

WATER SECURITY ASSETS

Price Review

RESPONSE TO QCA DRAFT REPORT

March 2026

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1. Introduction

This submission by the Gladstone Area Water Board (GAWB) responds to the Queensland Competition Authority's (QCA's) Draft Report on its price monitoring investigation of the Water Security Assets (the Draft Report). This investigation assesses GAWB's proposed Annual Allowable Revenue (AAR) and the Water Security Price for the Water Security Assets in accordance with a Referral Notice issued by the Minister on 16 June 2025. The Water Security Price will apply for the period from 1 July 2026 to 30 June 2030.

GAWB welcomes the preliminary findings in the QCA's Draft Report. GAWB also acknowledges the submissions made by some of its major customers and the concerns raised in those submissions.

Given the potentially severe impact of drought events on households, businesses and industries in the Gladstone region, the overarching imperative is to address the water security risks associated with the region's reliance on a single source of supply, the Awoonga Dam, which has a small catchment area. Identification of those risks led to a series of detailed investigations over the last several decades by the Queensland Government and GAWB. Those investigations culminated in the Queensland Government's 2023 decision to proceed with the FGP as an essential solution to improving water security for the Gladstone region.

As at the date of preparing this response, the FGP is in the final stages of construction.

1.1 Scope of this submission

As identified in GAWB's September 2025 submission, there remain some uncertainties regarding aspects of the operation and integration of the FGP and the associated costs that are only likely to become clearer once the FGP has been commissioned and is operational for a period of time. Where feasible, GAWB has updated elements of its cost forecasts in this response to reflect the most recent information as the FGP moves closer to commencing operations. As outlined in this response and summarised in section 6.3, in many cases these inputs will need to be updated further prior to setting the final Water Security Price.

Based on GAWB's updates provided in this response, the current indicative Water Security Price is \$1,384.76/ML, to apply from 1 July 2026.

This submission is structured as follows:

- Chapter 2 addresses general matters, including responding to the stakeholder submissions and further explaining the benefits of the Water Security Assets;
- Chapter 3 addresses capital expenditure;
- Chapter 4 addresses operating expenditure;
- Chapter 5 reviews the rate of return; and
- Chapter 6 provides updated the AAR and Water Security Price to apply from 1 July 2026 and summarises the inputs that will be subject to a final review and update prior to setting the final Water Security Price.

2. General matters

This Chapter addresses the following:

- GAWB's commercial and regulatory framework;
- the benefits of the Water Security Assets;
- the stakeholder submissions; and
- the status of the FGP.

2.1 GAWB's commercial and regulatory framework

As part of the QCA's price monitoring investigation of GAWB's bulk water prices (excluding the Water Security Assets) for the FY2026-30 regulatory period, the QCA made a number of references reflecting its assumption that final bulk water prices are subject to commercial negotiation between GAWB and its customers. In its February 2025 response to the QCA's Draft Report for the FY2026-20 price monitoring investigation,¹ GAWB highlighted that while it agrees with the principle of giving primacy to commercial negotiations within the context of a price monitoring investigation under section 23A of the *Queensland Competition Authority Act 1997* (the QCA Act), the nature of its regulatory and commercial framework means that in practice, the QCA's findings have a significant influence on actual pricing outcomes.

The QCA has restated this assumption in its Draft Report.² Reference is made to Chapter 2 of GAWB's response to the QCA's Draft Report for the FY2026-30 price monitoring investigation, submitted to the QCA in February 2025, regarding its commercial and regulatory framework,³ which is not restated here. GAWB also notes that even if it had greater flexibility under its Water Supply Contracts in negotiating pricing arrangements with individual customers, significant issues then arise to the extent that this results in differential pricing between customers for what are essentially the same services, and which were declared as monopoly business activities under the QCA Act over 20 years ago. This outcome would be inequitable, could compromise economic efficiency and result in a degree of cross-subsidisation between customers.

2.2 Benefits of the Water Security Assets

As outlined in section 2.3 below, one of the matters raised in customer submissions is the water security benefits of the FGP and the distribution of these benefits across GAWB's network. While the QCA has not raised concerns about this in its Draft Report, nor has this matter impacted the QCA's preliminary findings, GAWB considers it important to provide further explanation about how water security will continue to be managed under GAWB's Drought Management Plan (DMP) and how the benefits of the Water Security Assets are delivered. This information was not included in its September 2025 submission.

¹ https://www.qca.org.au/wp-content/uploads/2023/12/gawb-response-to-draft-report-public-version_redacted.pdf

² Queensland Competition Authority (2025). Gladstone Area Water Board price monitoring 2026-30: Water security assets, p.10.

³ https://www.qca.org.au/wp-content/uploads/2023/12/gawb-response-to-draft-report-public-version_redacted.pdf

2.2.1 The need for improved water security

The need for a water security solution for the Gladstone region was outlined in detail in GAWB's September 2025 submission (refer Chapter 2), drawing upon the extensive investigations and analysis by the Government and GAWB over the last two decades. The need for this solution is not contentious and is briefly revisited below for context.

The service need for a water security solution in Gladstone is driven by water demand and supply conditions in the region. In recent years, prolonged drought conditions have seen reduced inflows into the Boyne River catchment area for Awoonga Dam. The Awoonga Dam wall was raised from 30 metres to 40 metres in 2002 but since that time, it has continued to experience significant variability and extended periods of low inflows. This is illustrated by its lowest recorded level of just 7.44% capacity in 2003 during a time of drought to being over 193% capacity in 2013.

GAWB manages these risks under its approved DMP, which sets out its system operations and management strategy in periods of prolonged low inflows, including when and how supply restrictions will be imposed.

The Gladstone region is highly dependent on water to support economic production that in turn supports the regional population and industry supply chains. Generally, GAWB's industrial customers operate using large continuous flow batch processing and therefore are broadly unable to significantly restrict water use, except in large block decrements, which then threatens the financial viability of that operation. Water restrictions, or water supply failure, would pose a risk to many industrial operations in the region, having a direct and immediate impact on production for GAWB's industrial customers and an adverse impact on the local community.

In addition to the social costs, as part of the Detailed Business Case (Stage 2) undertaken by Government, the economic cost of a water supply failure event in Gladstone was estimated at \$1.7 billion per annum.⁴ It was therefore imperative that water security is properly addressed.

2.2.2 The role of the Drought Management Plan

GAWB's original DMP was registered by the Regulator on 12 September 2007. Despite the removal of the legislative requirement for water service providers to have a DMP in May 2014, the need for a DMP remains very important. Since 2009, GAWB has incorporated the DMP into the GAWB Management System and it is referenced in GAWB's contractual arrangements with its customers.

The DMP has been subject to periodic reviews and updates in response to changes in data regarding inflows, customer demands and available demand-side and supply-side options. Key considerations in the preparation of the DMP are:

- public health;

⁴ Department of Regional Development, Manufacturing and Water (2022). Fitzroy to Gladstone Pipeline Project – Detailed Business Case Stage 2, p.4. Available at: <https://www.dlgwv.qld.gov.au/water/consultations-initiatives/fitzroy-to-gladstone-pipeline-project/detailed-business-case>.

- the economic impact of restrictions;
- contractual rights and application of the DMP;
- commercial flexibility;
- future requirements;
- availability;
- trigger levels and supply restriction base; and
- environmental and downstream release.

The DMP sets out GAWB's System Operations and Management Strategy, the objective of which is to limit restrictions in recognition of their significant impact on customers, as well as wider employment and economic impacts, both in Queensland and Australia-wide. Key demand-side measures deployed under the DMP include (but are not necessarily limited to) the issuance by GAWB of a Low Supply Alert, followed by the imposition of supply restrictions if required. The DMP explains how the measures will be employed, including when and how customers will be notified. GAWB undertakes regular drought modelling to inform its assessment as to if and when measures such as a Low Supply Alert and water restrictions need to be imposed.

The DMP has undergone a major revision in anticipation of the commissioning of the FGP in 2026. A key consideration in the revision of the DMP is the incorporation of a second source of water and how the water security benefits of the FGP can be best realised to retain customers on full supply for the longest time possible, while minimising the likelihood of customers reaching higher levels of water restrictions, thus maximising economic output and employment outcomes.

2.2.3 The benefits of the FGP

The FGP will improve water security by substantially reducing the likelihood of the need for GAWB to implement demand-side measures under the DMP, which primarily involves water restrictions. Based on the hydrological modelling, the risk of a water supply failure, which occurs when Awoonga Dam level reaches 'Dead Storage', or falls below the Minimum Operating Level, is expected to be eliminated. Dead Storage is where the volume of water is below the level of the lowest offtake, which cannot be accessed without the use of temporary pumps or other means of extraction.

As noted in GAWB's September 2025 submission, the FGP will commence delivering benefits from the first day of operations because every litre of water delivered to GAWB's network via the FGP is a litre of water that is not drawn from Awoonga Dam, thus maintaining as much as possible the levels at Awoonga Dam. Doing so builds supply security for all customers in the region.

