

# **Gladstone Area Water Board price monitoring 2026- 30: Water security assets**

**Draft report**

**December 2025**



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# Submissions

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**Closing date for submissions: 16 February 2026**

Public involvement is an important element of our decision-making processes. Therefore, we invite submissions from interested parties. We will take account of all submissions received within the stated timeframes. Submissions, comments or inquiries regarding this paper should be directed to:

**Queensland Competition Authority**

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Claims for confidentiality should be clearly noted on the front page of a submission, and relevant sections of the submission marked as confidential. The submission should also be provided in both redacted and unredacted versions. In the redacted version, all information claimed as confidential should be removed or hidden. In the unredacted version, all information should be exposed and visible. These measures will make it easier for us to make the remainder of the document publicly available. A confidentiality claim template is available at [www.qca.org.au/submission-policy/](http://www.qca.org.au/submission-policy/).

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# Executive summary

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In May 2025, we published our final report on GAWB's appropriate prices for bulk water for the 2025–30 price monitoring period, in accordance with a referral notice issued by the Queensland Government in May 2024. That referral notice excluded the consideration of costs associated with GAWB's water security assets, primarily the Fitzroy to Gladstone Pipeline (FGP).<sup>1</sup>

On 16 June 2025, the Queensland Government directed us to carry out a separate price monitoring investigation into GAWB's water security assets, including the FGP, for the period 1 July 2026 to 30 June 2030. This investigation builds on, and complements, our May 2025 findings for the 2025–30 period.

This draft report sets out our preliminary findings on GAWB's proposed prices for its water security assets and explains how we reached them. We do not set GAWB's costs, revenues or prices. Instead, our role is to provide information to stakeholders, offering transparency and helping to hold GAWB accountable for its commercial practices and pricing decisions.

Consistent with the ministerial referral, our assessment considers forecast demand, allowable costs and allowable revenue for GAWB's water security assets in each year of the monitoring period. The terms 'allowable costs' and 'allowable revenue' are defined terms used in the referral. They guide us in determining which costs we should consider in our investigation. These terms should not be interpreted as limits on the costs GAWB can incur or the revenue it may earn. Our price monitoring findings are not binding.

Within our price monitoring framework, it is critical that GAWB constructively engages with its customers to ensure that issues of cost recovery and pricing impacts are both well-understood and taken into account during the commercial negotiation process.

Our preliminary views are indicative only and will be subject to further consideration before we deliver our final report to the Queensland Government in April 2026. GAWB has advised that it intends to provide updated estimates of forecast operating and capital expenditure in response to this draft report.

## Our preliminary views

Overall, we consider that the allowable revenue that GAWB could be expected to recover through appropriate prices for water security assets during 2026–30 is \$367.19 million. This is \$6 million (or 1.6%) lower than GAWB proposed. This difference is largely driven by our findings on the rate of return (the market risk premium component), as we are required to apply the rate of return methodology used in our 2025 final report.<sup>2</sup>

In summary, we found that GAWB's proposal is largely appropriate and consistent with the requirements of the referral notice. Our key findings include:

- GAWB's forecast operating expenditure of \$115.64 million is appropriate for our price monitoring exercise and reflects that GAWB is not recovering operating expenditure incurred prior to the monitoring period (that is, 2025–26).

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<sup>1</sup> The referral noted that pricing impacts of costs associated with the Fitzroy to Gladstone Pipeline would be considered in a subsequent investigation closer to the time of commissioning the Fitzroy to Gladstone Pipeline.

<sup>2</sup> Referral notice dated 16 June 2025 (Appendix A).

- GAWB's forecast capital expenditure allowance for maintenance, renewals and replacement activities is a reasonable estimate of prudent and efficient costs, given the information available. We propose that the allowance be subject to a true-up mechanism, with prudence and efficiency assessed on an ex post basis.
- In establishing the opening regulated asset base for 2026–30, we have verified that GAWB has appropriately included its water security assets at their prescribed value and has made appropriate deductions for Queensland Government capital grants, as specified in the referral notice.
- GAWB's forecast for reserved demand is based on the best available information on contracted volumes over the 2026–30 period and is appropriate for our price monitoring.

Before we release our final report, we require additional information from GAWB, which it is expected to provide no later than the due date for submissions. This includes:

- details of updates made to GAWB's operating and maintenance contract (O&M contract) that change the parameters of the forecast service fee (section 2.1.1)
- updating its electricity forecasts where better information is available (section 2.2.1)
- validation of insurance cost increases required to cover its new water security assets (section 2.2.2)
- updated sludge removal costs that reflect the outcome of the tender procurement process (section 2.2.4)
- updated capital cost estimates and business cases to support GAWB's proposed water treatment plant upgrades required to integrate the FGP with the existing network (section 3.3)

We have departed from GAWB's proposed approach to reflect the requirements of the referral, by:

- adopting a market risk premium of 6.36%, compared to GAWB's proposed 6.60%, which is based on the methodology used in our 2025 final report.<sup>3</sup> This produces a revised weighted average cost of capital (WACC) of 7.21%, compared with GAWB's proposed value of 7.29% (Chapter 5)
- updating the values of interest during construction and working capital associated with water security assets to reflect our revised WACC (Chapters 3 and 5)
- adopting a longer asset life that better reflects the expected life of the water security assets (Chapter 4), for calculating depreciation on forecast maintenance, renewals and replacement capital expenditure.

Based on our findings, an appropriate price for GAWB's water security assets in 2026–27 is \$1,384.29 per reserved megalitre (ML). In the absence of the Queensland Government grant, we estimate the water security charge in 2026–27 would be 22% higher at \$1,691.90 (Chapter 6).

We understand several hydrogen-related network augmentation projects foreshadowed during the 2025–30 price monitoring investigation are now unlikely to progress during the pricing period. We would expect any associated cost reductions – both capital and operating costs – to be reflected in GAWB's negotiated charges, with the outcomes to be observed in our mid-term review.

## Way forward

We invite submissions on this draft report from stakeholders, interested parties and members of the community. Submissions must be received by 16 February 2026.

<sup>3</sup> QCA, [Gladstone Area Water Board price monitoring investigation 2025–30](#), final report, April 2025.

Meeting this deadline is important, to allow us enough time to carefully consider the issues raised before finalising our report. Our final report is due to the government by 24 April 2026.

In 2028, we will begin our mid-term reporting. This process will compare the indicative prices and revenues estimated in this investigation with GAWB's actual prices and revenues. We will also highlight any differences and explain the reasons behind them.



# 1 Overview

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We have been directed by the Queensland Government to undertake a price monitoring investigation relating to Gladstone Area Water Board's (GAWB) water security assets for the period 1 July 2026 to 30 June 2030 (the 2026–30 price monitoring period).<sup>4</sup>

Importantly, this investigation is limited to considering only those costs and revenues associated with GAWB's water security assets.<sup>5</sup> These costs were excluded from the scope of our 2025–30 price monitoring investigation at the direction of the Queensland Government.

Our current investigation does not represent a 'reopening' of the findings we have already made regarding the 2025–30 price monitoring period, as outlined in our 2025 final report. Rather, it builds on those findings by including appropriate prices for water security assets.

## 1.1 GAWB's bulk water supply activities

GAWB provides bulk raw and potable water to industries located in the Gladstone region and to the Gladstone Regional Council. The prices that GAWB charges for providing bulk water services are determined through commercial negotiation with customers.

GAWB owns and operates the following assets to service its bulk water customers:

- Awoonga Dam and associated infrastructure
- 229 km of water pipelines comprising 95 km of raw water pipelines and 134 km of potable water pipelines
- 10 pump stations
- 16 water reservoirs comprising 11 treated water reservoirs and 5 raw water reservoirs
- 2 water treatment plants
- recreational facilities located around Lake Awoonga
- hatchery facility
- FGP and associated infrastructure [REDACTED].

## 1.2 GAWB's water security assets

The referral notice defines GAWB's water security assets as the FGP, and water allocations purchased for the purpose of transporting via the FGP.<sup>6</sup>

Once completed, the FGP will be a 117-kilometre raw water pipeline connecting the Lower Fitzroy River, upstream of Rockhampton, to the northern end of GAWB's raw water network at Yarwun, just north of Gladstone. The pipeline will be capable of transferring 30,000 ML of water each year from the Fitzroy River into GAWB's existing water infrastructure.

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<sup>4</sup> The way in which we conduct the investigation, and the matters we must consider, are set out in the referral notice dated 16 June 2025 (Appendix A) and the QCA Act.

<sup>5</sup> Defined by the referral notice as the Fitzroy to Gladstone Pipeline (FGP) and water allocations purchased for the purpose of transporting via the FGP.

<sup>6</sup> The referral also requires us to consider GAWB's connecting infrastructure and other capex associated with the water security assets when determining the RAB and revenues; however, these assets are not captured in the definition of water security assets.

The project comprises design and construction of several components including a water intake, a new water treatment plant, reservoirs and connecting infrastructure required to integrate the FGP into the existing GAWB raw water network.

Other matters relevant to GAWB water security assets are:

- Fitzroy River water allocations that will be transported via the FGP
- the operation and maintenance of the pipeline, which has been contracted to a third-party provider.

For nearly two decades, GAWB has advocated for diversification of its single source supply risk from Awoonga Dam, and in early 2023 it received approval from the Queensland Government to undertake the FGP project.

Prior to the FGP, GAWB relied entirely on Awoonga Dam, located on the Boyne River, as its sole source of water supply. Historical drought events have highlighted the vulnerability associated with dependence on a single water source and the increasing risk to regional water security. The FGP was initiated to mitigate this risk by diversifying GAWB's water supply portfolio.

The concept for the FGP was first proposed in 2007 as a potential solution to strengthen long-term water security for the Gladstone region. Significant inflows into the Boyne catchment in subsequent years saw the project deprioritised, until further assessment processes resumed between 2017 and 2021.<sup>7</sup> The Queensland Government ultimately approved the construction of the FGP in early 2023, with GAWB being responsible for the construction, ownership and operation of the pipeline.

The Queensland Government intention is for the FGP to enhance long-term water security for the Central Queensland region and support sustained economic development by reducing the impact of localised drought conditions.

The pipeline has been jointly funded by GAWB and the Queensland Government, with the government contribution provided through equity and capital grants.

## 1.3 Investigation considerations

We are conducting our investigation having regard to the government's direction and the matters we are required to consider in the QCA Act. Where required, we have used judgement in determining those considerations that are most relevant to each matter in our investigation.

### Terms of the referral notice

As required by the referral, in undertaking our price monitoring investigation we must:

- consider appropriate prices including GAWB's water security assets, to apply for the price monitoring period 1 July 2026 to 30 June 2030, and prepare:
  - a draft report by 19 December 2025, outlining our preliminary views
  - a final report by 24 April 2026, outlining our findings on appropriate prices
- deliver a mid-term report by 31 October 2028, comparing the prices GAWB charged over the period to 30 June 2028 with our final report findings on appropriate prices.

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<sup>7</sup> Department of Regional Development, Manufacturing and Water, [Fitzroy to Gladstone pipeline - Detailed Assessment \(DA\)](#), Queensland Government, 2021, chapter 1, pp 6-7.

Appropriate prices are to be consistent with allowable costs and reserved demand, and they are to be smoothed over the price monitoring period to allow GAWB sufficient allowable revenue to recover its allowable costs.

Other key parameters in the referral notice are:

- allowable costs – which are GAWB’s costs associated with the water security assets, including:
  - prudent and efficient operating, administration and connection costs
  - contracted costs for operating and maintaining the water security assets
  - forecast prudent and efficient capital expenditure associated with the connection, integration, renewal and replacement of the water security assets
  - allowances for return on capital, depreciation, tax and working capital
- opening regulated asset base for 1 July 2026 – to be established by:
  - accepting the \$983 million forecast cost of the FGP
  - applying specific deductions to capital costs to recognise the value of the Queensland Government’s capital grant funding (and interest earned); and
  - including other capital expenditure associated with GAWB’s water security assets
- reserved demand – to be determined based on the total quantity of water reserved by GAWB’s customers (under contracts or water supply proposals), including conditional contracts
- allowable revenue – revenue received from GAWB’s monopoly business activities associated with its water security assets
- approach to estimating certain cost components – we are to adopt the findings from our previous price monitoring investigation<sup>8</sup> to determine forecast inflation, depreciation charges and the rate of return (subject to updating the cost of debt).
- water security assets and allowable costs – these are to be allocated to all customers based on reserved demand, with prices that are smoothed over the monitoring period.

## How GAWB’s bulk water prices are determined

GAWB’s bulk water prices are determined through a commercial negotiation between GAWB and its customers.<sup>9</sup>

We would expect GAWB and its customers to depart from our price monitoring findings and set different prices, subject to their commercial arrangements and changing market circumstances. This is because effective commercial negotiations between GAWB and its customers are the foundation of the light-handed price monitoring approach. An example of this could be GAWB smoothing revenue over time where new customer demand increases rapidly in the initial years.

We would expect this negotiation would not be based on a ‘take it or leave it’ approach from GAWB because this would be inconsistent with the primacy of commercial negotiations undertaken in good faith.

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<sup>8</sup> The referral uses the term ‘previous price monitoring investigation’ to denote our [2025-30 price monitoring investigation final report](#).

<sup>9</sup> GAWB has bulk water supply agreements or commercial arrangements with its customers.

## Consideration of section 26 matters

We are required to consider the matters in section 26 of the QCA Act in conducting our review.<sup>10</sup> The list of matters is extensive, diverse and potentially conflicting<sup>11</sup> – for example, the need for efficient resource allocation, the effect of inflation, demand management considerations, the protection of consumers from abuses of monopoly power, and social welfare and equity considerations.

