



Annexure 4 – Operating Expenditure



QCA Price Monitoring Investigation – Part 2 Submission

Public Release

This Annexure is a key component, and forms part of, the overall Urban Utilities' Part 2 Submission to the Queensland Competition Authority's (QCA) price monitoring investigation for the period 1 July 2026 to 30 June 2030. The Urban Utilities' Part 2 Submission should be read as a whole and, because of the interrelated nature of the subject matter, no part should be read in isolation or taken out of context.

The Executive Narrative provides a summary of the entire Urban Utilities' Part 2 Submission, and this Annexure should be read in conjunction with that narrative.

Amongst other items, the Executive Narrative outlines how this technical Annexure, along with the other Annexures provided with the Part 2 Submission, specifically addresses different elements of the Part 2 Stated Matters of the QCA investigation covering the period FY28–30 (1 July 2027 to 30 June 2030).

Table of Contents

1	Operating Expenditure Summary	3
1.1	Allocation of operating expenditure between water and wastewater	4
2	Introduction	6
3	Establishing an efficient starting point.....	9
4	Methodology.....	13
5	Establishing an efficient base year.....	15
5.1	Base year adjustments.....	15
5.2	Bridging the base to FY27.....	17
5.3	Efficiency and productivity adjustments	20
5.4	Base adjustment summary.....	21
6	Our forecasted step changes	24
6.1	Security of Critical Infrastructure (SOCl).....	24
6.2	Maintenance (contracts, services and materials).....	26
6.3	Additional environmental monitoring	27
6.4	Customer engagement.....	27
6.5	QCA regulation.....	28
6.6	Digital systems and ICT services	29
6.7	Digital strategic programs.....	30
6.8	Step change summary	34
7	Trend factors	35
7.1	Real price inputs.....	35
7.2	Output Growth	37
7.3	Efficiency adjustments.....	38
7.4	Summary tables	38
8	Other operating expenditure adjustments	41

1 Operating Expenditure Summary

Urban Utilities' forecast operating expenditure (opex) balances affordability with the need to deliver safe, reliable and resilient water and wastewater services to a growing customer base. As outlined in our Part 1 Submission, the forecast for the FY28-FY30 period has been developed using a Base-Step-Trend (BST) methodology, building on our historical approach to applying a BST envelope for our business, and reflects the efficient costs required to respond to growth, ageing assets, increasing regulatory obligations and evolving customer expectations. Key features of the forecast include:

- An efficient recurring base established through a combination of top-down BST analysis and bottom-up expenditure review through Urban Utilities' Zero-Based Budgeting (ZBB) initiative, supported by external benchmarking
- A \$10 million efficiency dividend applied to the recurring base and an ongoing productivity adjustment of 1.5% per annum, collectively reducing opex by \$71 million over FY28-FY30, reflecting Urban Utilities' commitment to delivering efficiency improvements and value for customers (See Annexure 11 - Benchmarking & Efficiency for more details on our efficiency program).
- An efficient recurring FY27 base that remains below actual FY25 opex, after excluding capital program expenditure expensed through opex and Digital & Information (D&I) capitalisation adjustments, despite growth in customers, assets and service volumes and increasing input cost pressures
- An operating cost base that reflects the environment Urban Utilities operates in and addresses customer growth, network expansion and increasing environmental, safety and regulatory obligations
- A maintenance expenditure profile that is increasing as assets age, operational demands grow, extreme weather events place greater pressure on the network and compliance obligations continue to evolve
- Targeted step changes to address new and increasing operating requirements arising from cyber security and digital capability needs, increasing asset risk, Security of Critical Infrastructure (SOCi) requirements, enhanced customer engagement, environmental monitoring obligations and the increased costs of ongoing participation in QCA price monitoring oversight
- Overall, the forecast opex reflects Urban Utilities' objective of delivering safe, reliable and resilient water and wastewater services at the lowest sustainable cost to customers.

Table 1-1 summarises the forecast opex outcome over FY27-FY30, including the FY27 efficient recurring base, step changes, trend allowances and productivity adjustments applied under the BST methodology. The BST methodology results in forecast operating expenditure of \$448.0 million in FY28, \$454.6 million in FY29 and \$460.7 million in FY30 (all expressed in real 2027 dollars), compared with an FY27 adjusted efficient base of \$437.1 million.