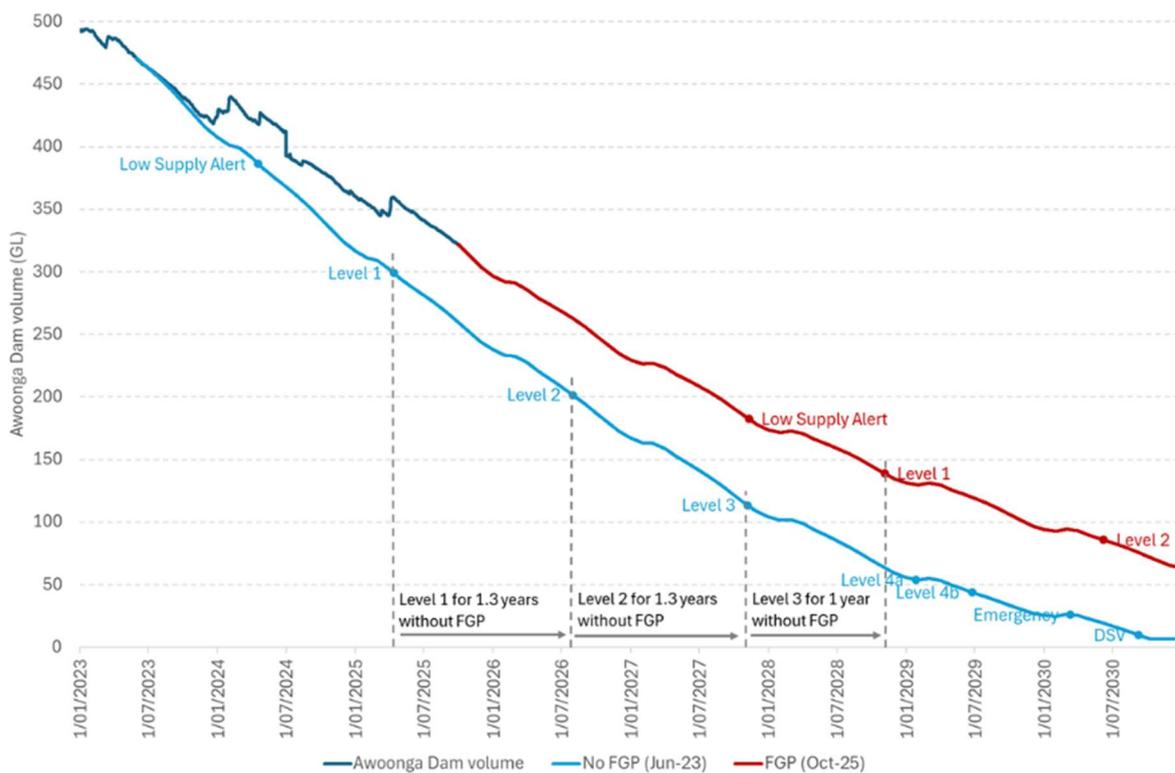
Soon after the decision to invest in the FGP was made by Government, GAWB included the supply of Fitzroy River water via the FGP into its drought modelling. Based on this modelling, when lodging its September 2025 submission GAWB noted that at that time in the absence of the FGP GAWB would have already had to issue a Low Supply Alert and consider moving to Level 1 restrictions. It is important to note that the FGP is already providing economic and employment benefits in delaying the timeline of potential supply restrictions prior to it becoming

operational, because its pending operation allows GAWB to factor future water delivery from the FGP into its drought modelling and decision making under the DMP.

Following the lodgement of the September 2025 submission, in November 2025 GAWB engaged Synergies Economic Consulting (Synergies) to estimate the economic value of the FGP, using outputs from GAWB’s drought modelling. This analysis compared the expected implementation of future drought restrictions without the FGP, modelled at the time the Low Supply Alert was lifted,⁵ with the then-latest expected implementation of drought restrictions with the FGP (as at October 2025). This modelling had regard to the operating environment and the (then current and forecast) hydrological conditions at that time.

GAWB’s drought model was used to forecast the expected timing of water restrictions under two scenarios – one that includes the FGP and one without the FGP. It modelled the impact of these two scenarios on storage levels in Awoonga Dam and the likely timing and duration of Level 1, 2 and 3 restrictions. The results are shown in the figure below.

Figure 2.1 Modelled timing of restrictions with and without the FGP



Source: Gladstone Area Water Board

Synergies then used this data to measure the economic impact of restrictions under the ‘No FGP’ scenario over the period from April 2025 to November 2028. That analysis estimated

⁵ The lifting of the Low Supply Alert in June 2023 was informed by the drought modelling undertaken at the time, which included the additional water provided via the FGP.

that under this scenario, the total direct economic cost to GAWB's customers over that period (being significantly shorter than the expected FGP asset life of greater than 60 years) without the FGP would be approximately \$1.51 billion.

Further, beyond those direct customer impacts it also estimates the broader economic impact based on the loss of 'value add' (or the value of foregone economic output) as follows:

- \$574.43 million in lost Gross Regional Product;
- \$989.17 million in lost Gross State Product; and
- \$1,808.24 million in lost Gross Domestic Product.

It also estimated that it would avoid the loss of 796 FTE positions in the Gladstone region, 1,518 FTEs across Queensland and 2,986 FTEs nationally.

Synergies' analysis was undertaken at a point in time. It is also indicative, incorporating actual historical data and forecasts that are based on a range of assumptions, including actual conditions (current and forecast) that prevailed at the time. It is noted that a range of different future scenarios could be faced by the region in terms of the timing, severity and duration of drought, and that the above analysis does not capture the cumulative long-term benefits that will accrue to the region over time in the face of a changing climate.

The FGP significantly reduces the potential economic and community impacts of water restrictions and water supply failure. Ultimately, it will provide all water users in the Gladstone region, including residential, commercial and industrial customers, with greater confidence in their reliable, ongoing access to adequate quantities of water, including safe drinking water. For industrial customers, this provides greater confidence in the continuity of supply for their operations, as well as in planning and budgeting.

Consistent with the findings of the Government's investigations, the Synergies analysis shows the significant economic benefits that will accrue to the Gladstone region, and more broadly. Ultimately, the FGP delivers significant benefits to the community well in excess of its costs. In addition to the direct impacts of the avoided costs of water restrictions to residents and businesses, improvements to water security strengthens the economic resilience and prosperity of the Gladstone region for the benefit of current and future generations (and also has flow-on benefits to other communities and the State economy). Locally, this generates income for businesses and employment for residents.

Current forecasts and evidence base

The measurement and assessment of the risks to water security prior to the introduction of the FGP, as well as the improvements that can be expected once operational, are based on detailed hydrological modelling. This is presented in terms of the likelihood of restrictions being imposed, measured as 1 in x number of years (on average).⁶ The estimated benefits of the FGP, measured as the difference between the average recurrence interval of water restrictions with and without the FGP, are summarised in the table below.

⁶ Modelling assumes the FGP is operational and Awoonga Dam has reached full capacity.

Table 2.1: Measurement of the benefits of the FGP

Restriction level	Without the FGP	With the FGP
Level 1	1 in 4.4 years, on average	1 in 7.5 years, on average
Level 2	1 in 11.2 years, on average	1 in 27.2 years, on average
Level 3	1 in 22.1 years, on average	1 in 70.4 years, on average
Level 4	1 in 39.4 years, on average	1 in 125.0 years, on average
Dead Storage Volume	1 in 185.1 years, on average	No simulated occurrences

Source: Gladstone Area Water Board

Effectively, based on the hydrological modelling, while the introduction of the FGP will not eliminate the need for water restrictions, it will materially reduce the likelihood of their introduction and significantly extends the periods between potential restrictions. Importantly, the FGP is expected to eliminate the ‘worst case scenario’ of a water supply failure. Such a failure would have a major adverse impact on the region. All customers share in these benefits which have significant economic value well in excess of the total cost of the FGP over its operating life.

How those benefits are delivered across the network

Upon completion of the FGP, GAWB’s two main water sources – Awoonga Dam and the Fitzroy River water supplied via the FGP – will be fully interconnected into its bulk water network. There is no distinction between water supplied from Awoonga Dam and water supplied via the FGP. That is, from a service delivery perspective, customers are drawing water from ‘GAWB’s network’, not from ‘Awoonga Dam’ or ‘the FGP’.

Reliability therefore needs to be considered from the perspective of GAWB’s entire network. There is no differentiation in that reliability based on where a customer is located on the network. The fact that the FGP supply connects into the network downstream of Awoonga Dam is irrelevant in the context of reliability improvements for customers because any water drawn via the FGP commensurately reduces the volume of water that must be drawn from Awoonga Dam.

While on a different scale, parallels can be drawn with the South-East Queensland (SEQ) Water Grid, which is owned and managed by Seqwater (refer Box 2.1). This is operated and managed on an integrated whole-of-grid level, with customers subject to the same level of service objectives regardless of location (or proximity to major supply sources). This similarly applies where restrictions need to be imposed in the event of drought.