We explain how we have had regard to each of the section 26 matters in Appendix D.

### 1.4 Stakeholder submissions

We provided stakeholders with an opportunity to comment on GAWB's proposal and received three submissions.

Appendix C provides a list of the submissions we received and our consideration of matters raised. We have had regard to these submissions throughout our review, even though our report may not refer directly to every issue raised.

Stakeholders raised concerns regarding the magnitude of GAWB's proposed water security charge and its impact on households and businesses, the impact on competitiveness of local industries, the way in which the costs of the FGP should be shared across customers, and broader concerns regarding the decision to proceed with building the FGP.

**Table 1: Stakeholder comments**

Issue	Stakeholder comments
<b>Price increases</b>	Stakeholders raised concerns with the submitted price increases, particularly when water prices were already considered high. Stakeholders said we must consider the impact on cost of living, the economic viability of businesses and regional development. <sup>12</sup> GRC stated that no consideration was given to affordability for households and businesses or their willingness to pay for the water security assets. <sup>13</sup>

<sup>10</sup> In accordance with ss 24(1)(b) and 26 of the QCA Act.

<sup>11</sup> Productivity Commission, [Australia's Urban Water Sector](#), inquiry report no. 55, vol 1, August 2011, pp 267-270.

<sup>12</sup> GRC, sub 2, pp 7-8; Rio Tinto, sub 3, p 3; CS Energy, sub 4, p 2.

<sup>13</sup> GRC, sub 2, p 7.

Issue	Stakeholder comments
<b>Allocation of costs</b>	<p>Stakeholders considered it unfair for existing customers to fully fund the water security assets, stating that the costs should be allocated according to the benefits received.<sup>14</sup></p> <p>GRC said it was unfair to expect the council and rate payers to contribute to the costs of GAWB's water security assets where reported benefits focused on securing water sources for industrial activity and development, including hydrogen proponents under development.<sup>15</sup> It stated that benefits for the GRC's water users were relatively minor, particularly given the high reliability of Awoonga Dam.<sup>16</sup></p> <p>CS Energy was of the view that the water security assets were intended for the hydrogen and renewable energy sector. It was unclear as to the benefits it would receive, given its view that its current arrangements provided sufficient capacity to manage any future drought outcomes and noting the FGP was downstream of the Awoonga Dam, where it draws raw water from.<sup>17</sup> CS Energy believed that GAWB should bear some utilisation risk for capital projects where benefits extend beyond current users, to ensure efficient and equitable cost allocation.<sup>18</sup></p> <p>Rio Tinto said it was inappropriate to recover costs associated with the FGP from all of GAWB's customers, when the true cost of the pipeline and its integration into GAWB's existing network remained uncertain.<sup>19</sup></p>
<b>Operating costs</b>	<p>Rio Tinto said that greater transparency should be provided on the O&amp;M selection process, the resulting contract and service fee. It was of the view that the O&amp;M contract should include efficiency incentives, and the service fee could be benchmarked to ensure it is efficient and competitive.<sup>20</sup></p> <p>GRC questioned costs associated with additional staff and professional service support. It stated that these appeared excessive and inefficient, particularly following the recent step change in GAWB's labour costs.<sup>21</sup></p> <p>It also questioned the assumption that GAWB would need to utilise its full water allocation from Rookwood Weir (on an annual basis) if no new demand was forecast, beyond marginal growth from existing users.<sup>22</sup></p>
<b>Capital expenditure</b>	<p>Stakeholders sought greater transparency around the submitted RAB, including in relation to:</p> <ul style="list-style-type: none"> <li>• government grants and how these had been applied<sup>23</sup></li> <li>• the weighted average asset life, including assumptions used<sup>24</sup></li> <li>• how \$33 million in pre-construction and ancillary activity costs were accounted for.<sup>25</sup></li> </ul>

<sup>14</sup> GRC, sub 2, p 2; CS Energy, sub 4, p 2.

<sup>15</sup> GRC, sub 2, pp 3-4.

<sup>16</sup> GRC, sub 2, p 3.

<sup>17</sup> CS Energy, sub 4, p 2.

<sup>18</sup> CS Energy, sub 4, p 2.

<sup>19</sup> Rio Tinto, sub 3, p 4.

<sup>20</sup> Rio Tinto, sub 3, p 4.

<sup>21</sup> GRC, sub 2, p 9.

<sup>22</sup> GRC, sub 2, p 9.

<sup>23</sup> GRC, sub 2, p 9; Rio Tinto, sub 3, pp 4-5.

<sup>24</sup> Rio Tinto, sub 3, p 5.

<sup>25</sup> GRC, sub 2, p 9.

Issue	Stakeholder comments
	GRC was of the view that costs to enable bidirectional use of the FGP in the future should be excluded from the RAB. <sup>26</sup> It also considered it inappropriate for GAWB to recover a return on and of capital through water charges levied on the GRC, based on the prior treatment of government funded water projects. <sup>27</sup>
<b>Rate of return</b>	Rio Tinto stated that GAWB's WACC was substantially out of line with other regulatory decisions for water assets operated in Australia. It considered that GAWB's return on equity should be reassessed or, alternatively, GAWB should be required to assume greater risk and strive for improved cost efficiency. <sup>28</sup>
<b>Impact on existing water arrangements</b>	CS Energy sought assurance that it would not be subject to water restrictions if the water security price did proceed. It also requested confirmation as to whether there would be any changes to its agreement because of the water security asset and water security price definitions. <sup>29</sup>

## 1.5 Our price monitoring approach

Price monitoring should allow GAWB to operate on a commercial basis without intrusive regulatory intervention. At the same time, it should provide incentives for GAWB to invest and spend efficiently, while maintaining service quality and reliability. Price monitoring primarily achieves this by providing transparency around GAWB's proposed expenditures and prices.

Transparency assists GAWB's customers, the community and government to better understand GAWB's operating environment and cost drivers and how those factors influence pricing outcomes. In turn, this ensures GAWB remains accountable for its investment and expenditure decisions, as well as pricing outcomes.

Our first step is to estimate appropriate prices by reviewing GAWB's proposed capital expenditure, operating costs and the reasonableness of its demand forecasts. We then estimate capital charges associated with GAWB's regulatory asset base including an appropriate rate of return and allowances for depreciation, tax and working capital. This produces an estimate of allowed revenue, which we use to derive indicative appropriate prices based on forecast demand.

Our investigation is informative rather than determinative. The indicative prices we estimate are not binding on GAWB, and we expect that GAWB's actual prices will differ for various reasons. In our mid-term report, we will compare GAWB's actual prices with the appropriate prices in our final report to identify any differences and the reasons for them.

The indicative appropriate prices presented in this report are based on our assessment of GAWB's submission, supporting documents and modelling. Where necessary, we have also sought additional information from GAWB through a request for information (RFI) process.

<sup>26</sup> GRC, sub 2, p 10.

<sup>27</sup> GRC, sub 2, p 8.

<sup>28</sup> Rio Tinto, sub 3, p 5.

<sup>29</sup> CS Energy, sub 4, p 3.

## 2 Operating expenditure

GAWB's operating expenditures are the ongoing costs of providing water supply services and include costs associated with the operation and maintenance of water storage, treatment and transport, as well as the costs of water treatment chemicals and electricity.

For this investigation, our assessment of GAWB's operating expenditure has involved:

- validating the inclusion of water purchase costs and contracted costs for operating and maintaining water security assets (section 2.1)
- determining the prudence and efficiency of the costs incurred by GAWB for operating, administration and connection costs that are excluded from the above (such as electricity, incremental labour, licence fees and sludge removal) (section 2.2). These costs are referred to collectively as GAWB's owner's costs.

The intent of our assessment framework is to include operating expenditure (within allowable costs and revenues) that is sufficient for GAWB to recover its prudent and efficient costs of providing bulk water services associated with its water security assets.

Our draft position is to accept GAWB's operating expenditure forecast for the reasons provided in this chapter.<sup>30</sup> We consider that GAWB's forecast for operating expenditure reflects a reasonable overall estimate that allows GAWB to prudently and efficiently manage its water security assets. Furthermore, GAWB's proposal avoids any double counting of costs previously assessed in our 2025–30 price monitoring investigation.<sup>31</sup>

We have confirmed that GAWB has not included any operating costs associated with water security assets for 2025–26.<sup>32</sup> GAWB has committed to not recovering these costs during the price monitoring period.

Accordingly, operating expenditure of \$115.64 million has been included within allowable costs (Table 2). GAWB has foreshadowed updating forecasts where more reliable information is available in response to this draft report. Our draft positions may change depending on GAWB's responses to our draft report.

**Table 2: Operating expenditure for water security assets (\$ million, nominal)**

	2026-27	2027-28	2028-29	2029-30	Total
O&M contract costs	12.17	13.45	13.79	14.14	53.55
Water purchase costs	6.35	6.53	6.70	6.87	26.45
Owner's costs	8.36	8.81	8.37	10.10	35.64
<b>Total operating costs</b>	<b>26.88</b>	<b>28.79</b>	<b>28.86</b>	<b>31.10</b>	<b>115.64</b>

Note: Numbers may not add due to rounding.

Source: QCA analysis; GAWB, FGP revenue and pricing model, September 2025; GAWB, sub 1, p 62.

<sup>30</sup> A significant amount of information that has informed our assessment is commercial-in-confidence, such as third-party contracts. We have presented our draft findings in this context, and GAWB has claimed confidentiality where necessary.

<sup>31</sup> QCA, [Gladstone Area Water Board price monitoring investigation 2025–30](#), final report, April 2025.

<sup>32</sup> GAWB's estimate of \$8.9m for 2025–26 operating expenditure has not been incorporated into water security prices during the monitoring period.



## 2.1 Verification of contractual operating expenditure

Following GAWB's appointment by the Queensland Government as the delivery management proponent for the Fitzroy to Gladstone Pipeline (FGP), the operations and maintenance contract (O&M contract) and design and construct contract were tendered as a package, allowing bidders to submit integrated proposals. We note that the procurement process was undertaken through a competitive process during 2022. We have not been directed to review the procurement process of the FGP as part of our price monitoring investigation.<sup>33</sup>

For our price monitoring activities, the referral requires us to ensure that contracted O&M costs are reflected in our forecast of operating expenditure – this is referred to as the O&M service fee. This includes any performance payments, penalties and escalation.<sup>34</sup>

We have also verified that GAWB's forecast for water purchase costs reflects its contracted entitlements and forecast demand.

### 2.1.1 O&M service fee

The O&M service fee includes the following components that are incurred by the O&M contractor in operating and maintaining the FGP in accordance with the terms of the contract:

- a mobilisation fee representing a fixed, upfront payment for start-up and transition costs
- fixed fee components for labour, vehicles, administration, sampling, indirect costs, design support and a risk allowance
- a variable fee component, which is based on actual costs incurred, influenced by water volume, quality and system operation
- a contractor's margin that is levied on the total service fee less deductions for abatement based on performance.

We accept GAWB's forecast of its O&M service fee for inclusion within its operating expenditure (Table 3). In reviewing GAWB's forecast, we have verified that the items and amounts are consistent with the O&M contract, including forecast amounts and escalation methodologies.

GAWB submitted that it will not include the mobilisation fee and O&M service fees that are forecast to be incurred during 2025-26. GAWB has committed to absorbing these costs.<sup>35</sup> We have confirmed that GAWB has not included these costs within its forecasts.

**Table 3: GAWB's contracted O&M service fee (\$ million, nominal)**

O&M service fee	2026-27	2027-28	2028-29	2029-30	Total
O&M fixed fee					
Labour	■	■	■	■	■
Internal labour	■	■	■	■	■
Vehicles	■	■	■	■	■
Administration	■	■	■	■	■

<sup>33</sup> As the O&M contract was procured concurrently with the design and construct contract, considerations of prudence and efficiency would need to consider the interactions and procurement processes, which we have not been directed to do. Further details on the procurement process are outline in GAWB's submission (sub 1).

<sup>34</sup> GAWB has not forecast any abatement or penalty payments in its submission.

<sup>35</sup> GAWB, sub 1, p 32.



O&M service fee	2026-27	2027-28	2028-29	2029-30	Total
Sampling and analyses	■	■	■	■	■
Indirect costs	■	■	■	■	■
Design	■	■	■	■	■
Risk allowance	■	■	■	■	■
<b>Sub-total</b>	■	■	■	■	■
O&M variable fee	■	■	■	■	■
Margin	■	■	■	■	■
<b>Total service fee</b>	<b>12.17</b>	<b>13.45</b>	<b>13.79</b>	<b>14.14</b>	<b>53.55</b>

Note: GAWB has used actual escalation of the O&M fee consistent with its O&M contract, based on the All Groups CPI for Australia, which we will use for our price monitoring purposes. Further details on escalation are at section 2.3.  
Source: QCA analysis; GAWB, FGP revenue and pricing model, September 2025.

GAWB has foreshadowed the possibility of further updates to the O&M service fee elements before and after commissioning as the parties obtain better information on the operation of the FGP.

## 2.1.2 Water purchase costs

GAWB has river supply contracts with Sunwater for the provision of water supply and associated services. These contracts cover a total of 30.99 GL per annum of medium and high priority water allocations sourced from the Rookwood Weir.

GAWB is obligated to make annual payments to Sunwater for the supply of water and related services. These charges are subject to annual escalation in accordance with the conditions specified in the respective supply contracts.

The annual water supply charge comprises two components:

- Part A – fixed charge: applied per megalitre (ML) of water allocation
- Part B – variable charge: applied per megalitre of water actually taken.

