section 26(1)(m) of the *Queensland Competition Authority Act 1997* (QLD) (the Act), one of the matters which the QCA must have regard to is economic and regional development issues, including investment growth and employment. The magnitude of the price increases proposed by GAWB is a major disincentive for future investment by local and international investors. The proposed increase reduces competitiveness of local industry relative to import and interstate production and will have detrimental effects on future investment decisions for the region. The step change also reduces business security and confidence which is particularly necessary to attract new investment in the energy transition and decarbonisation of the Queensland and Australian economy.

Part C of the referral notice dated 14 December 2023 and amended 23 May 2024, requests the QCA to consider GAWB’s application of Appropriate Prices and that these are consistent with Allowable Costs (both terms as defined in the Act).

It is expected that GAWB is financially responsible and prudent and that due care continues to place safety first. It is also appreciated that GAWB should make an appropriate return on its asset base. However, the proposed step change in water costs sends discouraging signals to current water users, investors and inhibits development and long-term

confidence in the Gladstone Region to provide a sustainable and competitive utility cost. Competitive utility costs are the foundations of attracting new investment such as the proposed CA-MGC renewable Methanol project as well as maintaining local industry that is facing ongoing threats from imports.

As required in the wider business environment, the Project requests that any consideration of what is “allowable” and “reasonable” costs be viewed in light of the prevailing broader economic situation and that a detailed review of expenditure required to establish “necessary only” expenditure be undertaken.

Smoothed prices allow business to plan, however, the proposed approximate 700% step change increase from current typical water costs to the proposed new prices regime is clearly contrary to this intent.

Section 12.2 of GAWB’s price review submission shows proposed indicative prices for pricing zones and a wide range of price increases. The Project requests further analysis on the distribution of the burden to better share across all areas served by GAWB.

#### QLD Government Renewable Energy Target

The development of the hydrogen industry is believed to underpin the QLD Government renewable energy target through large scale green hydrogen and other energy carriers to electricity. CA and MGC supports the development of the hydrogen and green energy industry and CA is exploring a range of renewable energy self-supply alternatives in Gladstone together with actively participating in electricity demand response programs essential for grid stability and enabling large scale transition to 80% renewable electricity by 2035. The reservation and volumetric prices proposed by the revenue-assuring calculation model are not considered to incentivise investment in water-intensive renewable energy, such as hydrogen, and are likely to divert potential renewable energy investment funds to operating budgets of established industry. High Hydrogen costs flow directly into decarbonisation aspirations of local industry including the proposed CA-MGC Renewable MeOH in Gladstone.

#### QLD Government’s Common User Infrastructure (CUI) Assessment Principles

CA requests consideration be given to the question of whether the CUI supports the development of competitive industries.

In this case, whilst CUI is appropriate, its provision under the current model and resulting costs to customers, discourages and inhibits development of competitive industries. Opportunity exists for the government to assist in the delivery of CUI which would support the economic ongoing viability of existing industry and further development of the region.

Historical mechanisms have proved successful in providing the Gladstone Region with an economical water supply, however, the outcomes of the proposed 2030-2035 pricing review demonstrates failure of the application of existing mechanism to deliver an economically viable solution.

Furthermore, the intent to pass through the significant but as yet unquantified cost impacts of the Fitzroy Gladstone Pipeline adds materially to business uncertainty.

#### GAWB’s Current Proposal for Gladstone Renewable Methanol (MeOH) Project.

GAWB is proposing to modify the existing zonal/nodal to accommodate additional “new” large customers. GAWB indicates that for these customers

“.....connections sit outside GAWB’s existing delivery network and therefore cannot be captured under the current set of pricing zones.”