Box 2.1: The SEQ Water Grid

The SEQ Water Grid was established in July 2008 to connect water supplies and treatment facilities across the SEQ region, providing coordinated management of water resources. The SEQ region consists of three water resource plan areas (Gold Coast, the Logan Basin and Moreton), covering a total area of 21,331 km² and servicing a population of 3.2 million people.

Seqwater's network comprises dams, water treatment plants, one desalination plant, bulk water reservoirs, pump stations and over 600km of bulk water supply pipelines. Some of these assets are not connected to the Grid, with Seqwater supplying drinking water to approximately 53,000 residents living in 16 off-grid communities. Seqwater provides bulk water services to five local government owned retailer customers and also delivers water to 1,200 irrigation and industry customers. Seqwater's bulk water prices are subject to review by the QCA.

The connection of these assets into the SEQ Water Grid has allowed the coordinated management of the water resources, including enabling treated drinking water to be moved around the region as required. This is considered especially important when variable rainfall leaves some areas of the region with full dams, and others with lower dam levels. The Grid can therefore supplement but not completely replace local water supplies due to some network constraints.

Seqwater's Water Security Program sets out how it will ensure that SEQ communities have access to safe, secure and valued water supply now and in the future. This includes how it will continue to achieve the Queensland Government's desired level of service objectives for SEQ and respond to drought conditions.

There is no distinction applied in terms of the level of service provided to the SEQ water retailers that are connected to the SEQ Water Grid. This includes how and when restrictions will be imposed in the event of drought. Further, all of the costs associated with delivering bulk water services are shared by all customers (now that transition to full cost recovery has been completed). This includes the significant costs associated with the investment in the Millennium Drought Assets and subsequent revenue under-recoveries by Seqwater. That is, regardless of location, there is no distinction in the level of service provided, or price paid, by connected bulk water customers.

Sources: Bureau of Meteorology, <http://www.bom.gov.au/water/nwa/2014/seq/contextual/physicalinformation.shtml>; Seqwater, South East Queensland Water Security Program 2023, <https://www.seqwater.com.au/water-security>.

The implications of this integrated approach for GAWB are that the water security benefits resulting from the FGP are network-wide and are equitably shared across all customers regardless of where they are connected to the network, that is, whether they are directly supplied with Fitzroy River water, comingled water or water directly from Awoonga Dam. In other words, the incremental improvement in reliability for individual customers due to the introduction of the FGP is the same regardless of their location. This can be illustrated by way of a simple example, which shows the estimated change in the probability of Level 1 restrictions being imposed following the full integration of the FGP, based on the hydrological modelling.

Table 2.2: Estimated change in the probability of Level 1 restrictions

Customer location	Without the FGP	With the FGP
Customer A, {located on GAWB's delivery network, accessing FGP or comingled water supply}	1 in 4.4 years, on average	1 in 7.5 years, on average
Customer B, {connected directly to Awoonga Dam with no access to GAWB's delivery network}	1 in 4.4 years, on average	1 in 7.5 years, on average
Customer C, {located on GAWB's delivery network accessing Awoonga Dam water only}	1 in 4.4 years, on average	1 in 7.5 years, on average

Source: Gladstone Area Water Board

As stated in GAWB's September 2025 submission, the FGP is not a contingent supply source that is only operated in periods of drought. The assets are part of core supply and involve continuous operation, utilising the full capacity of 30GL per annum (following the completion of the ramp-up period). This operating mode underpins the derivation of the above drought management and hydrological benefits and is consistent with the basis upon which the Queensland Government's investment decision was made.

2.3 Response to the stakeholder submissions

The QCA received three submissions from customers in response to GAWB's proposal – CS Energy, Gladstone Regional Council (GRC) and Rio Tinto. The QCA identified and responded to the issues raised in those submissions in section 1.4 and Appendix 3 of its Draft Report. GAWB's responses to the main issues raised are presented below.

2.3.1 Price impacts and affordability

Stakeholders expressed concerns with GAWB's indicative Water Security Price, within the context of current bulk water prices. It was submitted that the QCA must consider the impact on cost of living, the competitiveness and financial sustainability of businesses and regional development.

Full cost pricing and affordability

GAWB acknowledges the concerns raised by customers regarding the pricing impacts of recovering the efficient costs of the Water Security Assets, which reflects the magnitude of the investments required to deliver an appropriate societal risk-based water security solution for the Gladstone region given its importance to the State and national economies. The imperative for this solution was outlined in GAWB's September 2025 submission (Chapter 2) and was summarised above.

The economic and financial analysis undertaken as part of the Government's investigations, which also underpinned its final investment decision to proceed with the FGP, assumed a full cost pricing approach. An expectation of full cost pricing is also reflected in the terms of the Referral Notice for the current price investigation.

GAWB recognises that there can be inherent challenges in practically reconciling full cost pricing principles with perceptions of affordability. In this regard, GAWB considers that the definition of affordability when addressing water security needs to include a holistic assessment of the economic cost and other consequences of water supply restrictions or water supply failure.

This challenge has also previously been recognised by the QCA in reviewing its regulatory pricing principles for the water sector, where it observed:

In general, we consider that social equity factors are best addressed through government policy because elected representatives are best placed to make decisions involving broader social policy and to resolve trade-offs between conflicting public interest matters.

Moreover, affordability concerns can typically be more effectively addressed by using the tax and transfer system. For example, income support payments can better address general cost of living pressures experienced by some residential customers and targeted industry assistance can be more effective at addressing temporary shocks such as droughts. By providing direct assistance, these policies limit potential distortions to efficient prices thereby leaving customers to make efficient decisions in the use of water and other resources.⁷

GAWB's prices are set to fully recover its efficient costs (including a return on and of capital), in accordance with the commitment of all State and Territory governments to the National Water Initiative Pricing Principles.⁸ Any departure from those principles and the pricing of services outside of those principles (such as individual customer price outcomes) is appropriately a matter for government policy.

Comparisons across regional Queensland councils

GRC also submitted analysis that sought to benchmark 2025-26 water charges across a selection of coastal regional councils in Queensland, which it argued shows that the charges paid by Gladstone residents are already comparably higher than any other council.⁹

Significant caution needs to be exercised in trying to draw direct comparisons between councils in this context.

As the supplier of bulk water to GRC, GAWB is the only regional urban water provider subject to economic regulation.¹⁰ Its prices are set using the 'building blocks' approach (as is commonly applied across regulated water businesses in Australia), which is subject to a detailed and independent review by the QCA. The approaches and assumptions used by each of the regional councils referenced in setting water charges is not known. This includes whether they reflect a conventional building blocks approach (based on full cost recovery) and/or what costs have been applied in setting prices.

The characteristics of each region that are relevant to the costs of supplying water will all differ, including where investment is needed (including in consideration of its importance to State

⁷ Queensland Competition Authority (2021). Statement of regulatory pricing principles for the water sector, Final Statement, April, p.10.

⁸ <https://www.dcceew.gov.au/water/policy/policy/nwi/pricing-principles>

⁹ Gladstone Regional Council (2025). Gladstone Area Water Board – Water Security Assets Price Review 2027-30 Period.

¹⁰ Prices for irrigation services provided by Sunwater are also subject to price regulation by the QCA.

and Federal fiscal outcomes). These differences include (but are not limited to) hydrological conditions and drivers of the need for additional water security solutions. The drivers of this solution for the Gladstone region have been subject to extensive analysis and investigations, considering the vulnerability of the region to drought and the impact of this on the reliability of water supply. The demand base in each region is also different, which ultimately effects the unit price paid by customers.

2.3.2 Cost allocation and benefits of the Water Security Assets

As noted by the QCA in its Draft Report, a number of comments have been made in this context, including concerns regarding:

- the allocation of costs between new and existing customers, which in some cases reflects the continued erroneous perception by some stakeholders that the Water Security Assets are for the benefit of new (hydrogen) customers; and
- how the water security benefits will accrue to customers, with some respondents arguing that they will derive limited benefits.

It was also suggested that costs should be allocated according to the benefits each user receives, having regard to user pays principles. One respondent also sought assurance that it would not be subject to water restrictions if the Water Security Price proceeds.

As GAWB highlighted in its September 2025 submission, water security was the primary driver for the Government's investigations of the FGP and hence its subsequent investment decision. The demand for water by the emerging hydrogen industry was considered by Government as part of a separate analysis.¹¹ For example, the Detailed Business Case Stage 2 (DBC2), which also assessed the options of a bidirectional or unidirectional pipeline, stated:

The emerging hydrogen sector has the potential to generate a significant increase in water demand in Gladstone, to the extent that any FGP proposed to date would not deliver sufficient water supply for the sector. The demand stemming from the hydrogen sector, while likely to be significant, is out of scope for the DBC2 assessment.¹²

...

Additionally, there is also a concurrent project underway assessing the water supply to the emergent hydrogen production industry in Gladstone. The impact of this industry is being considered as part of a separate options assessment into potential water supply options to support this emerging industry and for the purpose of this analysis that demand is not considered as part of this DBC2 analysis.¹³

While the Detailed Assessment acknowledged that the FGP may be able to allow additional capacity for future demand, the recommendation to proceed with the 30 GL per annum FGP

¹¹ Water Supply to the Emergent Hydrogen Production Industry in Gladstone Options Analysis (H2OA).