Sunwater's rates differ between high priority and medium priority water allocations.

We accept GAWB's forecast for water purchase costs for inclusion with its operating expenditure allowance. In reviewing GAWB's forecast, we have verified:

- Sunwater's Rockwood Weir water supply scheme charges
- GAWB's water allocation resource operations licence entitlements (verified by obtaining the individual registration confirmation statements)
- expected ramp-up of water to be taken from Rookwood Weir during the period
- application of CPI.

**Table 4: Water purchase costs (\$ million, nominal)**

Water purchase costs	2026-27	2027-28	2028-29	2029-30	Total
Water purchases	6.35	6.53	6.70	6.87	26.45

Source: QCA analysis; GAWB, FGP revenue and pricing model, September 2025.

We note that GAWB's forecast does not include water purchase costs for 2025-26 or any other costs that Sunwater may be entitled to recover from GAWB (such as metering or meter testing).

## 2.2 Prudency and efficiency assessment of GAWB's owner's costs

GAWB submitted forecasts for operating expenditure that are not included in its O&M contract. These costs include:

- incremental electricity costs associated with increased pumping requirements of the FGP and decreased pumping requirements from Awoonga Dam (section 2.2.1)
- additional insurance premiums for industrial special risk cover (including terrorism) to cover the water security assets (section 2.2.2)
- funding for employees and consultants required to undertake a range of additional commercial roles and network operation and integration roles (section 2.2.3).
- other costs for land licence fees, dry sludge removal and QCA fees for price monitoring (section 2.2.4).

GAWB's proposed owner's costs (Table 5) include escalation over the monitoring period. Consistent with the referral, we are required to assess the prudency and efficiency of these cost items.

**Table 5: GAWB's owner's costs (\$ million, nominal)**

Owner's costs	2026-27	2027-28	2028-29	2029-30	Total
Electricity	4.26	4.82	4.26	5.85	19.19
Insurance	1.54	1.61	1.68	1.76	6.60
Employees – implementation	0.89	0.92	0.94	0.96	3.71
Consultants – implementation	0.28	0.29	0.29	0.30	1.15
Licence fees	0.15	0.16	0.16	0.16	0.63
Dry sludge removal	0.86	1.02	1.04	1.07	3.98
QCA fee	0.38	–	–	–	0.38
<b>Total</b>	<b>8.36</b>	<b>8.81</b>	<b>8.37</b>	<b>10.10</b>	<b>35.64</b>

Note: Numbers may not add due to rounding.

Source: QCA analysis; GAWB, FGP revenue and pricing model, September 2025.

### 2.2.1 Electricity

GAWB's submission includes incremental electricity costs associated with the water security assets. Electricity is the single largest cost item we are assessing for prudency and efficiency, representing over half of GAWB's forecast owner's costs.

Electricity costs we have assessed are associated with:

- the new Alton Downs pump station
- a reduction to the existing pumping load at Awoonga Dam, as a result of the FGP.

GAWB noted it is possible that there will be changes to electricity costs at the existing Gladstone and Yarwun water treatment plants and offline storage. However, it has not sought to recover these costs as part of this review.<sup>36</sup>

<sup>36</sup> GAWB, sub 1, p 37.

In considering the incremental costs submitted, we have assessed GAWB's electricity model and have confirmed that GAWB's forecasting approach is generally consistent with the approach applied as part of the 2025–30 price monitoring investigation. GAWB has updated its electricity model where new information is available, including:

- metering and network water usage data, reflecting actual data available
- energy cost information, reflecting the latest publicly available information from the Australian Energy Market Operator, Australian Securities Exchange and Clean Energy Regulator
- network costs, reflecting those approved by the Australian Energy Regulator in May 2025
- regulated retail electricity prices, reflecting those approved by the QCA in June 2025
- inflation forecasts, reflecting the forecasts GAWB has submitted as part of this investigation.

In relation to the new pump station at Alton Downs, we understand that GAWB's forecast electricity consumption is based on advice from the lead electrical engineer. We consider that this approach is reasonable, based on the information available at this time, as regard has been given to equipment characteristics such as pump capacity, maximum demand and the volume of water to be pumped.

GAWB has not undertaken a review of market contracts for the new pump station at this time, instead submitting that the Alton Downs site will commence on a regulated retail tariff. We consider that this approach is reasonable, noting the non-reversion policy in place in regional Queensland,<sup>37</sup> which would prevent GAWB from reverting to a regulated retail tariff from a market contract if this was deemed more appropriate in the future. We are of the view that GAWB should undertake a review of the appropriate tariff (market or regulated) once connection and usage characteristics become clearer, including the duration and nature of the operational transitional period for the integration of the FGP into GAWB's existing network.

In relation to Awoonga Dam, GAWB has sought to forecast how electricity costs will change with the introduction of the water security assets. We have confirmed GAWB's approach reasonably isolates changes associated with the introduction of the water security assets,<sup>38</sup> and the forecast reduction in the pumping load at Awoonga Dam (and associated electricity consumption) aligns with the forecast volumes associated with the FGP (section 6.3).

Overall, we consider GAWB's forecast electricity costs are reasonable. While GAWB has not sought to capture all anticipated changes, it has stated that the unaccounted costs are expected to be relatively small and that the information available at present is insufficient to provide a reasonable forecast. GAWB intends to provide an update in response to our draft report, in which more information should be available.

## 2.2.2 Insurance

GAWB's forecast incremental insurance cost for its water security assets reflects the additional premium to increase its industrial special risk (ISR) cover (including terrorism) for these assets. Given the material increase in GAWB's asset base, an increase in ISR premiums increase has been forecast.

Insurance is the second largest cost item we are assessing for prudence and efficiency, representing over 18% of GAWB's forecast owner's costs.

GAWB submitted that it is currently undertaking a review of the insurance cover for the FGP and will provide an updated ISR premium estimate in response to our draft report. GAWB submitted an

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<sup>37</sup> Section 19C(1)(b)(ii) of the *National Energy Retail Law (Queensland)*.

<sup>38</sup> We identified that GAWB's approach did account for limited updates to the model, which were not related to the introduction of the water security assets. However, the impact was immaterial.

indicative allowance based on advice from its insurance broker in 2023, escalated using CPI plus 2%.

We intend to consider GAWB's insurance allowance after it provides the information necessary to justify the proposed allowance, including the application of any escalator above CPI.

### 2.2.3 Employee and consultant costs-implementation

GAWB has assessed the ongoing operational and commercial support required to effectively manage the O&M contractor and additional activities it will need to perform after the FGP is operational.<sup>39</sup>

GAWB has identified four roles to support the integration and operation of the FGP within its network:<sup>40</sup>

- asset management specialist
- drinking water quality specialist
- network operations specialist
- commercial accountant/specialist

We acknowledge that the effective management and oversight of the FGP and its O&M contract is essential for ensuring effective management of the assets and the associated risks.

GAWB has been able to demonstrate the ongoing requirement for technical specialists to support the operation of the FGP. In particular, the need for a drinking water quality specialist and a level of engineering operations and asset management support. GAWB has also prudently identified the need for commercial and specialist consultant costs required to manage its O&M contract.

We are minded to include these implementation costs in the price monitoring period. The effective management and oversight of the integration and operation of the contractor and commercial arrangements are a priority for GAWB. These tasks are prudent and should be resourced and undertaken.

However, it is unclear whether this entire level of resourcing will be required beyond the price monitoring period. As GAWB establishes better systems and processes and obtains information relating to the operation of the FGP, there should be an expectation of opportunities for some level of integration of these roles with its business-as-usual operations.

We are inclined to use GAWB's forecast costs to resource these implementation functions during monitoring period. However, the prudence and efficiency of these costs will need to be considered in future periods after GAWB has a greater understanding of the operation of its new assets and experience managing its contractor and associated contract.

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<sup>39</sup> This includes key tasks and resource requirements and accounts for site-specific tasks at the Alton Downs water treatment plant (including travel between Gladstone and Rockhampton and regular site visits required to perform visual inspections of maintenance activities).

<sup>40</sup> GAWB, sub 1, pp 35-36.

## 2.2.4 Land licence fees, dry sludge removal costs and QCA fees

### Land licence fees

We have incorporated GAWB's estimate of annual land licence fees into our allowable cost forecast, and will update it if new, better information becomes available and is provided in response to our draft report.

GAWB has annual land licence fees under its Stanwell-Gladstone Infrastructure Corridor State Development Area and Gladstone State Development Area licences. While these agreements outline the various items that may be billed for, there is no information on the amounts.

Given this uncertainty, GAWB's forecast for land licence fees is based on the amounts it currently incurs under its temporary construction area licence, which it considers is the best available proxy with which to forecast land licence fees.

We note that the forecast amounts are not material and that GAWB has made a reasonable attempt to establish a proxy for these costs.

### Dry sludge removal

GAWB is currently conducting a competitive procurement process for the provision of sludge removal services associated with the disposal of solids from its water treatment plant operations and the FGP. GAWB submitted an interim estimate of dry sludge removal costs which was provided by its O&M contractor.

We intend to consider GAWB's allowance for dry sludge removal after it provides information from its tender process.

### QCA fees

We have accepted GAWB's forecast costs for our price monitoring activities for its water security assets. These costs represent cyclical activities that are not within annual business-as-usual budgets.

## 2.3 Escalation

To forecast operating expenditure GAWB has used the escalators in Table 6 and applied them to various cost categories as described in Table 7. Given GAWB's approach is consistent with our recent price monitoring investigation, we have accepted its proposed escalators for price monitoring activities.<sup>41</sup>

GAWB has aligned its forecasts for consumer price index (CPI) and wage price index (WPI) for its water security asset pricing at the same point in time as those used in its recent price setting process (as at March 2025). We note that maintaining a common estimation date will avoid unnecessary complexity of reconciling different forecasts in our subsequent monitoring activities.

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<sup>41</sup> GAWB's proposal has applied escalation for insurance at CPI plus 2%, which is a departure from our previous report. Nonetheless, we will consider GAWB's claims for escalation above CPI for insurance in our final report, after GAWB provides updated information in support of its proposed insurance allowance.

**Table 6: GAWB's proposed escalators**

Proposed escalator	Approach
<b>Forecast CPI</b>	The RBA CPI inflation forecasts for 2025-26 and 2026-27 and a linear glide path from the 2026-27 forecast to 2.5% in 2029-30
<b>Forecast WPI</b>	Queensland Treasury WPI forecasts for 2025-26 and 2026-27 and a linear glide path from the 2026-27 forecast to the 10-year historical average of the Australian Bureau of Statistics (ABS) WPI for Queensland for the remaining years

These escalators are then applied to various GAWB cost categories over the monitoring period. Table 7 outlines the categories and how each primary escalator applies.

**Table 7: Application of GAWB's proposed escalators**

Cost category	Proposed escalator
<b>O&amp;M service fee</b>	Forecast CPI <sup>a</sup>
<b>Insurance</b>	Forecast CPI <sup>b</sup>
<b>Chemicals</b>	Forecast CPI
<b>Labour – employee expenses</b>	Forecast WPI
<b>Professional services (engineering)</b>	Forecast WPI
<b>Contract labour</b>	Forecast WPI
<b>Contractors (service delivery)</b>	Forecast WPI
<b>Other materials and services</b>	75% forecast WPI and 25% forecast CPI
<b>Maintenance</b>	70% forecast WPI and 30% forecast CPI
<b>Electricity</b>	Forecast CPI
<b>Operations</b>	Forecast CPI

Note: a) GAWB has used All Groups CPI for Australia to calculate actual inflation for its O&M service fee.

b) Our consideration of GAWB's proposed insurance escalator above CPI is subject to consideration of its updated insurance estimate.

Source: GAWB, sub 1, p 44; GAWB, FGP revenue and pricing model, September 2025.

## 2.4 QCA draft findings

For the purposes of our price monitoring, we are minded to accept GAWB's proposed operating expenditure.

**Table 8: Water security assets operating expenditure (\$ million, nominal)**

	2026-27	2027-28	2028-29	2029-30	Total
O&M contract costs	12.17	13.45	13.79	14.14	53.55
Water purchase costs	6.35	6.53	6.70	6.87	26.45
Owner's costs	8.36	8.81	8.37	10.10	35.64
<b>Total operating costs</b>	<b>26.88</b>	<b>28.79</b>	<b>28.86</b>	<b>31.10</b>	<b>115.64</b>

Note: Numbers may not add due to rounding.

Source: QCA analysis; GAWB, FGP revenue and pricing model, September 2025; sub 1, p 62.

# 3 Capital expenditure

Capital expenditure (capex) includes expenditure to upgrade or replace existing assets or build new assets. For the purposes of our price monitoring framework, prudent and efficient capex may be included in GAWB's asset base. This capex then earns a return on, and return of, investment as part of the allowable revenues that we subsequently monitor prices against.

For this investigation, we have been directed to consider capex associated with GAWB's water security assets, specifically:

- the Fitzroy to Gladstone pipeline (FGP) (section 3.1)
- any water allocations purchased for the purpose of transporting via the FGP (section 3.2)
- prudent and efficient capital expenditure related to the connection and integration of GAWB's water security assets (section 3.3)
- forecast prudent and efficient capital expenditure associated with the renewal and replacement<sup>42</sup> of the water security assets (section 3.4)
- an allowance for forecast interest during construction associated with the construction of the FGP (section 3.6).<sup>43</sup>

The referral notice requires that the opening asset base for 1 July 2026 includes the capital expenditure associated with GAWB's water security assets, less 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. The \$365 million value comprises a \$200 million capital grant to support construction of the FGP, \$109.5 million to meet tax equivalency liabilities arising from the capital grant itself, and \$55.5 million to cover the upfront capital costs of purchasing Fitzroy River water allocations for transport via the FGP (including interest earned on the overall grant).