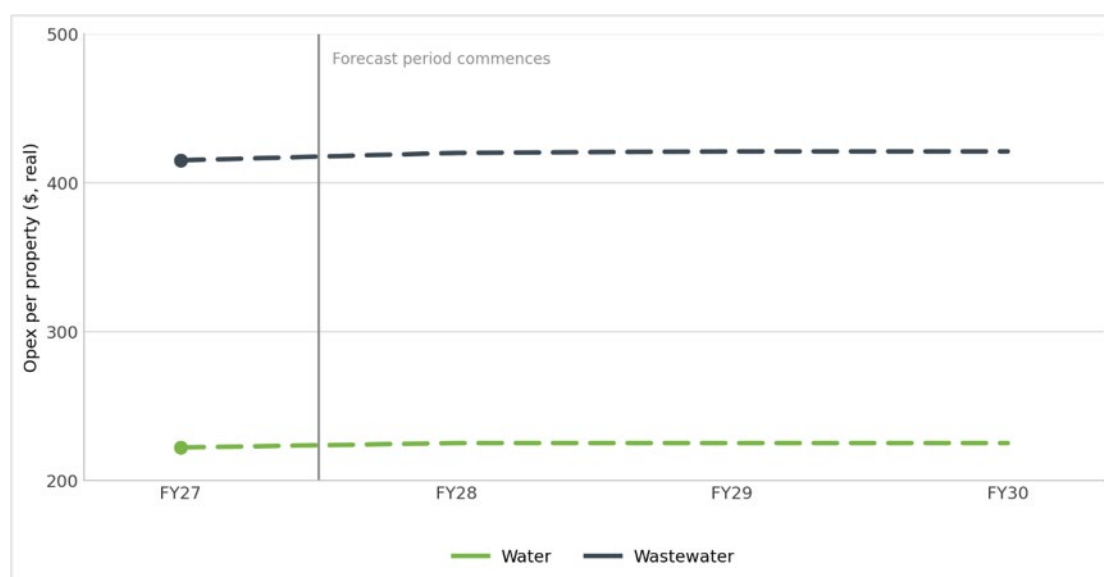
Table 1-1: Urban Utilities total base-step-trend operating expenditure forecast (\$m, real)

	FY27 base year	FY28	FY29	FY30	Total (excl base year)
Starting base	437.1	437.1	448.0	454.6	
Step change	0.0	7.5	4.1	3.3	15.0
Trend	0.0	10.5	9.8	10.1	30.5
Productivity factor	0.0	(6.7)	(6.9)	(7.1)	(20.7)
ROU Amortisation	0.0	(0.4)	(0.5)	(0.2)	(1.1)
Total	437.1	448.0	454.6	460.7	1,363.3

Note: The FY27 efficient recurring base represents the starting point for the BST forecast and is shown as a real-dollar base. Step changes, trend adjustments and the productivity factor are applied separately to derive forecast expenditure for each year. Totals may not sum due to rounding.

As demonstrated in Figure 1-1 below, operating costs per property is forecast to remain relatively stable across the price monitoring period. This demonstrates that forecast growth in total opex is not expected to translate into a corresponding increase in opex per connection.

Figure 1-1: Forecast opex per connection (real 2027 dollars)



1.1 Allocation of operating expenditure between water and wastewater

The BST methodology has been used to develop a combined opex forecast for water and wastewater services. A top-down allocation approach has subsequently been applied to apportion the forecast between the water and wastewater service components. The allocation method adopted is described in this section.

For water services, Urban Utilities shares responsibility with Seqwater. In contrast, Urban Utilities is solely responsible for the end-to-end collection, transport, treatment and environmental discharge of wastewater, and therefore bears the full operating and asset management responsibilities associated with wastewater services.

As outlined in our Part 1 submission, wastewater capital expenditure has grown steadily over time, while water capital expenditure has remained relatively stable. This sustained increase

in wastewater investment has expanded the wastewater asset base and, consequently, increased the level of operating expenditure required to operate and maintain these assets. Historical expenditure trends demonstrate a progressively greater proportion of opex being directed towards wastewater services. Table 1-2 shows that between six-yearly periods of FY15-FY20 and FY21-FY26, the wastewater share of capital expenditure increased from 63% to 67%. Over the same periods, the wastewater share of operating expenditure increased from 60% to 64%, reflecting the growing operational demands associated with wastewater services.

Table 1-2 Proportion of wastewater expenditure, by expenditure type

Period	Wastewater capex (%)	Wastewater opex
FY15-FY20	63%	60%
FY21-FY26	67%	64%

Looking ahead, our forecast capital program is expected to be substantially more wastewater-focused than in previous periods. During FY27-32, wastewater is forecast to account for approximately 72% of total capital expenditure, driven by the need to expand treatment and conveyance capacity to meet growth and address capacity constraints.

Given the historical relationship between capital investment and operating expenditure, it is reasonable to expect the wastewater share of opex to continue increasing. Applying the observed trend would imply a wastewater opex share of approximately 69%. Recognising forecasting uncertainty, we have adopted a conservative wastewater opex allocation of 67%, which sits below the level implied by historical expenditure trends and future capital investment trends. This reflects the increasing wastewater intensity of our business, the growth in wastewater assets requiring ongoing operation and maintenance, and rising compliance obligations, while remaining below the level implied by forecast capital expenditure trends.