¹² Department of Regional Development, Manufacturing and Water (2022). Fitzroy to Gladstone Pipeline Project – Detailed Business Case Stage 2 (DBC2), p.4.

¹³ Department of Regional Development, Manufacturing and Water (2022). p.5.

was predicated on addressing the defined problem, which was the provision of appropriate water security to GAWB's urban and industrial customers.¹⁴

The way in which the Water Security Assets will deliver the identified water security benefits to different customers across the network is a very important issue. This was explained in section 2.2. This demonstrates that the benefits of the Water Security Assets are equitably shared across all customers on the network – there is no difference in how the benefits accrue, whether that is based on the nature each user's demand, their reserved capacity, their location on the network or some other factor. Given all users equally share these benefits, it is appropriate to allocate the costs accordingly.

As shown in section 2.2, while the Water Security Assets will significantly improve water security for the Gladstone region by materially reducing the likelihood of restrictions needing to be imposed, this does not guarantee that restrictions will not need to be imposed. This issue was the subject of detailed hydrological modelling and analysis as part of Government's investigations, including as documented in the Detailed Assessment and Detailed Business Cases. There was no expectation or presumption that the water security solution for Gladstone would eliminate the need for restrictions in the future. Even if this was technically feasible, the cost of such a solution could be expected to outweigh the benefits.

However, as outlined above, while the need for restrictions has not been eliminated, based on the hydrological modelling the FGP is expected to eliminate the occurrence of a water supply failure event.

2.3.3 Transparency of cost forecasts

A number of the issues identified in the submission reflect concerns regarding the limited transparency of GAWB's cost forecasts, for both operating and capital expenditure.

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

- how \$33 million in pre-construction and ancillary activity costs were accounted for;
- government grants and how these had been applied (particularly in the context of the RAB) – this refers to the \$365 million capital grant referenced in the Referral Notice, which was interpreted by the respondent to be in addition to the \$200 million capital grant; and
- the weighted average asset life, including assumptions used.

GAWB is conscious of the limited transparency that has been required in its public submissions, which was necessitated by confidentiality arrangements that protect commercially sensitive information. However, it has provided the QCA with access to all relevant information and documentation to enable it to undertake its assessment in accordance with the Referral Notice on behalf of stakeholders.

Since the publication of the Draft Report in December 2025, GAWB has continued to work with its suppliers to refine GAWB's confidentiality claims with the goal to provide further transparency to stakeholders, particularly regarding forecast operating costs. Subsequently,

¹⁴ Department of Regional Development, Manufacturing and Water (2024), Fitzroy to Gladstone Pipeline – Detailed Assessment, p.6.

at GAWB's request, the QCA republished its Draft Report in February 2026 with reduced redactions. Similarly, GAWB has sought to limit its confidentiality claim as much as possible in this response.

The QCA's Draft Report also provides further information on the submitted RAB. In response to the points raised by stakeholders, this highlights the following.

- **Pre-construction and ancillary activity costs:** As the QCA notes in its Draft Report, the \$33 million in pre-construction and ancillary activity costs were included in the \$983 million capital value that it was directed to accept by the Minister in the Referral Notice. It is common for costs of this nature to be capitalised into the value of a major project.
- **Application of government grants:** GAWB appreciates that this was not clear to stakeholders in its September 2025 submission as this detail was provided separately to the QCA. The QCA's Draft Report clarifies that the \$365 million capital grant includes the \$200 million grant provided to support the construction of the FGP. The remaining amounts are not included the RAB (as they are not relevant to the capitalised value of the FGP for regulatory purposes), being:
 - \$109.5 million to meet tax equivalency liabilities arising from the capital grant itself,
 - \$55.5 million to cover the upfront capital costs of purchasing GAWB's water allocations from the Rookwood Weir (including interest earned on the overall grant).
- **Weighted average asset life:** The QCA has reviewed the assumptions used by GAWB in determining the weighted average asset life of the FGP. Its preliminary finding in the Draft Report is that this is reasonable. It does have a different view to GAWB in relation to the asset life that should apply to capitalised renewal and replacement expenditure under the Operations and Maintenance (O&M Contract), which is a separate issue to the weighted average asset life applied to the FGP (refer section 3.3).

2.3.4 Other matters

Uncertainty as to integration costs

One respondent suggested that it is inappropriate to recover costs associated with the FGP from all customers, when the true cost of the pipeline and its integration into GAWB's existing network remain uncertain.

While GAWB has noted the uncertainties associated with its cost forecasts at this stage in the process it has been transparent and detailed in how these forecasts have been determined and the assumptions that have underpinned them.

The timing, scale, design and cost of the FGP has been subject to considerable investigation by the Government and GAWB. As a result, the QCA has been directed via the Referral Notice to accept the \$983 million capital value of the FGP. GAWB cannot otherwise be expected to bear the costs of the FGP until the "long term" costs of integration are known as this is not financially sustainable.

In terms of other capital expenditure that is required to integrate the asset into GAWB's network (which is the main focus of this comment), GAWB is conservatively assuming a \$50 million allowance for the Gladstone water treatment plant (GWTP) and Yarwun water treatment plant (YWTP) upgrades, accompanied by an end of period true-up adjustment, to

avoid the over-recovery of revenue over the pricing period (noting that the more likely scenario is under-recovery). Before this is rolled into the RAB at the end of the current regulatory period, it will also likely be subject to an ex-post prudency and efficiency review by the QCA.

While the QCA has been directed by the Minister to accept the \$983 million capital value of the FGP, GAWB currently has no certainty that other capital expenditure it incurs in the current regulatory period to integrate the FGP into its operations will be accepted into the RAB at the end of the period. This places a strong incentive on GAWB to only incur prudent and efficient expenditure.

Full utilisation of water allocation

A question was raised about the assumption that GAWB will need to utilise its full 30 GL per annum water allocation from Rookwood Weir if no new demand was forecast, beyond marginal growth from existing users. The appropriateness of this assumption was questioned with the stakeholder submitting that new customers may be given the opportunity to access reserved demands from this allocation.

As GAWB outlined in its September 2025 submission, and in section 2.2 of this response, consistent with the assumptions underpinning the business case for the decision to invest in the FGP, GAWB must fully utilise its water allocation from the Rookwood Weir to be able to realise the water security benefits from the Water Security Assets. This underpins the system operating mode (once the FGP is able to operate at full capacity), which is continuous operation for 365 days per year to its full 30GL per annum capacity, less an allowed number of days per annum for scheduled shutdowns for maintenance.

As GAWB has also outlined (and the QCA has acknowledged), the investments in the Water Security Assets have not been made in anticipation of future demand growth. The driver is the need for improved water security. Utilisation of the full water allocation from the Rookwood Weir is required to deliver this, independent of any future demand growth. This operating approach is also consistent with the assumptions underpinning Government's decision to proceed with the FGP. As explained in section 2.2, upon integration of the FGP, supply will be managed on a whole of network basis.

2.4 Status of the FGP

At the time of preparing this response, the construction of the FGP is moving closer to completion. It must then go through a commissioning process, which must demonstrate that all guaranteed performance criteria have been met for systems and sub-systems, as well as the complete system during:

- normal operating conditions;
- extreme operating conditions;
- fault conditions;
- alarm conditions; and
- power failure conditions.

This testing involves several commissioning phases:

- pre-commissioning - confirming the equipment is installed as per design information, as well as conducting tests and simulations on selected pieces of equipment;
- dry commissioning - for the purpose of proving that a particular piece of equipment, pipeline, part of the plant or a process system is complete;
- wet commissioning - wet testing of the process systems (using raw water, where possible);
- operational testing - a test of process systems or sub-systems under the worst operating hydraulic and/or all loading conditions for a sufficient period of time to validate the performance of the process system; and
- process proving – a test where the entire process is operated in remote auto mode over its full range of operating conditions. This stage must be a continuous 20-day test.

Noting the above, and as would be expected for a project of this size and complexity, the final date for the commencement of operations of the FGP cannot currently be confirmed.

In the meantime, for the purpose of updating its cost forecasts provided in this response, along with its indicative AAR and Water Security Price, GAWB is assuming that the FGP will commence operations from 1 July 2026. This means that GAWB's assumed start date for the FGP O&M Contract¹⁵ now aligns with the commencement date of the Price Monitoring Period and the commencement of pricing arrangements for the Water Security Assets as specified in the Referral Notice.

GAWB's actual AAR and final Water Security Price will depend on the final commencement date of the O&M Contract, based on the best available information at the time of setting prices. In setting final prices GAWB will determine the AAR based on the following:

- If the FGP commences operations prior to 1 July 2026, GAWB will only recover the efficient operating costs incurred from 1 July 2026 (including a return on and of capital). That is, GAWB will bear all costs incurred between the date of commencement and 1 July 2026 (as is currently the case for operating costs being incurred now), including costs under the O&M Contract; and
- If the FGP is expected to commence operations on or after 1 July 2026, GAWB's AAR and the Water Security Price will still be set so that only the forecast operating costs incurred from 1 July 2026 are recovered, based on the best information available at that time. The main difference is that the forecast costs of the O&M Contract will be adjusted to reflect the expected start date of that contract.