Overall, we found that GAWB has included an appropriate value for water security assets in the opening regulated asset base (RAB) for 1 July 2026 and has correctly deducted government grant amounts, as required by the referral notice. We have updated GAWB's interest during construction value to reflect our findings on the weighted average cost of capital (section 3.6).

GAWB's forecast capex associated with water security assets is a preliminary, indicative estimate. However, it represents a reasonable attempt at estimating prudent and efficient costs based on the information available at the time. GAWB will provide a more refined forecast for consideration in our final report.

## 3.1 Fitzroy to Gladstone Pipeline

The primary component of GAWB's water security assets is the FGP – a 117-kilometre (km) pipeline between the lower Fitzroy River near Rockhampton and northern Gladstone. The FGP will be capable of transporting 30,000 megalitres (ML) of water per year into the GAWB delivery network. The FGP project is due to be commissioned in [REDACTED] the calendar year 2026 and added to GAWB's RAB on 1 July 2026.

The FGP project consists of several key components:

<sup>42</sup> As the water security assets are new constructions, 'renewal and replacement' is taken to predominantly comprise capitalised maintenance costs over the 2026-30 period.

<sup>43</sup> Referral notice, section F, definitions of 'Allowable Costs' and 'RAB'.



- an intake and pumping facility on the western bank of the Fitzroy River at Laurel Bank
- a 100 ML/day water treatment plant (WTP) at Alton Downs.
- a 3 km pipeline linking the intake facility to the new Alton Downs WTP
- a 10 ML pretreated water storage reservoir and pump station at the Alton Downs WTP
- a 105 km pipeline from the Alton Downs pump station to reservoirs at Aldoga
- two 50 ML reservoirs at Aldoga
- an 8 km pipeline connecting the Aldoga reservoirs to the existing GAWB network via the Mt Miller pipeline.

The referral requires that we accept the estimated capital value of the FGP of \$983 million (excluding GST),<sup>44</sup> less the \$200 million capital grant provided by the Queensland Government to support construction of the pipeline. We must also include an allowance for interest during construction (IDC) (section 3.6).

We have reviewed GAWB's modelling and have verified that its proposed opening RAB correctly excludes the value of capital grants provided by the Queensland Government.

We have also confirmed that GAWB has excluded \$1.2 million of pre-construction FGP costs incurred between 2015-16 and 2019-20 that are already included in GAWB's RAB as part of the QCA's 2020 price monitoring investigation. This ensures that there is no double counting of costs when determining the opening asset value of water security assets as at 1 July 2026.

Accordingly, actual FGP capex of \$781.8 million (excluding IDC) will be included in the opening RAB at 1 July 2026 (Table 9).

**Table 9: Capitalised value of the FGP project at 1 July 2026**

	\$ million
Total prescribed cost	983.0
Less capital grant	(200.0)
Less previously capitalised FGP costs	(1.2)
Value added to the RAB at 1 July 2026 (excl IDC)	781.8

Note: This calculation excludes \$0.547 million in contracted maintenance, renewal and replacement costs expected to be incurred during 2025-26, which is included in the opening RAB at 1 July 2026 (section 3.4).

Source: QCA analysis; GAWB, sub 1, p 24.

## 3.2 Water allocation costs

Allowable costs include GAWB's water allocation costs, less the upfront capital component met by the \$55.5 million capital grant (and interest earned on the grant) provided by the Queensland Government.

GAWB has purchased water allocation rights to draw up to 30.99 gigalitres (GL) per year from the Rookwood Weir for transport through the FGP. The cost of these allocations represents the upfront capital component of securing ongoing access to the Fitzroy River water resource.<sup>45</sup>

<sup>44</sup> This value is comprised of \$950 million for construction of the FGP, and \$33 million in pre-construction activities.

<sup>45</sup> GAWB will also incur ongoing annual costs for water supply and related services under river supply contracts with Sunwater. These costs represent operating costs and are addressed in section 2.1.2.

GAWB submitted that it expects the capital cost of purchasing water allocations will be fully met by the capital grant, and interest earned on the grant. Accordingly, GAWB did not include a value for water allocation costs in its RAB.<sup>46</sup>

### 3.3 Connection and integration costs

The referral requires that allowable costs include GAWB's prudent and efficient capital expenditure for connection and integration of the water security assets into GAWB's network. These costs reflect additional new infrastructure or upgrades that GAWB proposes to build to fully operate the FGP as intended. These investments are outside the scope of works covered by the \$983 million FGP project.

When the FGP is operational, the GAWB network will be supplied by a blend of water from Awoonga Dam and the Fitzroy River. Testing of Fitzroy River source water has revealed higher levels of turbidity, alkalinity and risk of algal blooms compared with Awoonga Dam water.<sup>47</sup> GAWB submitted that this commingling of water with different quality characteristics introduces unique processing and treatment challenges.<sup>48</sup>

To maintain consistent water quality and compliance with Australian Drinking Water Guidelines, GAWB has determined that process upgrades are required at both the Gladstone water treatment plant (GWTP) and the Yarwun water treatment plant (YWTP). These upgrades include acid dosing, UV treatment, activated carbon dosing and solids removal and are projected to be commissioned by 1 January 2027.<sup>49</sup>

At the time of our review, these projects were in relatively early development, progressing to detailed design. However, GAWB provided several independent expert reports, risk assessments and internal documents, demonstrating that water treatment process upgrades (either at Alton Downs WTP<sup>50</sup>, or GWTP and YWTP) will be necessary to address the risk of non-compliance with Australian Drinking Water Guidelines once FGP water is introduced into the GAWB network. We consider that some level of expenditure to address this issue is prudent.

GAWB did not provide detailed cost estimates for the proposed water treatment plant (WTP) upgrades within its submission, as detailed design and tendering had not been completed. GAWB instead proposed a provisional capital allowance of \$50 million for both upgrade projects (\$25m per project), informed by the actual costs of recent similar upgrades at the Mt Kynoch WTP in Toowoomba. GAWB considered this a reasonable comparator to establish an 'order-of-magnitude' estimate of the capex for GAWB's upgrades, due to the similar nature of the works and the relative capacity of the plant.<sup>51</sup> GAWB noted this allowance is likely a conservative estimate of what it anticipates its own upgrades will cost.<sup>52</sup>

GAWB foreshadowed that it will provide further information and more refined cost estimates in response to our draft report.

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<sup>46</sup> GAWB, sub 1, p. 24.

<sup>47</sup> Gladstone Area Water Board, *GAWB WTP Upgrades Overview, Gladstone and Yarwun Water Treatment Plants*, September 2025 (confidential).

<sup>48</sup> GAWB, *GAWB WTP Upgrades Overview, Gladstone and Yarwun Water Treatment Plants*, September 2025 (confidential).

<sup>49</sup> Pending completion of the upgrades, the FGP will operate at less than full capacity until 31 December 2026. That is, it will only supply raw water customers and will not deliver water into the GAWB treated water network.

<sup>50</sup> GAWB argued that upgrading the Alton Downs WTP to produce potable water is not a preferred solution as it would require customers that currently rely on raw water, to invest in additional infrastructure to maintain their production processes. GAWB also noted that supplying potable water to customers that could otherwise accept raw water is inefficient. (GAWB, *GAWB WTP Upgrades Overview Gladstone and Yarwun Water Treatment Plants*, September 2025).

<sup>51</sup> GAWB, Response to RFI 02, p 2.

<sup>52</sup> GAWB, Response to RFI 02, p 3.

We have included a placeholder amount of \$50 million in the forecast capex allowance for treatment process upgrades, noting this may be revisited in our final report based on GAWB's revised cost estimates and additional supporting information. We would also expect to see further evidence of options analysis once estimated costs have been refined.

GAWB proposed that the capital costs for the plant upgrades be subject to an ex post revenue true-up at the next price monitoring investigation due to cost uncertainty. We proposed this approach in the 2025-30 price monitoring investigation to address uncertainty around the timing and scope of GAWB's network augmentation program to support the emerging hydrogen industry.

We consider a revenue true-up of these forecasts is reasonable for our price monitoring purposes. This is consistent with our proposed treatment of the broader capex allowance for the 2025-30 price monitoring period. We will also consider undertaking an ex post review of prudence and efficiency of this project, which may include assessing the robustness of GAWB's options analysis.

### 3.4 Forecast maintenance, renewals and replacement capex

The referral notice's definition of allowable costs includes contracted costs for operating and maintaining water security assets and prudent and efficient forecast capital expenditure associated with the renewal and replacement of the water security assets.

The FGP operations and maintenance (O&M) contract service fee includes some materials and maintenance costs that GAWB has included in the forecast capex allowance. These costs relate to estimated maintenance,<sup>53</sup> renewal and replacement activities for the water security assets over the 5-year contract period. The O&M contract sets out an estimate for renewals and replacement for the first year of the FGP operation. GAWB has then escalated this value to derive an indicative forecast for the remainder of the pricing period (Table 10). The total forecast for the period is \$7.8 million.<sup>54</sup>

GAWB foreshadowed that the fixed and variable components of the O&M contract (including renewals and replacement estimates) will be reviewed with the contractor during the commissioning of the FGP.<sup>55</sup> As such, these estimates could change before GAWB sets its prices ahead of 1 July 2026.

**Table 10: Proposed FGP maintenance, renewals and replacement capex, 2026-30 (\$ million)**

2025-26	2026-27	2027-28	2028-29	2029-30	Total 2026-27 to 2029-30
0.547	1.880	1.929	1.977	2.027	7.813

Note: Forecast costs for 2025-26 are included in the opening RAB at 1 July 2026. This represents a partial year estimate for the period between asset commissioning and 30 June 2026. It is derived on a pro rata basis using the estimated annual cost in the contract.

We have adopted GAWB's forecast as a reasonable indicative estimate of maintenance, renewals and replacement. Going forward, we acknowledge that accurately forecasting these costs will require time and operational experience with the new assets. Nonetheless, the proposed forecast is

<sup>53</sup> GAWB policy is that all maintenance costs greater than \$5,000 related to plant are capitalised.

<sup>54</sup> GAWB has claimed confidentiality over the detailed breakdown of these costs, as they represent terms of the O&M contract which is commercial-in-confidence.

<sup>55</sup> GAWB said this revision will occur closer to the commissioning date of the asset and will not occur until after GAWB's submission to the QCA on 5 September 2025, and potentially after GAWB's response to the QCA's draft report.

based on estimated contracted costs and is a reasonable and genuine attempt to estimate prudent and efficient costs, given the information available.<sup>56</sup>

We have verified that the forecast renewal and replacement costs included in GAWB's revenue and price modelling reconcile with the values in the O&M contract, after escalation.

We consider forecast maintenance, renewals and replacement capex for water security assets should be subject to an ex post revenue true-up at the next price monitoring investigation. This is consistent with our proposed treatment of the broader forecast capex allowance for the 2025-30 monitoring period.

### 3.5 Capex escalation

Forecast maintenance, renewals and replacement capex is based on the O&M contract cost estimate for the first year of operation, escalated by forecast CPI inflation. This is consistent with the terms of the contract regarding annual cost escalation for the fixed component of the service fee.<sup>57</sup> GAWB used CPI in this case as it considered the weighted escalator was not representative of the composition and drivers of the costs of operating and maintaining the water security assets from 1 July 2026.<sup>58</sup> We consider that the use of CPI inflation in this instance is appropriate for our price monitoring purposes.<sup>59</sup>

Moreover, it is our expectation that actual prudent and efficient capex will be rolled into the asset base at actual cost during subsequent price monitoring reviews. As such, it is not necessary to pursue a high degree of precision when forecasting capex escalation rates.

Forecast expenditure for the water treatment plant upgrades is a provisional estimate and has not been separately escalated in GAWB's modelling. GAWB's proposed approach is reasonable for a preliminary estimate, noting that GAWB intends to provide a revised forecast for consideration in our final report.

### 3.6 Interest during construction

Interest during construction (IDC) is an allowance that recognises the opportunity cost of committing funds to projects that are yet to be commissioned and earn a return. IDC is added to the value of the relevant asset and included in the RAB once the asset is commissioned.

#### FGP

GAWB proposed an IDC allowance of \$95.22 million for the FGP assets based on an S-curve approach using actual and estimated monthly expenditure.<sup>60</sup> This varies from the simplified IDC methodology used in previous price monitoring investigations, which assumes capex is incurred evenly over the construction period. GAWB said it chose the S-curve approach to provide a more detailed estimate of IDC given the significant value and construction timeline of the asset.

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<sup>56</sup> [REDACTED]

<sup>57</sup> GAWB, sub 1, pp 42-43.

<sup>58</sup> GAWB, sub 1, p 42.

<sup>59</sup> GAWB's approach departs from its typical capex escalation method, which uses a composite weighted escalator featuring WPI (70%) and CPI (30%).

<sup>60</sup> GAWB's S-curve approach models monthly project cash flows over the duration of the construction period. The term S-curve refers to the typical pattern of expenditure during major construction projects when plotted graphically – starting relatively low, peaking around the midpoint of construction, and tapering off as the project approaches commissioning.

The S-curve approach better reflects the timing and draw-down of funds across the life cycle of the project's construction. We have reviewed GAWB's modelling and consider its proposed approach to IDC is reasonable and appropriate for our price monitoring in this instance.

We have updated the IDC calculation to reflect our draft findings on the WACC (Chapter 5).<sup>61</sup> This results in an IDC allowance for the FGP of \$94.67 million to be added to the RAB.