Whilst this may be considered appropriate for some new customers, this is not the case for the Gladstone MeOH project. Indeed, for phase 1 of the Project (planned commissioning 2029), it is CA and MGC’s understanding that the current infrastructure at Fisherman’s Landing is adequate to supply the additional water required for the Project. Based on the information provided in GAWB’s May 2024 regulatory submission, CA and MGC make the following specific comments relating to the proposed pricing outcomes for the Project

- The cost for raw water for CA at its cement plant is approximately ~\$2-\$2.50/kl for its current annual demand.

- Such historical costs were used by the project during the Pre-Feasibility Study to provide a reasonable estimate of operating water costs for the proposed facility. The project therefore calculated estimated annual water costs for 1.3GL/annum at ~\$2-\$2.5m/annum.
- The pricing indicated in GAWB's May 2024 submission for the 2025-2030 pricing review process results in a ~2028/29 cost of ~\$17.5m/annum (on a 2026 dollars basis) or an average of ~\$13.4/kl, potentially adding ~\$15 million/year to the project operating costs.
- GAWB has also advised that the proposed Delivery Access Charge (DAC) for the MeOH project is ~\$336/kl per month an increase of some 19 fold over the typical DAC charge to CA's cement plant.
- The implementation of the Renewable MeOH based on green Hydrogen and CO2 from the cement kiln means that the project has many inherent challenges to overcome, including hurdles associated with project economics. The addition of such a substantial utility input cost to the project seriously impacts the economics of the project.
- CA and MGC operate other facilities within Australia (CA) and Internationally (MGC) and typical equivalent water cost can be bench marked in the range of \$0.50/kl - \$3.50/kl.
- The water pricing proposed by GAWB is not only inappropriate in comparison to current costs, but also inconsistent with other Australian and International expectations.
- Although GAWB's customer base for bulk water differs to other bulk water utilities, the Project proposes a benchmarking exercise be undertaken to establish comparative efficiency standards, methods of managing fixed costs and commercially encouraged conservation strategies. Whilst a like-for-like benchmarking exercise might not be applicable, broader consideration is requested to demonstrate that GAWB is determining its prices as though it were a competitive supplier, rather than a monopoly.

#### Regulatory Review Cycle and Price Model

GAWB's price model and the 5-year regulatory review process were initially introduced more than 20 years ago when expectations and uncertainty were less volatile. Over the past 5 years industry has experienced the impacts of COVID, sustained inflationary pressure, increased capital and borrowing costs, labour challenges and an energy crisis within an ongoing renewable energy transition. It is expected that the next 5 years will be equally challenging. Additionally, the outcome of the current process has delivered unacceptable and uneconomic outcomes and it is therefore imperative that a broader review of the process is reviewed. Such areas of review should include

- Review the reasonableness of the indicative prices proposed for the proposed pricing zones including
  - GAWB's obligations as a declared government monopoly business activity which provide bulk water supply services to customers seeking access to GAWB's 78 ML/a water allocation at Awoonga Dam.
  - Alternative pricing approaches that would deliver lower upfront prices for energy transition customers to mitigate the higher start-up costs new hydrogen related projects experience during the ramp up to full production.
  - Facilitate socially desirable investment in new industries with the highest potential to support decarbonisation of local industry and Queensland's clean energy transition to net zero.
- Review the appropriateness of the \$/ML zonal prices proposed by GAWB in the new pricing zones including
  - The reasonableness of the scope, standard and timing of capital works designed to supply water to new and existing customers located in the northern industrial precinct, including the geographical location of the new or augmented water assets.
  - Whether it is in the public interest for GAWB customers located in the northern industrial precinct (Yarwun and Fisherman's Landing) to be charged water prices significantly different pricing to the water prices being proposed for new customers in the northern industrial precinct.
- Assess alternative pricing models using an economic cost benefit analysis and recommend the pricing approach with the highest potential to support clean energy transition, regional economic growth, secure investor confidence and build international competitiveness of a renewable hydrogen industry in Gladstone.

- Identify where GAWB's pricing principals and/or regulatory framework needs to be amended to give effect to any of the alternative commercial pricing models considered by QCA in its review.

Yours sincerely

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