The consequences for the setting of the opening RAB value are discussed in section 3.1. The QCA will verify GAWB's final approach as part of the mid-term review in 2028, as per the Referral Notice.

¹⁵ A reference in this response to the start date or commencement date of the O&M Contract is a reference to the date on which the operation and maintenance services under the contract commence.

It is important to note that if FGP operations commence after 1 July 2026, the Water Security Price will still be levied from 1 July 2026. The assumed commencement date impacts the profile of GAWB's cost forecast – including the commencement of the O&M Contract – not the start date for the Water Security Price. This reflects the application of price smoothing and is also consistent with the Referral Notice.

To be clear, GAWB is already incurring operating costs for the Water Security Assets that it is not currently, and will not be, able to recover via prices and hence are being absorbed by the business. For example, this includes the (non-capitalised) costs of additional staff, as well as water purchase costs incurred under GAWB's water allocation with Sunwater.

3. Capital expenditure

This Chapter updates GAWB's position in relation for forecast capital expenditure for:

- the FGP;
- water treatment plant upgrades; and
- renewal and replacement expenditure.

3.1 The FGP

The Referral Notice requires that the QCA accept the estimated capital value of the FGP of \$983 million (excluding GST), less the \$200 million capital grant provided by the Queensland Government. It must also allow for interest during construction (IDC). In its Draft Report the QCA has reviewed and verified that:

- GAWB's opening RAB has correctly excluded the value of Government's capital grants; and
- GAWB has appropriately excluded \$1.2 million of pre-construction costs that it identified were already included in the RAB as part of the 2020 price monitoring investigation.

The QCA has also reviewed GAWB's method and estimate for IDC, which is based on an S-curve approach. The QCA's preliminary finding is that this approach is reasonable.

For the purposes of updating the opening RAB for the most recent available information, GAWB continues to assume a RAB write-in date for the FGP (including the associated IDC) of 1 July 2026, as per GAWB's September 2025 submission and in line with the Referral Notice. GAWB has updated its forecast IDC allowance to reflect the updated actual and forecast monthly expenditure of the FGP project, using the S-curve approach that has been endorsed by the QCA and applying the final Weighted Average Cost of Capital (WACC) that GAWB used to set bulk water prices for the FY2026-30 regulatory period, which is 7.29% (post-tax nominal). For the reasons set out in Chapter 5 of this response, this is different from the indicative value applied by the QCA in its Draft Report.

As noted in section 2.4, the date for commencement of operation of the FGP remains uncertain. If at the time of setting the final Water Security Price it is known that the commencement date will be later than 1 July 2026, GAWB may update the RAB write-in date for the FGP, along with the associated IDC allowance, to reflect the expected commencement date, based on the best information available at the time.

3.2 Water treatment plant upgrades

In its September 2025 submission GAWB outlined the need for upgrades to the GWTP and YWTP to address the different water quality and chemical characteristics of the Fitzroy River water upon integration of the FGP.¹⁶ Given that this was still in the planning phase, GAWB proposed an indicative capital allowance of \$50 million and assumed completion by 31 December 2026 (which was also indicative). It was proposed that this would then be subject to a capital true-up at the end of the regulatory period (1 July 2030) to reflect the actual prudent

¹⁶ Refer section 4.1 of GAWB's submission.

and efficient costs of the upgrades. GAWB also flagged that this will necessitate a ramp-up in the operation of the FGP until plant upgrades are completed.

In its Draft Report the QCA included this indicative allowance, noting that it may be revisited in its Final Report pending any revised cost estimates from GAWB. The QCA also considers the capital true-up mechanism an appropriate way to deal with the associated uncertainty and further flagged that it will consider undertaking an ex-post prudence and efficiency assessment of this expenditure at the next price monitoring investigation.

As indicated in its September 2025 submission, GAWB has recently procured indicative cost estimates from an external quantity surveyor which arrived at an estimate of approximately \$60 million.¹⁷ However, as is typical for projects at this stage in the process (i.e., based on a preliminary understanding of the potential scope of the works), this forecast is within a wide range of estimates and the final scope and associated costs remains uncertain.

Given the criticality of the potential water quality and chemical characteristic issues to the successful integration and operation of the FGP, along with the need to ensure that the most prudent and efficient solution is chosen, GAWB is continuing to evaluate the appropriate solution for these upgrades. This could see material changes to the scope, timing and cost of the solution.

Based on current information, the forecast completion date for the GWTP and YWTP upgrades is now expected to be 31 December 2027. This is due to several factors including:

- consideration of the requirements of the Queensland Government's three-stage Business Case Development Framework consisting of a strategic assessment, options analysis, and a detailed business case which, once finalised, then undergoes rigorous independent assurance before the project proposal is submitted to the Cabinet Budget Review Committee (CBRC) for final policy, priority, and affordability approval;
- additional complexities working in and around the existing plant that were identified during reference design development;
- benchmarking against other similar projects, including experience with the Alton Downs water treatment plant construction and commissioning timelines;
- information received from Expressions of Interest (EOI) bidders; and
- information received from the external quantity surveyor in its estimate (as outlined above).

Once the reference design and scope of work have been suitably developed and GAWB is in a position to go to the competitive market for tenders, GAWB expects to receive a more accurate indication from the market of project construction and completion timeframes.

GAWB therefore considers that at this stage, it is prudent to retain its indicative \$50 million allowance for the purpose of setting the Water Security Price. Additionally, given the

¹⁷ This \$60.3 million estimate represents a Class 4 estimate which is based on a 5-15% level of design definition and expected estimate accuracy range of -20% to +30%.

anticipated planning and construction period for this project is now expected to extend across a longer period (i.e., FY2026-28), GAWB has included an estimate of IDC in the capital forecast.

GAWB considers that the indicative allowance is conservative given its current expectation is that it is most likely that the costs of the preferred solution will be higher, rather than lower, than the indicative allowance (including IDC).

GAWB will therefore bear the risk over the current regulatory period that actual costs are materially above this indicative allowance. It also expects that this cost will be subject to an ex-post prudence and efficiency review by the QCA prior to rolling the full value of these assets into the RAB at the end of the regulatory period.

As stated above, updating the assumed completion date of the water treatment plant upgrades will also have an impact on the ramp-up period required before the FGP can operate at full capacity. This has been reflected in GAWB's updated forecast operating expenditure for the Water Security Assets. On balance, this extension will reduce GAWB's total AAR and hence the Water Security Price.

For the purpose of setting the final AAR and Water Security Price, along with other updates (refer Chapter 6), GAWB will update its forecast operating expenditure to reflect the (then) best available estimate of the forecast completion of the water treatment plant upgrades (if there are any changes to the assumed date of 31 December 2027). As noted in Chapter 4, the main operating costs that this is expected to impact are electricity, chemicals and sludge removal. It will also impact variable costs of supply under GAWB's River Supply Contracts for water allocations from the Rookwood Weir.

3.3 Forecast renewal and replacement capital expenditure

In its Draft Report the QCA's preliminary finding is to accept GAWB's proposed costs for renewal and replacement capital expenditure, noting that this should also be subject to an ex-post revenue true-up at the end of the current regulatory period.

GAWB has proposed that this expenditure should be depreciated over five years. However, the QCA considers that this approach is likely to understate the useful life of the assets being renewed and that the weighted average asset life for the Water Security Assets should be applied to this expenditure for depreciation purposes.

The forecast amounts relate to the rolling replacement program of relatively minor asset components of the FGP that typically have very short asset lives. These renewals, which are capital in nature, are to commence from the first year of operation, as allowed for in the O&M Contract and will subsequently be capitalised and depreciated in GAWB's fixed asset register in line with the accepted accounting standards for these types of assets. Further, a regular replacement schedule of this type, supporting a new asset, indicates that the asset components being replaced are expected to have a very short life (i.e., less than five years).

To assume this type of asset renewal should have assigned lives that align with the weighted average life of the FGP (which, for the purposes of GAWB's submission has been calculated

at 65.74 years) will be counterintuitive to the nature of this type of expenditure and misaligns with both generally accepted accounting principles and the Australian Accounting Standards.

GAWB further notes that the asset categories underpinning the FGP's weighted average asset life all have an assumed life of ten years or more, with the majority (i.e., 98% of the total asset value) having an asset life of 35 years or more. This means that there are no assets with relatively short lives reflected in the weighted average asset life of the FGP. It is therefore considered appropriate to recognise this ongoing renewal capital separately, based on an asset life assumption that is more reflective of this type of expenditure.

As such, for the purposes of this response, GAWB has continued to depreciate this replacement and renewal capital expenditure over five years.