## Forecast capex

GAWB did not propose an explicit IDC allowance for forecast renewals and replacement capex, or for the water treatment plant upgrade projects. We understand this is consistent with GAWB's standard practice of not applying forecast IDC to capital expenditures below \$1 million, or to projects with a construction period of less than 12 months.<sup>62</sup>

## 3.7 QCA draft findings

For the purposes of our price monitoring, we have taken the following approach to GAWB's water security asset capex:

- Include a net amount of \$781.79 million for the FGP project (plus \$94.67m for IDC) into the opening RAB at 1 July 2026.<sup>63</sup>
- Adopt a provisional forecast capex allowance for water security assets during 2026–30 of \$57.81 million, comprising:
  - \$50 million for FGP connection and integration costs (water treatment process upgrades), consistent with GAWB's high-level estimate
  - \$7.81 million for estimated maintenance, renewals and replacements, delivered through the FGP O&M contract.

GAWB indicated it will provide revised capital forecasts for water treatment plant upgrades in response to our draft report. We will consider these in our final report.

Capitalised maintenance, renewals and replacements, and connection and integration costs remain uncertain at this stage. We propose that these costs be subject to an ex post revenue true-up, as described in our May 2025 final report. This is consistent with the proposed approach to the broader forecast capex budget for the 2025–30 pricing period.

This process would involve an ex post recalculation of actual revenues to identify any material windfall gain or loss arising from capital charges during the 2026–30 period. Any resulting revenue adjustment would be carried forward and applied to revenues and prices in the first year of the following pricing period or otherwise smoothed across that period as appropriate.

This approach complements the existing roll-forward of the asset base, which includes a backward-looking adjustment that ensures only prudent and efficient actual outturn capex is added to the asset base.

Ultimately, it is for GAWB and its customers to determine whether a true-up approach should be incorporated into its commercial pricing framework. Should GAWB choose to adopt it, this approach would improve transparency by ensuring customers do not bear short-term costs for

<sup>61</sup> The impact of this update is limited to IDC incurred in 2025–26.

<sup>62</sup> GAWB does, however, apply IDC to projects of less than 12 months duration (if greater than \$1 million) when rolling forward actual capex.

<sup>63</sup> Excluding \$0.547 million in forecast maintenance and renewal costs in 2025–26, which is also added to the RAB at 1 July 2026.

investments that do not proceed, while ensuring GAWB is compensated for the return on, and return of, actual prudent and efficient capex.

# 4 Regulated asset base

GAWB's regulated asset base is the value of investments, including both depreciating and non-depreciating assets. It is adjusted for GAWB's capital expenditure, and asset inflation, depreciation and disposals. The term 'regulated asset base' (RAB) is used in the referral notice. It is a regulatory construct used for the purpose of price monitoring. It is not intended to reflect the actual carrying value of GAWB's assets for accounting purposes.

The referral notice requires us to determine an opening asset value as of 1 July 2026 for the water security assets capital expenditure including interest during construction (Chapter 3). This is then rolled forward over the 2027–30 period to account for prudent and efficient forecast capital expenditure, inflation and depreciation. The rolled-forward asset values are used to determine GAWB's return on assets and return of assets as part of its allowable costs (Chapter 5).

## 4.1 Opening RAB as of 1 July 2026

The referral requires that the opening RAB as of 1 July 2026 be determined by:

- accepting the forecast \$983 million (excluding GST) Fitzroy to Gladstone Pipeline (FGP) capital cost minus the Queensland Government's \$200 million capital grant provided to support construction
- including the capital expenditure associated with GAWB's water security assets, minus the Queensland Government's \$365 million<sup>64</sup> capital grant provided to GAWB to support construction of the FGP and to make it operational
- including forecast interest during construction (IDC), where appropriate, including IDC associated with the construction of the FGP
- adjusting for depreciation and actual inflation over the period.<sup>65</sup>

### 4.1.1 Capital expenditure

GAWB has included an amount of \$877 million in the opening RAB for water security assets (Table 11). We have verified that GAWB has correctly deducted government grant amounts, as required by the referral notice (Chapter 3). GAWB submitted that the upfront cost of water allocations will be fully met by the government's capital grant and interest earned on it. As such, GAWB did not include a value for water allocations in the opening RAB.

### 4.1.2 Interest during construction

GAWB adopted an S-curve approach to calculating IDC for the FGP project, which we consider reasonable (Chapter 3). We have updated GAWB's IDC value to reflect our findings on the appropriate weighted average cost of capital. This adjustment results in a reduction of \$0.56 million in interest during construction included in the opening RAB.

Our draft position on the opening RAB for water security assets at 1 July 2026 is set out in Table 11.

<sup>64</sup> In practice, the total capital grant amount deducted is \$255.5 million (\$200m for the FGP plus \$55.5m for water allocation capital costs). The remaining \$109.5 million is additional funding to offset tax liabilities that arise from the grant itself.

<sup>65</sup> Referral notice, section F, definition of "RAB".



**Table 11: QCA draft findings on opening RAB (\$ million, nominal)**

	GAWB submission	QCA draft
FGP construction costs <sup>a</sup>	983.00	983.00
Capital grant offset	(200.00)	(200.00)
Already capitalised in RAB	(1.21)	(1.21)
Interest during construction	95.22	94.67
Water allocation costs	<i>Offset by capital grant</i>	<i>Offset by capital grant</i>
<b>Opening RAB – 1 July 2026</b>	<b>877.01</b>	<b>876.46</b>

Note: a) Includes \$33 million in pre-construction costs. Opening RAB values exclude \$0.547 million in renewals and replacement costs incurred in 2025–26, which GAWB has included in its opening RAB for 2026–27. Numbers may not add due to rounding.

## 4.2 RAB roll-forward to 30 June 2030

To establish the forecast RAB roll-forward for the price monitoring period, the referral requires us to include an appropriate allowance for prudent and efficient capital expenditure related to the connection, integration, renewal and replacement of GAWB's water security assets.

GAWB submitted a proposed RAB roll-forward with a closing RAB as of 30 June 2030 of \$960.07 million<sup>66</sup> based on its proposed forecast capex, inflation and depreciation amounts during the 2026–30 price monitoring period (Table 12). GAWB did not propose an allowance for IDC on forecast capex because the cost estimates were still preliminary at the time of its submission (Chapter 3).

**Table 12: GAWB proposed forecast RAB roll-forward (\$ million, nominal)**

	2026–27	2027–28	2028–29	2029–30
Opening RAB	877.01	936.05	944.55	952.57
Capital expenditure	50.00	–	–	–
Indexation	23.44	24.03	23.93	23.81
Depreciation	(14.40)	(15.52)	(15.92)	(16.31)
<b>Closing RAB</b>	<b>936.05</b>	<b>944.55</b>	<b>952.57</b>	<b>960.07</b>

Note: GAWB's submission presented forecast capital expenditure excluding contracted maintenance, renewal and replacement costs, over which it has claimed confidentiality. The opening RAB value also excludes \$0.547 million in contracted renewals and replacement costs expected to be incurred in 2025–26, which GAWB has included in its opening RAB for 2026–27.

Source: GAWB, sub 1, p 56.

### 4.2.1 Forecast capital expenditure

Consistent with previous reviews, forecast capital expenditure is added to the RAB in the year the project is commissioned. This includes an indicative allowance of \$50 million for water treatment process upgrades, and \$7.8 million in capitalised maintenance, renewals and replacement costs, as specified in the O&M contract (Chapter 3).

<sup>66</sup> Excludes maintenance and renewals costs under the O&M contract. GAWB has claimed confidentiality over these values.



GAWB's forecast capex associated with water security assets is a preliminary, indicative estimate. However, it represents a reasonable attempt at estimating prudent and efficient costs based on the information available at the time. GAWB will provide a more refined estimate of forecast capex for consideration in our final report.

## 4.2.2 Forecast indexation

The opening value of the RAB is indexed each year by the forecast consumer price index (CPI) inflation rate. Consistent with the referral notice, GAWB has estimated forecast CPI inflation using the same approach applied in our 2025–30 price monitoring investigation (Table 13).<sup>67</sup> As foreshadowed in our May 2025 final report for the 2025–30 period, GAWB updated its inflation forecasts prior to setting prices from 1 July 2025.<sup>68</sup>

We have deducted from allowable costs an amount equivalent to the forecast inflationary gain on the RAB, as we apply a nominal rate of return on assets. This avoids the double counting of inflation that would otherwise occur from indexing the RAB by inflation and applying a nominal rate of return on assets that incorporates the inflation rate.

GAWB said it will update the CPI forecast using the most recent available information, before setting final prices for water security assets from 1 July 2026.<sup>69</sup>

**Table 13: QCA draft findings – forecast CPI inflation (%)**

	2025-26	2026-27	2027-28	2028-29	2029-30
GAWB	3.10	2.60	2.57	2.53	2.50
QCA draft finding	3.10	2.60	2.57	2.53	2.50

Source: GAWB, *FGP revenue and pricing model*, September 2025.

## 4.2.3 Depreciation

Under the referral notice, allowable costs are to include depreciation charges determined consistent with our approach in the 2025–30 price monitoring investigation.

The FGP project comprises numerous discrete assets with varying useful lives. GAWB has proposed using a weighted average asset life for the FGP project, based on the estimated useful lives and asset values of its individual key asset classes within the project. Using this approach means the FGP project can be treated as a single asset within the RAB and revenue modelling.

GAWB's proposed weighted average asset life is derived from the forecast composition of each discrete asset as a proportion of the total prescribed capital value (\$983 million). An indicative asset life is first assigned to each asset. These lives are then weighted according to the assumed value of the corresponding asset as a proportion of the total project value. These weighted lives are then summed to produce a weighted average asset life of 65.7 years, which is applied to the entire capital value of the project as a single asset line item in the RAB. GAWB noted that the actual asset breakdown and associated useful lives will not be confirmed until the project is completed and added to the RAB.<sup>70</sup>

<sup>67</sup> Specifically, the forecast uses Reserve Bank of Australia's (RBA) most recent CPI forecast for 2025–26 and 2026–27 and a linear glide path for the remaining years to 2.5% in 2029–30.

<sup>68</sup> Based on the RBA's [Statement on Monetary Policy](#) for May 2025. The QCA's final report referenced the RBA's February 2025 Statement on Monetary Policy.

<sup>69</sup> GAWB, sub 1, p 45.

<sup>70</sup> GAWB, sub 1, p 55.

GAWB's proposed weighted average asset life is a pragmatic approach in the circumstances and is appropriate for our price monitoring purposes. We have reviewed the assumed lives of the constituent assets and note they are consistent with the lives that we have previously considered reasonable for similar asset classes.

For forecast capex, GAWB has applied its standard approach of assigning indicative asset lives to each asset class or project. Water treatment plant upgrades are depreciated over 35 years, which we consider reasonable and broadly consistent with relevant comparators.<sup>71</sup> However, GAWB has proposed to depreciate its forecast capitalised maintenance,<sup>72</sup> renewals and replacements over 5 years, to align cash flows with the term of the O&M contract. We consider this approach likely understates the useful life of the relevant assets being maintained.<sup>73</sup> For the purposes of our price monitoring, we have instead applied GAWB's weighted average asset life for water security assets to calculate depreciation for contracted renewals and replacements.

Our draft position on the forecast RAB for water security assets for the 2026–27 to 2029–30 pricing period is set out in Table 14.

**Table 14: QCA draft findings on forecast RAB roll-forward (\$ million, nominal)**

	2026-27	2027-28	2028-29	2029-30
Opening RAB	877.00	937.92	948.37	958.40
Capital expenditure	51.88	1.93	1.98	2.03
Indexation	23.44	24.07	24.03	23.96
Depreciation	(14.40)	(15.55)	(15.98)	(16.41)
<b>Closing RAB</b>	<b>937.92</b>	<b>948.37</b>	<b>958.40</b>	<b>967.98</b>

Note: Capital expenditure includes forecast maintenance, renewals and replacement costs. Opening RAB includes \$0.547 million in contracted renewals and replacement to be estimated to be incurred in 2025–26.

<sup>71</sup> For example, individual elements of GAWB's new Alton Downs WTP are assigned lives of between 25 and 50 years. Within this project, chemical dosing, clarifiers, sludge handling storage and screening facilities have an average life of 36 years. These estimated lives are comparable to those determined by the Australian Taxation Office for similar WTP components under [legislative instrument LI 2025/20](#).

<sup>72</sup> GAWB policy is that all maintenance costs greater than \$5,000 related to plant are capitalised to the relevant project.

<sup>73</sup> GAWB's asset lives for individual components of the FGP project range from 15 to 70 years (excluding roads and earthworks).

# 5 Return on assets, working capital and tax allowance

To determine appropriate prices for water security assets for the 2026–30 period, we have been directed to determine a return on GAWB’s regulated asset base.<sup>74</sup> This is a key component of a regulated firm’s allowable costs and represents the return expected by investors to compensate for the risks of investing in the benchmark firm. Our preferred rate of return is the weighted average cost of capital (WACC), which represents the opportunity cost of a firm’s capital, separated into a cost of debt and cost of equity.

The referral notice directs us to use the appropriate rate of return determined in our previous investigation, except to allow for the 2026–27 cost of debt weighting to reflect the increase in the benchmark debt accounted for by the inclusion of the water security assets. In our 2025–30 final report, we considered an appropriate WACC, which was predominantly based on the methodologies outlined in our rate of return review.<sup>75</sup>

## 5.1 Rate of return

We consider that a WACC of 7.21% is an indicative appropriate rate of return for the 2026–30 price monitoring period (Table 15).<sup>76</sup> GAWB has advised its intention to update the trailing average cost of debt using its nominated averaging period prior to the commencement of 2026–27 for pricing of the water security assets. For price monitoring purposes, we consider this an appropriate approach.