Accordingly, BST forecast has been apportioned to water and wastewater services in the ratio of 33% and 67% respectively.

Table 1-3: Urban Utilities water and wastewater forecast operating costs FY28-FY30 (\$m, real)

Period	FY28	FY29	FY30
Water operating cost	147.8	150.0	152.0
Wastewater operating costs	300.2	304.6	308.7
Total	448.0	454.6	460.7

2 Introduction

This technical attachment forms part of Urban Utilities' part two submission to the Queensland Competition Authority (QCA), to inform its price monitoring investigation under section 23A of the *Queensland Competition Authority Act 1997* (QCA Act). It has been prepared with regard to the QCA's pricing principles for the water sector¹ and the matters set out in section 26 of the QCA Act, including the need for efficient resource allocation and the prudent and efficient cost of service delivery.

Since FY24, Urban Utilities has applied a top-down operating budget envelope through an embedded efficiency factor to constrain the operating costs it recovers from customers and to put downward pressure on customer bills. This process was derived by applying a base-step-trend (BST) approach to inform a top-down expenditure envelope and to inform top-down expenditure constraints and efficiency targets applied in each annual budget.

This process was established to provide operating expenditure guardrails using a combination of benchmarking, trend analysis and parameter controls based on prudent and efficient expenditure. This fiscal approach has also provided a platform to support the identification, development, embedding and monitoring of operational cost benefits to support customer affordability in the future. We are now building on this ongoing practice with this refreshed approach to BST as applied and outlined in this FY28-FY30 submission.

Urban Utilities' opex forecast for the period 1 July 2027 to 30 June 2030 (FY28-30) is \$1.36 billion in real 2027 dollars. Our forecast has been developed using a BST methodology, applying FY25 actual expenditure of \$474.4 million as the starting point and bridging this to an efficient recurring base of \$437.1 million in FY27.

In establishing the FY27 recurring base, Urban Utilities first removed expenditure that does not represent the ongoing cost of delivering regulated water and wastewater services. This included capital program expenditure expensed through opex, D&I capitalisation adjustments, expenditure associated with Ex-Cyclone Alfred, residual impacts of the 2022 flood events and other one-off items that are not expected to continue over the forecast period. The resulting recurring base was then adjusted for growth, real input cost changes and other known changes in operating requirements.

To validate the FY27 base derived under the BST methodology, Urban Utilities drew on the bottom-up view of expenditure generated through our ZBB initiative as well as insights gained through industry benchmarking. ZBB was used to inform the forecast and test the efficiency of our expenditure base. ZBB is a key component of our ongoing focus on expenditure transparency and accountability across the business while embedding a more disciplined approach to cost management.

We recognise that ZBB goes beyond what is typically expected within an economic regulatory framework, which ordinarily relies on revealed cost, a comparison of actual expenditure against allowances established at previous determinations, as the starting point for forecasting. Since this is our first price monitoring review in over a decade, no such comparison is available to us. While benchmarking has also informed our efficiency program, comparing Urban Utilities against comparator businesses is similarly limited in this context due to the difficulty of constructing a robust and comparable peer set given our unique operating conditions.

In the absence of these conventional tools, we consider a bottom-up ZBB review achieves the same intent that revealed cost and benchmarking by testing whether our expenditure is

¹ Queensland Competition Authority (QCA), *Final Statement: Statement of regulatory pricing principles for the water sector*, April 2021, at <<https://www.qca.org.au/wp-content/uploads/2021/04/statement-of-regulatory-pricing-principles-for-the-water-sector-april-2021.pdf>>

efficient and prudent by justifying each activity from first principles. This approach is particularly suited to our circumstance as a business without a recent regulatory determination history to draw on. The ZBB program assessed the resources required to maintain service levels, meet statutory and regulatory requirements and maintain assets, covering approximately 85% of operating expenditure. A comparison of the ZBB and BST views of FY27 expenditure provided an additional assessment of forecast expenditure requirements and helped identify opportunities for efficiency improvements. Together with sector benchmarking, this analysis informed the identification of an efficiency dividend to be applied to the starting base which is removed from our forecast prices. This is complemented by Urban Utilities' commitment to an ongoing productivity adjustment. Urban Utilities' plan for delivering these efficiencies is captured in Annexure 11 - Benchmarking & Efficiency, which outlines our Operational Efficiency Program (OEP).

Following the application of the efficiency dividend, which represents an immediate efficiency opportunity identified through ZBB, the resulting FY27 efficient recurring base is \$437.1 million. This approach continues our previous practice of constraining our expenditure with a top-down assessment of efficiency, and builds on our previous practice in applying a base-step-trend methodology.