4. Operating expenditure

4.1 Overview

GAWB's September 2025 submission outlined the key elements of its forecast incremental operating expenditure for the Water Security Assets, comprising:

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

As GAWB outlined in that submission, the total Service Fee payable to the Contractor under the O&M Contract is commercial-in-confidence. GAWB was therefore unable to provide a more detailed breakdown of these costs in its public submissions. Full detail has been provided in documentation submitted to the QCA.

As detailed in section 2.3.3, GAWB has continued to work with its suppliers to refine GAWB's confidentiality claims with the goal of limiting the claims, thus providing as much transparency to stakeholders in this response to the Draft Report as possible.

At this stage of the QCA's price monitoring investigation a number of these costs remain uncertain, including the final Service Fee payable. Where possible, GAWB has provided updated estimates, which are outlined in this Chapter. These may be subject to further updates prior to the setting of the final AAR and Water Security Price.

4.2 Operating assumptions

There are no changes to the assumed operating assumptions, which is the continuous operation based on the full FGP capacity of 30 GL per annum (subject to scheduled shutdowns and maintenance). The main change will be to the assumed ramp-up period while the water treatment plant upgrades are being completed. As outlined in section 3.2, because the forecast completion date for these upgrades has been extended to 31 December 2027, the FGP will operate at less than full capacity until those plant upgrades are completed. This date change has been reflected in GAWB's forecast operating expenditure presented in this response and will impact the relevant variable costs.

4.3 Service Fee

The Service Fee payable under the O&M Contract covers the costs incurred by the O&M Contractor in operating and maintaining the FGP in accordance with the terms of that contract.

GAWB's indicative forecast of the Service Fee contained in its September 2025 submission was based on the original estimates included in the O&M Contract when it was entered into in December 2022. The final Service Fee will be reviewed with the O&M Contractor during the commissioning phase. Pending this final review, GAWB has not applied an updated estimate of the fixed component of the Service Fee in this response.

As it noted in the September 2025 submission, a Mobilisation Fee is payable at the commencement of the O&M Contract. This was excluded from GAWB's forecast operating expenditure on the assumption that the O&M Contract would commence prior to 1 July 2026. The update of the assumed commencement date to 1 July 2026 (as outlined in section 2.4), means that it is also assumed that GAWB will incur the Mobilisation Fee in 2026-27 and it has

therefore been included in the updated operating expenditure forecast provided in this response.

This update will also impact the Contractor's Margin, which is levied each year based on the total Service Fee payable. In the first year, this includes the Mobilisation Fee.

4.4 Owner (GAWB's) costs

GAWB has updated its forecast of owner costs as follows.

4.4.1 Labour and professional services costs

The QCA's preliminary finding in its Draft Report is to apply GAWB's forecast costs for the four additional roles it has identified to support the integration and operation of the FGP, along with an allowance for external professional services support. With recruitment of all four roles now completed, GAWB has updated the forecast costs based on the final remuneration outcomes.

GAWB is not proposing any further updates to its forecast allowance for professional services.

4.4.2 Electricity

The QCA's preliminary finding in its Draft Report is that GAWB's forecast electricity costs are reasonable. It also noted GAWB's intent to provide an update in its response to the Draft Report.

GAWB has prepared an updated forecast using its electricity cost forecasting model based on the most recent information, including:

- forecast wholesale electricity costs using ASX Electricity Futures closing prices for Baseload Financial Year contracts as at the end of January 2026;
- forecast environmental certificate prices based on available prices as at the end of January 2026;
- actual electricity bill data up to January 2026;

It is noted that the Alton Downs site (pump stations, water treatment plant and reservoir) was connected by Ergon Energy in December 2025, while the Mt Miller (pipeline and network connection) and Aldoga (reservoirs) sites are expected to be connected to the electricity grid in the second quarter of CY2026. GAWB has provided its electricity cost forecasting model to the QCA to enable it to verify the updated forecast. The above inputs will be updated again prior to GAWB setting the final Water Security Price.

4.4.3 Insurance

Level of cover and insurance premium costs

GAWB's operating expenditure forecast in the September 2025 submission included an indicative costing from its insurance broker (Marsh) on the additional premium to increase its Industrial Special Risk (ISR) cover for the FGP. In its Draft Report the QCA noted that GAWB intends to review its cover and would be providing an update in this response.

At the time of preparation of this response, GAWB's insurance broker has commenced undertaking a detailed review of GAWB's whole-of-business insurance cover, including the FGP. This review will include a comprehensive asset valuation study (for insurance purposes), including the FGP, as well as a Maximum Foreseeable Loss study. The outcomes of this review will inform GAWB's 1 July 2026 insurance renewals to ensure that it has an appropriate level of cover. The procurement of its annual insurance renewal from the competitive market can then be undertaken.

GAWB is therefore not currently in a position to provide any updated forecast of its incremental insurance costs for the FGP. GAWB will be able to obtain more accurate quotes of these costs based on the quotes provided by its broker following the completion of the whole-of-business insurance review, prior to it setting its final AAR and the Water Security Price.

In determining the incremental insurance to include in the AAR, GAWB proposes to include the difference between the whole-of-business insurance costs quoted by its broker for 2026-27 and the insurance allowance approved by the QCA in its FY2026-30 price monitoring investigation (and assumed in the determination of GAWB's bulk water prices that came into effect as at 1 July 2025). This will allow GAWB to recover the efficient costs of an appropriate level of insurance cover for its network as a whole, across its bulk water prices and the Water Security Price.

Dependant on the outcome of the detailed review currently underway and the subsequent quotes received from its broker, the forecast cost for insurance used to determine the final Water Security Price could be materially different from that contained in GAWB's September 2025 submission to the QCA.

Increase in insurance premium due to asset growth

In the FY2026-30 price monitoring investigation, the QCA endorsed GAWB's proposal to include an allowance for the forecast increase in GAWB's RAB over the FY2026-30 regulatory period, which reflects the estimated increase in its ISR premium for asset growth. This change was reflected in bulk water prices applied from 1 July 2025.

Consistent with this approach, GAWB has also updated its forecast insurance costs for the Water Security Assets (which is limited to the estimated increase in its ISR premium) to allow for the forecast RAB growth following the upgrade of the GWTP and YWTP. As those costs are associated with the integration of the Water Security Assets (and were excluded from the scope of the bulk water prices in the FY2026-30 price monitoring investigation), they were not reflected in the allowance for RAB growth that was applied in setting bulk water prices from 1 July 2025. This incremental allowance for RAB growth was not previously included in GAWB's September 2025 submission.

Based on an assumed completion date for these upgrades of 31 December 2027, this increase is conservatively assumed to apply from 1 July 2028. Given GAWB's forecast allowance of \$50 million for these upgrades is considered conservative, this is also likely to understate the actual increase in GAWB's insurance premium.

Escalation

In its September 2025 submission GAWB proposed to escalate insurance costs for the Water Security Assets at CPI plus 2% per annum, which is in recognition of the future expected

growth in the market cost of insurance and consistent (in principle) with the approach applied in setting final bulk water prices from 1 July 2025.

In its Draft Report the QCA considered this to be a departure from the method it endorsed in the 2025 price monitoring investigation.

The operating expenditure allowance for GAWB's bulk water services for the FY2026-30 regulatory period (exclusive of the Water Security Assets) was determined using the base-step-trend approach. Under that approach, GAWB applied a real growth rate of 2% per annum directly to the insurance step change. This was considered more appropriate and reflective of the fact that it only applies to those costs. For the purpose of calculating the overall weighted average trend factor, a flat CPI was then assumed to apply to the insurance component.

In setting GAWB's incremental operating expenditure allowance for the Water Security assets, insurance costs have been escalated at a rate of CPI plus 2% per annum, consistent with the approach used by GAWB, and endorsed by the QCA, to set bulk water prices from 1 July 2025.

4.4.4 Licence fees

GAWB's operating expenditure forecast for the Water Security Assets includes the forecast costs of the licence fees payable under its two land licences with the Queensland Government. As outlined in its September 2025 submission, the amount of these costs is determined annually by the Co-ordinator General and can vary each year. In the absence of being able to forecast these costs it has used the Temporary Construction Area (TCA) licence fees as a basis for that forecast. The QCA acknowledged this in its Draft Report and said that GAWB had made a "reasonable attempt to establish a proxy for these costs", which it also noted are not material.¹⁸ No better information is currently available and therefore no change has been made to the forecast costs for licence fees that were included in the September 2025 submission.

4.4.5 Sludge removal

In its September 2025 submission GAWB advised that it was conducting a procurement process to appoint a third-party contractor to manage the disposal of sludge from the Alton Downs water treatment plant. In the meantime, its indicative estimate was based on an initial forecast provided by the O&M Contractor in CY2022. As GAWB had noted, this scope was included in the O&M Contract for completeness, to ensure some allowance was made for the most viable sludge removal solution identified at the time. It was always contemplated that a formal procurement process would be undertaken to select a long-term service provider once the design of the Alton Downs water treatment plant was further advanced and the disposal options were better understood.