**Table 15: QCA draft findings on GAWB’s WACC**

Parameter	GAWB proposal	QCA draft
Risk-free rate (%)	4.47	4.47
Capital structure (% debt)	50	50
Market-risk premium (%)	6.6	6.36
Equity beta	0.66	0.66
Cost of equity (%)	<b>8.83</b>	<b>8.67</b>
Credit rating	BBB	BBB
Debt risk premium (%)	1.18	1.19
Debt issuing costs (%)	0.10	0.10
Cost of debt (%)	<b>5.75</b>	<b>5.76</b>
Gamma	0.484	0.484
Bottom-up, nominal post-tax WACC (%)	<b>7.29</b>	<b>7.21</b>

<sup>74</sup> Referral notice, 16 June 2025.

<sup>75</sup> QCA, [Rate of return review](#), version 4, September 2024.

<sup>76</sup> It was anticipated in our 2025–30 final report that the risk-free rate and cost of debt estimates would be updated using GAWB’s nominated averaging period. At the time of drafting, data from this period was not available. GAWB’s proposal provided updated estimates of these parameters, which we have checked against results from our preferred methodology.

GAWB proposed a market risk premium of 6.60% for the 2026–30 price monitoring period, which was informed by its consultant’s estimate using the Ibbotson method.<sup>77</sup> In accordance with our rate of return review, our preferred methodology for estimating the market risk premium is also the Ibbotson method. After obtaining further information from GAWB, we have identified that its estimate uses NERA’s Australian All Ordinaries Index data series. However, our approach in our 2025 final report<sup>78</sup> was to use the Brailsford, Handley and Maheswaran<sup>79</sup> (2008, 2012) approach for constructing the series of returns when estimating the historical market risk premium.

Consistent with the referral, we have used our rate of return methodology and applied a market risk premium of 6.36% to our WACC estimate for price monitoring purposes.

### 5.1.1 Cost of debt

In our 2025–30 final report, we considered it appropriate to use a simple trailing average cost of debt, which reflects a stable debt management strategy. Owing to the significant value of the water security assets relative to GAWB’s existing debt, we have been directed to apply a proportionate weight to the 2026–27 cost of debt component of the trailing average. This will impact both the return on assets associated with the water security assets and the return on assets referred to in our 2025–30 final report.

The WACC that is applied to determine the appropriate price for water security assets will use this alternate weighting method. Due to the timing of this price monitoring investigation and the availability of data, we cannot provide a 2026–27 cost of debt estimate at this time. GAWB has proposed to calculate the 2026–27 cost of debt estimate using its corresponding nominated averaging period. We consider it appropriate that the cost of debt be estimated using GAWB’s privately nominated averaging period and our preferred methodology.

Previously, GAWB has stated that after its commercial prices are set, they can only be adjusted for CPI inflation during the period.<sup>80</sup> This will likely result in an over- or under-recovery of allowable costs over the period due to annual updating of the trailing average cost of debt. Given our price monitoring activities, we note that any over or under-recovery could be resolved through an end-of-period true-up.

## 5.2 Return on assets and working capital

The referral notice requires that GAWB’s allowable costs for water security assets include an appropriate return on its RAB and its working capital balance using the appropriate rate of return.<sup>81</sup> Table 16 provides our draft position on GAWB’s return on assets. The differences are attributable to our position on GAWB’s rate of return and the asset lives of renewal and replacement capital expenditure.

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<sup>77</sup> The market risk premium is the additional return above the risk-free rate an investor expects to receive for owning the market portfolio.

<sup>78</sup> QCA, [Gladstone Area Water Board price monitoring investigation 2025–30](#), final report, April 2025.

<sup>79</sup> T Brailsford, J, Handley & K Maheswaran, 2008, 'Re-examination of the Historical Equity Risk Premium in Australia', *Accounting and Finance*, vol 48, no 1, pp 73–97. T Brailsford, J, Handley & K Maheswaran, 2012, 'The Historical Equity Risk Premium in Australia: Post-GFC and 128 Years of Data', *Accounting and Finance*, vol 52, no 1, pp 237–247.

<sup>80</sup> QCA, [Gladstone Area Water Board price monitoring investigation 2025–30](#), final report, April 2025.

<sup>81</sup> Referral notice, section F, Allowable Costs, p 2.

**Table 16: Return on assets (\$ million, nominal)**

	2026-27	2027-28	2028-29	2029-30	Total
<b>GAWB submission</b>	65.72	68.39	69.12	69.79	<b>273.01</b>
<b>QCA draft</b>	65.01	67.65	68.41	69.13	<b>270.20</b>
<b>Difference</b>	(0.71)	(0.74)	(0.71)	(0.66)	<b>(2.81)</b>

Note: Numbers may not add due to rounding.

GAWB has submitted a working capital balance for water security assets based on related receivables, payables and inventory. It has proposed to use one-twelfth of its forecast annual revenue from the water security price as its receivables, one-twelfth of its forecast annual operating expenditure as its payables, and no value for inventories. GAWB's proposal noted that it may update the amount for inventories as the Gladstone and Yarwun water treatment plant upgrades are progressed.<sup>82</sup> Accordingly, our draft position on GAWB's working capital balance should be regarded as interim, subject to potential future updates.

Table 17 provides our draft position on GAWB's working capital allowance.

**Table 17: Return on working capital (\$ million, nominal)**

	2026-27	2027-28	2028-29	2029-30	Total
<b>GAWB submission</b>	0.38	0.39	0.40	0.41	<b>1.57</b>
<b>QCA draft</b>	0.37	0.37	0.38	0.39	<b>1.52</b>
<b>Difference</b>	(0.01)	(0.01)	(0.01)	(0.01)	<b>(0.05)</b>

Note: Numbers may not add due to rounding.

## 5.3 Tax allowance

The referral notice requires that GAWB's allowable costs for water security assets include a tax allowance so that it can meet its forecast tax liabilities.<sup>83</sup> GAWB is obligated to make tax equivalent payments as a participant in the National Tax Equivalent Regime, consistent with Queensland's obligations under the 1995 Competition Principles Agreement.<sup>84</sup> Including an explicit tax allowance in the calculation of allowable costs is consistent with our preferred form of weighted cost of capital.<sup>85</sup>

The tax allowance is calculated by applying the corporate tax rate (30%) to forecast taxable income and then subtracting the value of dividend imputation credits. The forecast taxable income is based on the appropriate prices (section 6.4), the forecast demand (section 6.3) and GAWB's tax shield. Table 18 outlines our draft position on GAWB's tax allowance (smoothed).

<sup>82</sup> GAWB, sub 1, p 52.

<sup>83</sup> Referral notice, section F, Allowable Costs, p 2.

<sup>84</sup> To meet competitive neutrality principles, the regime notionally applies the tax laws to government owned businesses as though they were subject to federal income tax (see the Australian Taxation Office website and GAWB, [Annual Report 2024-25](#), p 48).

<sup>85</sup> A tax allowance may be incorporated into the weighted average cost of capital.

**Table 18: Tax allowance—smoothed (\$ million, nominal)**

	2026-27	2027-28	2028-29	2029-30	Total
<b>GAWB submission</b>	3.43	3.27	3.54	3.50	<b>13.74</b>
<b>QCA draft</b>	3.22	3.10	3.43	3.43	<b>13.19</b>
<b>Difference</b>	(0.21)	(0.16)	(0.11)	(0.07)	<b>(0.55)</b>

Note: Numbers may not add due to rounding.

## 6 Allowable costs and prices

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We are required to consider appropriate prices for water security assets that allow GAWB sufficient revenue to recover associated allowable costs, in line with the referral notice.<sup>86</sup> This chapter outlines our draft position on GAWB's allowable costs and appropriate prices for water security assets over the 2026-30 price monitoring period. In calculating the appropriate prices, we have considered the consistency of GAWB's proposed pricing method with the referral notice.

We have also been directed to monitor how the appropriate prices compare to actual prices charged by GAWB in a mid-term review.

We have estimated the impact of the Queensland Government grant on GAWB's appropriate prices and allowable revenue (section 6.6).

### 6.1 Allowable costs

In determining GAWB's allowable costs, the referral notice directs us to consider the costs associated with each of the following items:

- operating expenditure – including the contracted costs for operating and maintaining water security assets, the prudent and efficient operating, administration, and connection costs, and the water allocation costs. (Chapter 2)
- a return on assets – an appropriate return on investments made in water security assets, including the forecast prudent and efficient capital expenditure for renewal and replacement of the water security assets (Chapter 3 and section 5.2)
- a return of assets (depreciation) – the recovery of capital investments over the useful life of the assets (section 4.2)
- a return on working capital – an appropriate return on GAWB's working capital balance associated with water security assets (section 5.2)
- tax – an allowance to enable GAWB to meet its tax equivalence obligations (section 5.3).

Table 19 summarises our draft position on allowable costs for the 2026-30 price monitoring period, based on our findings presented in earlier chapters.

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<sup>86</sup> Referral notice, section F, p 2.

**Table 19: QCA draft position on allowable costs for water security assets (\$ million, nominal)**

	2026-27	2027-28	2028-29	2029-30	Total
<b>Operating expenditure</b>	26.88	28.79	28.86	31.10	115.64
<b>Return on capital</b>	65.01	67.65	68.41	69.13	270.20
<b>Return on working capital</b>	0.37	0.38	0.38	0.39	1.52
<b>Return of capital (depreciation)<sup>a</sup></b>	(9.04)	(8.52)	(8.05)	(7.55)	(33.17)
<b>Tax allowance (unsmoothed)</b>	2.99	3.24	3.41	3.58	13.22
<b>Allowable costs</b>	<b>86.21</b>	<b>91.54</b>	<b>93.02</b>	<b>96.65</b>	<b>367.41</b>

<sup>a</sup> Depreciation is net of indexation.

Note: Totals may not add due to rounding.

The primary differences between our draft position and GAWB's submission are:

- a lower return on capital and working capital, based on our position on the appropriate rate of return
- a lower return of capital, based on our position on the asset lives for renewal and replacement capital expenditure

These differences also result in a lower required working capital balance and tax allowance.

## 6.2 Pricing approach

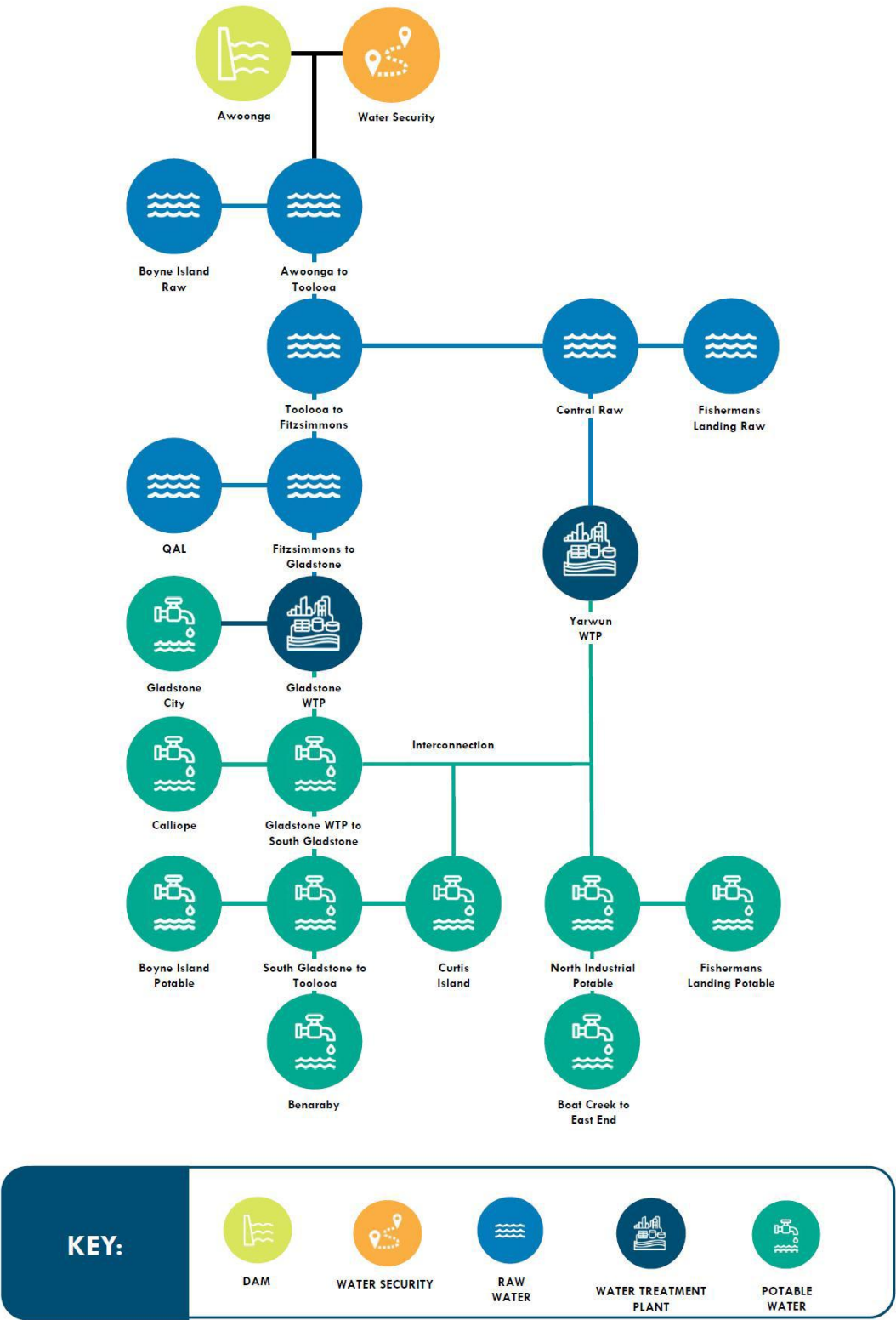
Under the referral notice, the allowable costs for water security assets are to be allocated to all customers based on their reserved demand.<sup>87</sup> To accomplish this within the current zonal pricing framework,<sup>88</sup> GAWB has proposed to introduce a water security pricing zone to which the allowable costs for water security assets will be allocated (Figure 1). This new pricing zone will charge a single part tariff to all customers based on reserved demand to recover the allocated costs. We consider this approach to be consistent with the referral notice.

<sup>87</sup> Referral notice, Section F, p 3.

<sup>88</sup> See our 2025 final report for detail on GAWB's pricing practices, including the allocation of costs and revenues across zones.



Figure 1: GAWB's pricing zones (excluding Corporate)



## 6.3 Forecast demand

The referral notice requires that the water security assets and associated allowable costs are to be allocated to all customers based on reserved demand.<sup>89</sup> Reserved demand is defined in the referral 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).<sup>90</sup>

GAWB proposed to adopt the same demand forecasts as it used for setting prices for the 2025–30 price monitoring period. As foreshadowed in our May 2025 final report, GAWB updated its forecasts after the release of our final report, to reflect the most recent information and demand reservations as confirmed by its customers.

GAWB's reserved demand forecast is around 3% lower than its previous estimate used in our May 2025 final report. This largely reflects a downward revision to expected demand from the emerging hydrogen industry during the 2025–30 period. GAWB noted that it does not have any water allotments that are subject to a water supply proposal.<sup>91</sup>

We consider GAWB's forecast of reserved demand is reasonable and is appropriate to use for our price monitoring purposes (Table 20).

**Table 20: GAWB forecast reserved demand for water security assets: 2027–30**

2026–27	2027–28	2028–29	2029–30
63,355	63,836	63,973	64,151

Source: GAWB, *FGP Revenue and Pricing Model\_Sept25 Sub* provided to QCA.

We have also reviewed GAWB's forecast metered volumes, which are relevant to the forecasts of incremental electricity costs (section 2.2.1). These demand forecasts have also been updated since our May 2025 report to reflect most recent actual usage data.<sup>92</sup>

## 6.4 Appropriate prices for water security assets

Under the referral notice, the appropriate prices for the water security assets are to be:

- smoothed over the 2026–30 price monitoring period
- sufficient to recover the allowable costs

Accordingly, we calculate prices that increase according to forecast CPI growth and generate revenue that recovers allowable costs on a net present value basis. Our draft position on GAWB's appropriate prices for the water security assets is presented in Table 21.

<sup>89</sup> Referral notice, section F, definition of 'Water Security Assets'.

<sup>90</sup> Referral notice, section F, definition of 'Reserved Demand'.

<sup>91</sup> GAWB, sub 1, p 54.

<sup>92</sup> GAWB's metered volume forecasts are, for most customers, based on the simple average of the previous 5 years of actual usage.

**Table 21: QCA draft position on appropriate prices for water security assets (\$/reserved ML)**

	2026-27	2027-28	2028-29	2029-30
GAWB Submission	1,406.88	1,442.99	1,479.54	1,516.53
QCA Draft	1,384.29	1,419.82	1,455.79	1,492.18

Note: GAWB updates its prices each year using March data from the ABS CPI for Brisbane.

## 6.5 Allowable Revenue

Our draft findings on the revenue to be recovered from appropriate prices for water security assets are provided in Table 22.

**Table 22: QCA draft position on allowable revenue for water security assets (\$ million)**

	2026-27	2027-28	2028-29	2029-30	Total
GAWB proposal	89.13	92.11	94.65	97.29	373.18
QCA draft	87.70	90.63	93.13	95.72	367.19

Note: totals may not add due to rounding

Based on our assessment of GAWB's proposed allowable costs and forecast reserved demand, this would provide GAWB \$367.19 million of allowable revenue for water security assets over the 2026-30 price monitoring period. This is \$5.99 million lower than GAWB's proposed allowable revenue.

## 6.6 Effect of government grants

We have examined the impact of the Queensland Government grant on GAWB's appropriate prices and allowable revenue over the monitoring period. To estimate outcomes in the absence of the Queensland Government grant, we assumed an increase to GAWB's RAB of [REDACTED]; comprised of:

- \$200.00 million towards the FGP construction
- [REDACTED] million for water allocation acquisition costs
- [REDACTED] million for associated interest during construction

The impacts on appropriate prices and allowable revenue are shown in Table 23. Over the monitoring period, without the Queensland Government grant water security prices would be 22 per cent higher, with additional allowable revenue of \$81.60 million.

**Table 23: Effect of government grants on allowable revenue and appropriate price**

	Without grant	With grant	Difference
2026-27 appropriate price (\$/reserved ML)	1,691.90	1,384.29	307.61
2026-30 total allowable revenue (\$ million)	448.79	367.19	81.60

Source: QCA analysis

<sup>93</sup> Applied as of 1 July 2026, then applied the FGP weighted asset life.

# Glossary

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ABS	Australian Bureau of Statistics
capex	capital expenditure
CPI	consumer price index
DRP	debt risk premium
FGP	Fitzroy to Gladstone pipeline
GAWB	Gladstone Area Water Board
GL	gigalitre
GRC	Gladstone Regional Council
GST	goods and services tax
GWTP	Gladstone water treatment plant
IDC	interest during construction
ML	megalitre
MRP	market risk premium
NPV	net present value
O&M	operating and maintenance
opex	operating expenditure
price monitoring period	the period 1 July 2026 to 30 June 2030
QCA	Queensland Competition Authority
QCA Act	<i>Queensland Competition Authority Act 1997</i>
RAB	regulated asset base
RBA	Reserve Bank of Australia
Referral	The referral notice and directions issued by the Minister for Finance, Trade, Employment and Training on 16 June 2025 under sections 23A and 24 of the QCA Act
reserved demand	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 <i>Queuing Guideline (Source Capacity)</i> , as defined in the referral
RFI	request for information
s, ss	section, subsection
WACC	weighted average cost of capital

water security assets	the FGP and all Water Allocations transported to the Network via the FGP, as defined in the referral
WPI	wage price index
WSA	water security assets
WTP	water treatment plant
YWTP	Yarwun water treatment plant

# References

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Brailsford T, Handley J & Maheswaran K 2008, 'Re-examination of the Historical Equity Risk Premium in Australia', *Accounting and Finance*, vol 48, no 1, pp. 73–97.

— 'The Historical Equity Risk Premium in Australia: Post-GFC and 128 Years of Data', *Accounting and Finance*, vol 52, no 1, pp 237–247.

Department of Regional Development, Manufacturing and Water, [Fitzroy to Gladstone pipeline – Detailed Assessment \(DA\)](#), Queensland Government, 2021, chapter 1, pp 6–7.

Gladstone Area Water Board (GAWB), [Annual Report 2024-25](#).

Productivity Commission, [Australia's Urban Water Sector](#), inquiry report no. 55, August 2011, pp 267–270.

Queensland Competition Authority (QCA), [Rate of return review](#), version 4, September 2024.

— [Gladstone Area Water Board price monitoring investigation 2025–30](#), final report, April 2025.

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# Appendix A: Referral notice

## Referral

### QUEENSLAND COMPETITION AUTHORITY ACT

1997

### Section 23A and Section 24

### REFERRAL

**A. Section 23A – Referral to the Authority to undertake a Price Monitoring Investigation in relation to GAWB**

- 1.1 Under section 23A of the Act, I refer the Monopoly Business Activities to the Authority for a price monitoring investigation (referred to as the Investigation).
- 1.2 The period for the Investigation is the Price Monitoring Period.

**B. Section 24 – Directions**

Under section 24 of the Act, I direct the Authority to consider the Stated Matters in conducting the Investigation, to the extent relevant, noting that the Stated Matter in Section C1.2 will only be able to be considered and reported on by the Authority after 30 June 2028.

**C. Stated Matters**

- 1.1 The Appropriate Prices for the Price Monitoring Period, including Water Security Assets.
- 1.2 How the Appropriate Prices compare to actual prices charged by GAWB over the period 1 July 2026 to 30 June 2028.

**D. Consultation**

Under section 12(3), I direct the Authority to undertake an open consultation process with all relevant entities.

**E. Timing**

- 1.1 I direct the Authority under section 24(1) to report the results of the Investigation in accordance with the following timetable:
- (a) A Draft Report with respect to the Authority's Investigation by no later than 19 December 2025;
  - (b) A Final Report with respect to the Authority's Investigation by no later than 24 April 2026;
- 1.2 I require the Authority under section 23A(3)(b) to report the results of its Investigation in a Mid-Term Report by no later than 31 October 2028.



## F. Definitions and Interpretations

In this Referral these terms have the following meanings:

Term	Meaning
Allowable Costs	<ol style="list-style-type: none"> <li>1. GAWB's costs associated with Water Security Assets for the following: <ol style="list-style-type: none"> <li>i. contracted costs for operating and maintaining Water Security Assets.</li> <li>ii. Prudent and efficient operating, administration and connection costs.</li> <li>iii. Water Allocation costs, excluding the upfront capital component met by the \$55.5 million capital grant (and associated interest earnings) provided by the Queensland Government (e.g. Rookwood Weir Water Allocation purchase costs).</li> <li>iv. Forecast prudent and efficient capital expenditure associated with the renewal and replacement of the Water Security Assets.</li> <li>v. A return on capital on the RAB using an Appropriate Rate of Return.</li> <li>vi. Depreciation charges for the RAB assets determined consistent with the Authority's previous approach in GAWB's Previous Price Monitoring Investigation.</li> <li>vii. Allowances for tax and working capital, where appropriate.</li> </ol> </li> </ol>
Allowable Revenue	Revenue received from providing Monopoly Business Activities.
Appropriate Prices	<p>Prices for the Water Security Assets that are consistent with the following:</p> <ol style="list-style-type: none"> <li>(a) Allowable Costs;</li> <li>(b) Reserved Demand; and</li> </ol> <p>Prices that are:</p> <ol style="list-style-type: none"> <li>(a) smoothed over the Price Monitoring Period; and</li> <li>(b) allow GAWB sufficient Allowable Revenue to recover the Allowable Costs of providing the Monopoly Business Activities.</li> </ol>
Appropriate Rate of Return	<p>The appropriate rate of return determined in GAWB's Previous Price Monitoring Investigation.</p> <p><u>Return on Equity</u></p> <p>The return on equity determined in GAWB's Previous Price Monitoring Investigation.</p> <p><u>Return on Debt</u></p> <p>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.</p>
Authority	Queensland Competition Authority
Forecast Inflation	Forecast inflation determined consistent with the Authority's previous approach in GAWB's Previous Price Monitoring Investigation.
GAWB	Gladstone Area Water Board
Investigation	The investigation required under this Referral.
Monopoly Business Activities	Bulk water storage, bulk water delivery, bulk water treatment and bulk water supply by GAWB.



Previous Price Monitoring Investigation	The Authority's GAWB price monitoring 2025-30 Final Report, released 14 May 2025 under the amending referral issued on 23 May 2024.
Price Monitoring Period	1 July 2026 to 30 June 2030.
RAB	<p>Regulated Asset Base</p> <p>(a) The opening RAB as of 1 July 2026 determined by:</p> <ol style="list-style-type: none"> <li>Accepting the forecast \$983 million (excluding GST) Fitzroy to Gladstone Pipeline (FGP) capital cost minus the Queensland Government's \$200 million capital grant provided to support construction.</li> <li>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.</li> <li>Inclusion of forecast Interest During Construction (IDC), where appropriate, including IDC associated with the construction of the FGP.</li> <li>Adjusted for depreciation and actual inflation over the period.</li> </ol> <p>(b) The forecast RAB for the period 1 July 2026 to 30 June 2030:</p> <ol style="list-style-type: none"> <li>Including an appropriate allowance for prudent and efficient capital expenditure related to the connection, integration, renewal and replacement of GAWB's Water Security Assets.</li> </ol>
Referral	This referral notice issued by the Finance Minister to the Authority, under Section 23A and Section 24 of the QCA Act, for the Authority to conduct a price monitoring investigation relating to the Monopoly Business Activities.
Reserved Demand	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).
Stated Matters	Those matters listed in Section C.
Finance Minister	Minister for Finance, Trade, Employment and Training
Water Act	<i>Water Act 2000</i>
Water Allocation	An authority granted under section 146 or section 147 of the Water Act to take water from an available water resource, managed under a Resource Operations Licence in an approved water plan area (in accordance with Chapter 2, Part 2, Division 3 of the Water Act).
Water Security Assets	<p>The Fitzroy to Gladstone Pipeline (FGP), and Water Allocations purchased for the purpose of transporting via the FGP.</p> <p>Water Security Assets and associated Allowable Costs are to be allocated to all customers based on Reserved Demand.</p>
Water Supply Act	<i>Water Supply (Safety and Reliability Act) 2008</i>

**HON. ROS BATES MP**

**Minister for Finance, Trade, Employment and Training**

# Appendix B: Declaration

## QUEENSLAND COMPETITION AUTHORITY ACT 1997 SECTIONS 19, 23 and 24 MINISTERS' DECLARATION AND REFERRAL NOTICE

As the Premier and the Treasurer of Queensland, we hereby declare under Section 19 of the *Queensland Competition Authority Act 1997* that the following government business activities undertaken by the Gladstone Area Water Board be declared to be government monopoly business activities:

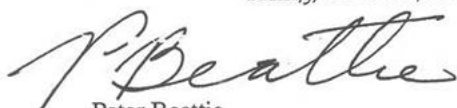
- (i) bulk water storage, including water storage for another person;
- (ii) bulk water delivery services;
- (iii) bulk water treatment services;
- (iv) supplying bulk water to another person, other than supplying bottled or containerised water.