The indicative allowance included in the O&M Contract was based on the assumption of the removal of a forecast volume of dry sludge. However, with the finalisation of the design of the Alton Downs water treatment plant, it is now understood that the sludge to be transported will be a wet product (25% solid), thereby increasing the volume of sludge to be moved compared

¹⁸ Queensland Competition Authority (2025). p.20.

to the initial forecast. This increased volume will materially increase the removal cost from the original estimate.

In accordance with its approved procurement strategy, GAWB has issued an EOI for the sludge removal contract as an open tender, with a number of bids received in October 2025. A formal evaluation was undertaken resulting in discussions with individual bidders. As a result of this evaluation process GAWB selected a single preferred service provider and received internal approval to continue negotiations with this provider. At the time of preparation of this response, those negotiations are ongoing with legal terms and pricing still being finalised.

GAWB's updated forecast reflects the unit rate from the preferred bidder's current offer and the forecast volume of wet tonnes to be removed per annum. While the negotiated unit rate is lower than GAWB's initial estimate, the volume of material to be removed is materially higher, for the reasons outlined above.

4.4.6 GWTP and YWTP incremental operating expenditure

The upgrades to the GWTP and YWTP that are necessary to ensure the supply of potable water complies with the Australian Drinking Water Guidelines (a regulatory requirement) will entail the installation of new hardware (e.g. UV treatment). Also, with the introduction of water from the FGP, a greater volume of water will need to be treated through the plants.

As a consequence, GAWB expects additional operating expenditure will be incurred. This will include costs for the maintenance and operation of the new components, along with additional electricity, chemicals and (potentially) labour needed to treat the additional water. These additional costs are not reflected in GAWB's forecast incremental operating expenditure for the Water Security Assets, nor in the operating cost allowance determined as part of the QCA's FY2026-30 price monitoring investigation. GAWB anticipates that these additional operating costs will be material.

While additional operating expenditure will be incurred as a result of these upgrades, it is not possible to forecast these costs with any certainty at the current time. As such, GAWB has not included an allowance for these costs in its forecast operating expenditure for its Water Security Assets.

GAWB will therefore bear these additional costs, following the commissioning of the water treatment plant upgrades, until the end of the current regulatory period. The only exception to this is GAWB's forecast incremental insurance costs, where it has included an allowance for the growth in the RAB upon commissioning of these upgrades (refer to section 4.4.3).

As highlighted previously, noting the uncertainties associated with the actual costs of integrating and operating the Water Security Assets, GAWB is expecting that it will need to review these costs at the end of the current regulatory period.

4.5 Water allocation costs

GAWB has entered into River Supply Contracts with Sunwater for the delivery of water supply and related services for 30.99 GL per annum of medium and high priority water allocations at the Rookwood Weir. GAWB based its forecast of the annual water supply charges under those contracts on Sunwater's published fees and charges for 2025-26.

Extension of the assumed ramp-up period for the FGP while the GWTP and YWTP upgrades are completed will similarly extend the period until GAWB commences utilising its full allocation. This will not impact the fixed charge payable under these contracts but will impact the variable charge. GAWB has therefore updated its forecast water allocation costs to reflect this.

Prior to setting its final prices for the Water Security Assets, GAWB will update its forecast water allocation costs based on Sunwater's updated fees and charges for 2026-27, if available.

4.6 Escalation

In its Draft Report the QCA proposed to accept GAWB's proposed escalators and forecasting approaches, as this is consistent with its FY2026-30 price monitoring investigation.

For the purpose of the updated operating expenditure forecast, GAWB will not be seeking to update the forecast escalators for 2026-27 to 2029-2030 and will retain those determined in the FY2026-30 price monitoring investigation. However, GAWB will update actual Consumer Price Index (CPI) and Wage Price Index (WPI) values for 2025-26 based on the most recent available data. As actual 2025-26 CPI and WPI data is not yet available, for the purpose of this response GAWB has retained the forecast CPI and WPI for 2025-26 contained in its September 2025 submission.

Updates of actual CPI and WPI for 2025-26 (determined using the same approach applied in GAWB's September 2026 submission) will be used to set the final AAR and Water Security Price.

4.7 Updated forecast operating expenditure

Based on the above, GAWB's updated forecast operating expenditure for the purpose of updating its indicative AAR and Water Security Price in this response is provided below. This also reflects the updated forecast of the commencement date of the FGP O&M Contract, along with the extension to the timeframe for completion of the GWTP and YWTP upgrades, which necessarily extends the ramp-up period for the operation of the FGP to full capacity.

Table 4.1: Updated forecast operating expenditure for the Water Security Assets (\$m, nominal)

		2026-27	2027-28	2028-29	2029-30
O&M Service Fee		12.31	12.57	13.79	14.14
Owner's Costs	Labour	0.88	0.91	0.93	0.95
	Professional services	0.28	0.29	0.29	0.30
	Electricity	3.66	4.34	4.96	5.17
	Insurance	1.54	1.61	1.81	1.89
	Licence fees	0.15	0.16	0.16	0.16
	Sludge removal	0.86	1.14	1.32	1.35
	QCA fee	0.38	-	-	-

	2026-27	2027-28	2028-29	2029-30
Water purchase costs	6.32	6.51	6.70	6.87
Total operating expenditure	26.39	27.53	29.96	30.83

¹ Numbers may not add due to rounding

As outlined in this Chapter, components of GAWB's operating expenditure will need to be further updated prior to setting final prices. These updates are summarised in Chapter 6.

5. Rate of return

5.1 Overview

The Referral Notice requires the Appropriate Rate of Return for the Water Security Assets to be that determined in GAWB's FY2026-30 price monitoring investigation. As stated in the Referral Notice, the exception to this is that the cost of debt weighting used in updating the trailing average return on debt in 2026-27 is "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."

In its September 2025 submission GAWB applied the final WACC that it applied in setting bulk water prices from 1 July 2025. This had been updated following the release of the QCA's Final Report for the FY2026-30 price monitoring investigation for the most recent available information and having regard to the QCA's final findings.

In its Draft Report for this review, the QCA's draft findings align with GAWB's WACC, with the exception of the market risk premium (MRP). It has been subsequently established that in estimating the MRP, the QCA and GAWB's consultant, Synergies, used different data sources to calculate the return on the market under the Ibbotson approach. This is addressed below. The only other difference is that the QCA's indicative estimate of the debt risk premium is one basis point higher than GAWB's estimate, which is considered immaterial.

5.2 Data source used to calculate the market risk premium

As outlined in its submissions to the QCA's FY2026-30 bulk water price investigation, GAWB had sought to align with the QCA's preferred approach to estimating WACC based on its Rate of Return Review report. In calculating the MRP, GAWB requested its consultant (Synergies) to apply the Ibbotson method, which is based on historical excess market returns.

As the QCA states in its Draft Report, following GAWB's provision of further information in relation to the method used by Synergies to calculate its MRP, it became evident that the dataset Synergies used to calculate the historical excess returns (which is from NERA) was different to the dataset used by the QCA (which is from Brailsford, Handley and Maheswaran). The main difference between the two is that the NERA dataset makes a number of adjustments to the dataset of Brailsford, Handley and Maheswaran, particularly in the early years of the series.¹⁹

The QCA did not address this issue as part of its 2021 Rate of Return Review, nor is its preferred approach mentioned in its Rate of Return Review Report. However, this is also not an issue that has been contentious amongst Australian regulators (including throughout the history of the QCA's assessment of WACC), noting that not all regulators state which dataset they use.

At that time, in generally seeking to align with the QCA's preferred approach, GAWB (and Synergies) were not aware of the differences in the sources of the datasets, although in any

¹⁹ NERA (2013). The Market, Size and Value Premiums, A Report for the Energy Networks Association, June.

case, this was not identified as a significant (or material) issue in calculating GAWB's WACC estimate for the FY2026-30 regulatory period.

GAWB acknowledges that both datasets are used in practice in calculating the Ibbotson MRP and it is therefore not proposing to address this issue in detail in this response. It will retain the approach used by Synergies in calculating the MRP as this is a legitimate approach that aligns with the approach used to set final bulk water prices for the FY2026-30 regulatory period.

5.3 Updates to final WACC

For the purpose of updating its indicative AAR and Water Security Price, GAWB has applied the same indicative WACC from its September 2025 submission, which is 7.29% (post-tax nominal vanilla).

The final WACC used to set final Water Security Prices will be based on the following key inputs:

- benchmark gearing of 50%, which is the same value used to set final bulk water prices for the FY2026-30 regulatory period;
- a return on equity of 8.83%, which is the same value used to set final bulk water prices for the FY2026-30 regulatory period;
- the updated trailing average cost of debt for 2026-27, which will be set over the averaging period nominated by GAWB that has been confidentially communicated to the QCA. This update will fully reflect the increase in GAWB's benchmark debt balance accounted for by the inclusion of the Water Security Assets, as per the Referral Notice. This same updated cost of debt is applied to GAWB's benchmark debt balance for its existing assets, as well as the Water Security Assets. The main difference is how this rate is applied:
 - the updated trailing average cost of debt for 2026-27 will be immediately reflected in the initial Water Security Price to apply from 1 July 2026 (to ensure that it reflects the most recent information); however
 - this updated cost of debt will not result in any adjustments to bulk water prices (that excluded the Water Security Assets) applying from 1 July 2025 and instead will be captured as part of the end-of-period true-up. This was explained in section 6.1.3 of GAWB's September 2025 submission.

This is detailed below, showing comparisons against GAWB's September 2025 submission and the QCA's Draft Report.

Table 5.1: WACC inputs

Parameter	GAWB's September 2025 submission and response to QCA's Draft Report (indicative)	QCA's Draft Report (indicative)	GAWB's final WACC
Gearing	50%	50%	50%
Risk-free rate: return on equity	4.47%	4.47%	4.47%
Market risk premium	6.6%	6.36%	6.6%
Equity beta	0.66	0.66	0.66
Credit rating	BBB	BBB	BBB
Corporate tax rate	30%	30%	30%
Gamma	0.484	0.484	0.484
Return on equity	8.83%	8.67%	8.83%
Return on debt	5.75%	5.76%	To be updated over nominated averaging period
Post-tax nominal vanilla WACC	7.29%	7.21%	To be updated for final return on debt

6. Updated revenue and price

This Chapter outlines:

- the review of GAWB's demand forecast;
- GAWB's updated indicative AAR and Water Security Price; and
- the inputs and assumptions that will be updated prior to setting final prices.

6.1 Demand

The Referral Notice requires the demand forecast to be based on Reserved Demand, which is defined as:

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

At the time of lodgement of its September 2025 submission, GAWB did not have any water allotments that were subject to a water supply proposal. Reserved Demand was therefore based on reservations confirmed with existing customers for the FY2026-30 regulatory period. The QCA has endorsed this approach in its Draft Report.

Since that time, GAWB has recently provided two water supply proposals in response to water applications from potential new customers. One of these proposals (Proponent A) is not contemplating taking water until the next regulatory period (i.e., after FY2030). This demand is therefore clearly excluded from scope.

Current indications from the second proponent (Proponent B) are that it may potentially commence taking water in the current regulatory period. However, this remains highly uncertain. GAWB is currently in discussions with Proponent B, which may progress to the negotiation of a conditional water supply contract in due course, noting that Proponent B is still in the early stages of its project development and yet to make a final investment decision.

As such, there is no certainty that Proponent B's project will proceed and if it does, when it will commence taking water. Based on GAWB's experience, it is highly likely that the timing and quantity of water demand required by Proponent B will evolve in line with the progression of its project. As was seen with the forecast demand for hydrogen proponents during the QCA's FY2026-30 price monitoring investigation, water allotments associated with projects at this early stage are highly uncertain and are prone to being postponed or relinquished.

Subsequently, as the timing and ultimate status of Proponent B's project remains uncertain, the associated water allotment has been excluded by GAWB from the scope of Reserved Demand used in this response.

6.2 Updated indicative revenue and price

Based on the updates described in the preceding chapters, the updated indicative forecast of GAWB's AAR from 1 July 2026 to 30 June 2030 is shown below.

Table 6.1: Updated indicative AAR¹: Water Security Assets (\$m, nominal)

	2026-27	2027-28	2028-29	2029-30
Operating expenditure	26.39	27.53	29.96	30.83
Return on capital ²	64.14	66.85	69.60	70.29
Return of capital ³	(9.09)	(8.26)	(7.32)	(6.41)
Taxation ⁴	3.54	3.48	3.14	3.31
Total AAR⁵	84.97	89.60	95.38	98.01

1 These are unsmoothed revenue amounts.

2 Includes return on working capital.

3 This is also referred to as 'regulatory depreciation', being depreciation less indexation of the RAB, to avoid double-counting of inflation.

4 Net of imputation credits.

5 Numbers may not add due to rounding.

The updated indicative Water Security Price payable by customers in 2026-27 is \$1,384.76/ML. This price will be adjusted annually by CPI.

6.3 Updates prior to setting final prices

As outlined in the preceding chapters, key inputs used in calculating GAWB's AAR and Water Security Price will need to be reviewed and updated prior to setting the final AAR and Water Security Price to be levied from 1 July 2026. All updates will use the same approaches that have been applied by GAWB and reviewed by the QCA. GAWB will also have regard to the QCA's findings in its Final Report in setting the final Water Security Price.

An overarching driver of the updates will be timing, being:

- **the date of commencement of the FGP O&M Contract:** if this has not occurred prior to setting the final price, GAWB will update this based on the information available at that time (as required); and
- **the date of completion of the GWTP and YWTP upgrades:** this is currently expected to be 31 December 2027. If there are any further changes to this (based on the best information available at the time of setting the final AAR and Water Security Price), it will be reflected in the updated forecast. As explained in this submission, in addition to impacting the assumed timing of the forecast capital allowance for these upgrades, it also determines the ramp-up period for the operation of the FGP. This in turn will impact the forecast variable costs of operating the FGP.

In addition to accounting for any changes in these timing assumptions, the following table summarises the other updates that will be made prior to setting the final AAR and Water Security Price and where relevant, the approach that will be used.

Table 6.2: Updates prior to setting the final Water Security Price

Input	Scope/approach
FGP: IDC	<ul style="list-style-type: none"> To be updated for any changes to the assumed date for commencement of operations and actual monthly expenditure.
GWTP and YWTP upgrades	<ul style="list-style-type: none"> GAWB is not anticipating updating the capital allowance for these upgrades. An update will be made if there is any change to the forecast commissioning date, which is currently assumed at 31 December 2027.
Capitalised renewals and replacement.	<ul style="list-style-type: none"> This will be reviewed and could be updated as a result of final negotiations with the O&M Contractor during the commissioning phase.
O&M Contract Service Fee	<ul style="list-style-type: none"> All elements of the Service Fee are to be reviewed and could be updated as a result of final negotiations with the O&M Contractor during the commissioning phase.
Electricity	<ul style="list-style-type: none"> To be updated for final actual cost and usage data and other forecast inputs using GAWB's electricity cost forecasting model. As noted above the forecast inputs are (publicly available) information on electricity futures contract prices and renewable energy certificate prices.
Insurance	<ul style="list-style-type: none"> Incremental forecast insurance costs to be updated based on the updated estimate of the costs of insurance cover for GAWB's whole-of-business including the FGP, based on quotations received from GAWB's insurance broker as part of its 2026 annual renewal.
Sludge removal	<ul style="list-style-type: none"> To be updated to reflect the final outcome of GAWB's competitive procurement process and contract negotiations.
Water allocation costs	<ul style="list-style-type: none"> This will be updated for Sunwater's updated fees and charges for the 2026-27 year, if available.
Escalators	<ul style="list-style-type: none"> 2025-26 actual CPI and WPI will be updated based on the latest available information, using the same approach and data sources as reviewed by the QCA. No other CPI or WPI forecast will be updated.
WACC	<ul style="list-style-type: none"> To be updated for the trailing average cost of debt for 2026-27, which will be calculated over the nominated averaging period reviewed by the QCA. No other WACC inputs will be updated.
Demand	<ul style="list-style-type: none"> To be updated for any changes to reservations based on the best information available at the time.

Glossary

AAR	Annual Allowable Revenue
BAU	Business as Usual
CBRC	Cabinet Budget Review Committee
CPI	Consumer Price Index
CY	Calendar Year
DBC2	Detailed Business Case Stage 2
DMP	Drought Management Plan
Draft Report	The Queensland Competition Authority's Draft Report – <i>Gladstone Area Water Board price monitoring 2026-20: Water security assets</i> , dated December 2025.
EOI	Expressions of Interest
FGP	Fitzroy to Gladstone Pipeline
FTE	Full-time Equivalent
FY	Financial Year
GAWB	Gladstone Area Water Board
GL	Gigalitre
Gladstone	Gladstone / greater Gladstone region
GRC	Gladstone Regional Council
GST	Goods and Services Tax
GWTP	Gladstone Water Treatment Plant
IDC	Interest During Construction
ISR	Industrial Special Risk
MCD BM JV	McConnell Dowell BMD Joint Venture
Minister	Minister for Finance, Trade, Employment and Training

ML	Megalitre
MRP	Market Risk Premium
O&M	Operations and Maintenance
O&M Contract	The Operations and Maintenance Contract between Gladstone Area Water Board and McConnell Dowell BMD Joint Venture
O&M Contractor	McConnell Dowell BMD Joint Venture
Price Monitoring 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 Notice	The Referral Notice issued by the Minister to the QCA, under Section 23A and Section 24 of the <i>Queensland Competition Authority Act 1997</i> , for the QCA to conduct a price monitoring investigation relating to the Monopoly Business Activities.
Regulatory period	1 July 2025 to 30 June 2030
Synergies	Synergies Economic Consulting
TCA	Temporary Construction Area
WACC	Weighted Average Cost of Capital
WPI	Wage Price Index
YWTP	Yarwun Water Treatment Plant