As the Premier and the Treasurer of Queensland, we hereby refer under section 23 of the *Queensland Competition Authority Act 1997* the declared government monopoly business activities to the Queensland Competition Authority for the following investigations:

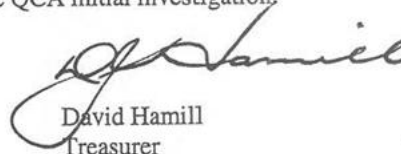
- (a) an initial investigation about the pricing practices relating to the declared activities; and
- (b) investigations for monitoring the pricing practices relating to the declared activities.

Under Section 24 of the *Queensland Competition Authority Act 1997* we direct the QCA in relation to this referral to:

- (a) report the results of the initial investigation to Ministers within three months of this notice; and
- (b) monitor prices included in contractual arrangements entered into during, and after, the period of the QCA initial investigation.



Peter Beattie  
Premier



David Hamill  
Treasurer

Date Signed: 13.9.00

Date Signed: 27/8/00

# Appendix C: Stakeholder submissions

The submissions we received are listed below (Table 24). They are numbered for reference purposes only – the numbers are used in the footnotes of the report. Table 25 sets out our responses to key issues raised in submissions. The submissions are available on our website.

**Table 24: Stakeholder submissions received**

Stakeholder	Sub. number	Date
CS Energy	4	27 October 2025
GAWB	1	5 September 2025
Gladstone Regional Council	2	17 October 2025
Rio Tinto	3	27 October 2025

**Table 25: Stakeholder comments and QCA responses**

Issue	Stakeholder comments	QCA response
<b>Price increases</b>	<p>Stakeholders raised concerns with the submitted price increases, particularly when water prices were already considered high. Stakeholders said we must consider the impact on cost of living, the economic viability of businesses and regional development.<sup>94</sup></p> <p>GRC stated that no consideration was given to affordability for households and businesses or their willingness to pay for the water security assets.<sup>95</sup></p>	<p>Our price monitoring task does not prescribe the prices that GAWB must charge. Commercial negotiation is the mechanism by which GAWB sets prices with its customers. As such, these are commercial matters for GAWB and its customers to resolve through commercial negotiation.</p> <p>We note that the Queensland Government has contributed grant funding towards the project, without which water security prices would be 22 per cent higher (section 6.6).</p>
<b>Allocation of costs</b>	<p>Stakeholders considered it unfair for existing customers to fully fund the water security assets, stating that the costs should be allocated according to the benefits received.<sup>96</sup></p> <p>GRC said it was unfair to expect the council and rate payers to contribute to the costs of GAWB's water security assets where reported benefits focused on securing water sources for industrial activity and development, including hydrogen proponents under development.<sup>97</sup> It stated that benefits for the GRC's water users were relatively minor, particularly given the high reliability of Awoonga Dam.<sup>98</sup></p> <p>CS Energy was of the view that the water security assets were intended for the hydrogen and renewable energy sector. It was unclear as to the benefits it would receive, given its view that its current arrangements provided sufficient capacity to manage any future drought outcomes and noting the FGP was downstream of the Awoonga Dam, where it draws raw water from.<sup>99</sup> CS Energy believed that GAWB should bear some utilisation risk for capital projects where benefits extend beyond current users, to ensure efficient and equitable cost allocation.<sup>100</sup></p> <p>Rio Tinto said it was inappropriate to recover costs associated with the FGP from all of GAWB's customers, when the true cost of the pipeline and its integration into GAWB's existing network remained uncertain.<sup>101</sup></p>	<p>We note that all customers benefit from water security and that the level of benefit is a matter of commercial negotiation between GAWB and its customers.</p> <p>Proposed hydrogen and renewable energy developments were not the catalyst for the FGP. Since 2007 GAWB has undertaken a range of studies and reports evaluating solutions to increase water supply and supplement the single source water supply risk from Awoonga Dam. The FGP was developed to address long term water security.</p> <p>Forecast demand for the price monitoring period does not include any new hydrogen and/or renewable energy sector demand (section 6.3).</p> <p>We note that GAWB is not proposing to recover all costs associated with its water security assets.</p>

**Operating costs**

Rio Tinto said that greater transparency should be provided on the O&M selection process, the resulting contract and service fee. It was of the view that the O&M contract should include efficiency incentives, and the service fee could be benchmarked to ensure it is efficient and competitive.<sup>102</sup>

GRC questioned costs associated with additional staff and professional service support. It stated that these appeared excessive and inefficient, particularly following the recent step change in GAWB's labour costs.<sup>103</sup>

It also questioned the assumption that GAWB would need to utilise its full water allocation from Rookwood Weir (on an annual basis) if no new demand was forecast, beyond marginal growth from existing users.<sup>104</sup>

As the O&M contract was procured concurrently with the design and construct contract, considerations of prudence and efficiency would need to consider the interactions and procurement processes, which we have not been directed to do. GAWB's procurement process is detailed in its submission (sub 1).

Our draft position is that it is prudent for GAWB to resource adequately for the implementation phase; however, this would need to be assessed in future monitoring periods.

We note GAWB has submitted that it will not seek to recover the 2025-26 O&M service fee. (GAWB, sub 1, p 32).

Forecast water allocations are made on the basis of the FGP maintaining water security for GAWB. Therefore, the volume of Rookwood Weir water allocations used is independent of new demand growth.

**Capital expenditure**

Stakeholders sought greater transparency around the submitted RAB, including in relation to:

- government grants and how these had been applied<sup>105</sup>
- the weighted average asset life, including assumptions used<sup>106</sup>
- how \$33 million in pre-construction and ancillary activity costs were accounted for.<sup>107</sup>

Chapter 4 (Asset base) of this draft report clarifies the treatment of government grants and GAWB's asset lives. As noted in Chapter 3 (Capital expenditure) pre-construction costs are included in the prescribed value of water security assets of \$983 million, which confirms it is the Government's intent that GAWB be allowed to recover these costs.

<sup>94</sup> GRC, sub 2, pp 7-8; Rio Tinto, sub 3, p 3; CS Energy, sub 4, p 2.

<sup>95</sup> GRC, sub 2, p 7.

<sup>96</sup> GRC, sub 2, p 2; CS Energy, sub 4, p 2.

<sup>97</sup> GRC, sub 2, pp 3-4.

<sup>98</sup> GRC, sub 2, p 3.

<sup>99</sup> CS Energy, sub 4, p 2.

<sup>100</sup> CS Energy, sub 4, p 2.

<sup>101</sup> Rio Tinto, sub 3, p 4.

<sup>102</sup> Rio Tinto, sub 3, p 4.

<sup>103</sup> GRC, sub 2, p 9.

<sup>104</sup> GRC, sub 2, p 9.

<sup>105</sup> GRC, sub 2, p 9; Rio Tinto, sub 3, pp 4-5.

<sup>106</sup> Rio Tinto, sub 3, p 5.

<sup>107</sup> GRC, sub 2, p 9.



	GRC was of the view that costs to enable bidirectional use of the FGP in the future should be excluded from the RAB. <sup>108</sup> It also considered it inappropriate for GAWB to recover a return on and of capital through water charges levied on the GRC, based on the prior treatment of government funded water projects. <sup>109</sup>	GAWB has not identified or claimed any additional capital costs to enable bidirectional capability at this stage.
<b>Rate of return</b>	Rio Tinto stated that GAWB's WACC was substantially out of line with other regulatory decisions for water assets operated in Australia. It considered that GAWB's return on equity should be reassessed or, alternatively, GAWB should be required to assume greater risk and strive for improved cost efficiency. <sup>110</sup>	Our proposed rate of return for GAWB is not out of line with recent regulatory decisions for water assets operated in Australia. These matters have been subject to detailed consideration in our recent investigation.  Our proposed rate of return is consistent with recent regulatory decisions and is commensurate with GAWB's risk profile.
<b>Impact on existing water arrangements</b>	CS Energy sought assurance that it would not be subject to water restrictions if the water security price did proceed. It also requested confirmation as to whether there would be any changes to its agreement because of the water security asset and water security price definitions. <sup>111</sup>	Commercial matters are subject to negotiation between GAWB and its customers.  We note that GAWB's drought management plan outlines the various restriction levels based on the duration of reliable water supply availability. <sup>112</sup>

<sup>108</sup> GRC, sub 2, p 10.

<sup>109</sup> GRC, sub 2, p 8.

<sup>110</sup> Rio Tinto, sub 3, p 5.

<sup>111</sup> CS Energy, sub 4, p 3.

<sup>112</sup> GAWB, [Drought and flood management](#), GAWB website, 2025.

# Appendix D: Consideration of section 26 and referral stated matters

Below we explain how we have considered and had regard to each of the matters in section 26 of the QCA Act and the referral notice (section C), in accordance with section 24(1)(b) of the QCA Act.

Matters		QCA consideration
Section 26 matters		
(1)(a)	The need for efficient resource allocation	We form a view on appropriate prices for water security assets, where that reflects our assessment of prudent and efficient costs, this is consistent with promoting efficient investment by GAWB and efficient consumption by customers (Chapters 2, 3 and 5).
(1)(b)	The need to promote competition	Consistent with competitive neutrality principles, GAWB should not have a competitive advantage over private sector firms due to government ownership. In accordance with these principles, we consider appropriate prices based on cost allowances reflecting the tax obligations and return on equity of a benchmark efficient firm (Chapter 5).
(1)(c)	The protection of consumers from abuses of monopoly power	Our appropriate prices we develop provide transparency and accountability through our ongoing price monitoring activities.
(1)(d)(i)	The cost of providing the service in an efficient way, having regard to relevant interstate and international benchmarks	We have regard to benchmarking, where we consider this to be appropriate, including considering benchmark analysis relating to our rate of return approach.
(1)(d)(ii)	The actual cost of providing the service	Our assessment of the prudence and efficiency of costs was informed by information provided by GAWB about its actual and forecast costs (Chapters 2 and 3).
(1)(d)(iii)	The standard of the service, including quality, reliability and safety	When assessing GAWB's forecast costs, we considered GAWB's operating environment and its regulatory obligations. Our assessment considered whether GAWB could meet the required standards of quality, reliability and safety when delivering bulk water services. Cost reductions are not efficient if they are achieved at the expense of service quality.

Matters		QCA consideration
(1)(e)	The appropriate rate of return on assets	Our assessment of appropriate prices reflects a rate of return on assets that is calculated in accordance with the parameters in the referral notice (Chapter 4).
(1)(f)	The effect of inflation	Inflation is relevant to several aspects of our assessment, including the rate of return, indexation of the regulatory asset base and cost escalation (Chapters 2, 4 and 5). We determined the forecast rate of inflation using our published methodology, as required by the referral notice. We established the opening value for the RAB using the actual rate of inflation (Chapter 4).
(1)(g)	The impact on the environment of prices charged by GAWB	Environmental impacts are generally managed through non-price means. Our assessment of appropriate prices provides for GAWB to recover sufficient revenue to meet its environmental obligations, including compliance with legislation and regulations.
(1)(h)	Considerations of demand management	We have not identified any concerns with demand management during our investigation.
(1)(i)	Social welfare and equity considerations including community service obligations, the availability of services to consumers and the social impact of pricing practices	GAWB will ultimately decide whether to adopt our findings or set different prices.
(1)(j)	The need for pricing practices not to discourage socially desirable investment or innovation	Our assessment of appropriate prices supports efficient investment, because it allows GAWB to recover the prudent and efficient costs for its water security assets.
(1)(k)	Legislation and government policies relating to ecologically sustainable development	Appropriate prices enable GAWB to recover the prudent and efficient costs of meeting its regulatory requirements, including its environmental obligations and water security planning requirements.
(1)(l)	Legislation and government policies relating to occupational health and safety and industrial relations	Our findings provide GAWB with sufficient revenue to satisfy occupational health and safety and industrial relations obligations.
(1)(m)	Economic and regional development issues, including employment and investment growth	Appropriate prices enable GAWB to recover its prudent and efficient costs over time, while providing it with sufficient revenue to invest efficiently, which benefits businesses and households using the service. We note that water security mitigates the extreme costs of drought and water restrictions.



Matters		QCA consideration
(1)(n)	Any directions given by the government to GAWB	We take the directions provided to GAWB into account where they are relevant to our assessment.
(2)	Any water pricing determinations	Not applicable, as there are no water pricing determinations in effect. <sup>113</sup>
Referral notice stated matters (section C)		
C.(1.1)	The Appropriate Prices for the Price Monitoring Period, including Water Security Assets.	Our draft report forms a view on appropriate prices applicable to water security assets.
C.(1.2)	How the Appropriate Prices compare to actual prices charged by GAWB over the period 1 July 2026 to 30 June 2028	We will address this stated matter when preparing our mid-term report, due by no later than 31 October 2028.

<sup>113</sup> Water pricing determinations apply to private sector water supply activities that are declared under Part 5A of the QCA Act. There are currently no declared water supply activities under Part 5A.