The FY27 efficient recurring base of \$437.1 million remains below the underlying FY25 opex despite Urban Utilities operating in one of Australia's fastest-growing regions, with growth in customer connections, network assets and service volumes increasing effort and cost required to deliver water and wastewater services. At the same time significant upward pressure from key input costs are increasing above CPI including digital software and services (due to advancement in artificial intelligence and analytics being incorporated into pricing), contractors, materials and services and employee costs (reflective of current labour market). Delivering a lower recurring expenditure base in this environment demonstrates Urban Utilities' sustained commitment to affordability, cost discipline and continuous improvement. Of note, the FY27 efficient recurring base is not directly comparable to the FY27 opex reported in the Part 1 Submission due to treatment of one-offs and passthroughs.

The most significant drivers of forecast opex growth are employee costs and maintenance expenditure. Employee costs reflect Enterprise Bargaining Agreement (EBA) outcomes, including catch-up wage growth and changes to safety requirements that increase workforce requirements across operational activities. Maintenance expenditure reflects the increasing effort required to manage a growing, ageing and geographically dispersed asset base. Many assets are reaching a stage in their lifecycle where additional maintenance intervention is required to sustain service performance and reliability. At the same time, increasing wet weather intensity and events, higher operational demands and evolving environmental, safety and regulatory expectations are increasing the level and complexity of maintenance activities required across the network.

Urban Utilities is also strengthening the security and resilience of its assets to meet existing and emerging requirements under the Security of Critical Infrastructure (SOCi) Act. Alongside these investments, Urban Utilities is continuing to modernise the way it operates through investment in digital capabilities that improve ways of working, operational visibility, asset management, service performance and customer outcomes. These investments support enhanced network monitoring, data and analytics capabilities, field operations, customer service and operational decision-making, while improving the resilience, security and efficiency of critical business systems. This digital investment will also underpin the delivery of our efficiency program as outlined in Annexure 11 - Benchmarking & Efficiency. Urban Utilities is also strengthening its customer engagement capability to better understand customer preferences and support future service and investment decisions.

The forecast incorporates both immediate and ongoing efficiency improvements. This includes a \$10 million efficiency dividend applied to the recurring base, informed by efficiency opportunities identified through the ZBB program and external benchmarking, and

an ongoing productivity adjustment of 1.5% per annum over the forecast period. These efficiencies are being delivered through Urban Utilities' OEP, which provides a structured pathway to achieving sustainable cost savings while maintaining service levels and operational performance (outlined further in Annexure 11 - Benchmarking & Efficiency). Together, these measures help offset increasing cost pressures and ensure customers benefit from ongoing improvements in efficiency and productivity.

Step changes included in the forecast reflect changes in operating requirements that are not captured within the recurring base. The most significant step changes relate to digital expenditure and maintenance expenditure. Digital step changes reflect investment in strategic digital programs and supporting technology platforms required to modernise and securely operate Urban Utilities' growing business, respond to increasing cyber and security risks, and improve operational and environmental performance and customer outcomes. Maintenance step changes reflect increasing demand on an ageing and geographically dispersed asset base, continued customer and network growth, and the continued progressive shift towards a more proactive maintenance profile. Additional step changes reflect SOCI compliance requirements, customer engagement activities and the costs associated with QCA price monitoring.

Urban Utilities' FY28-30 forecast supports the ongoing delivery of safe, reliable and resilient water and wastewater services while responding to continued customer, network and service growth across South East Queensland.

Urban Utilities is also assessing the opex implications of delivering and maintaining infrastructure associated with the Brisbane 2032 Olympic and Paralympic Games (the Games). While Urban Utilities has estimated the initial capital investment likely to be required to support the Games, it is still assessing the opex required to support, deliver and maintain Games-related infrastructure. Given the scope, timing and service requirements remain uncertain, no specific Games-related opex has been included in the forecast at this stage. We will make reasonable endeavours to estimate the opex requirements before QCA finalises its report in April 2027. If we are unable to reasonably estimate the opex requirements, we will provide updated information to the QCA as further consideration as a cost pass through.

3 Establishing an efficient starting point

We adopt FY25 as our base year for our FY28-30 operating expenditure forecast. FY25 is the most recent completed and audited financial year, consistent with acceptable regulatory practice for the base-step-trend method.

Our actual operating expenditure in FY25 was \$474.4 million in FY27 dollar terms. To ensure our base year is representative of our ongoing operations, we remove:

- non-recurrent expenditure items, including Ex-Cyclone Alfred, residual impacts of the 2022 flood events and other expenditure not expected to continue
- digital expenditure reclassified under our revised capitalisation treatment
- capital expenditure that was expensed through operating expenditure in FY25
- expenditure that is not associated with the provision of water and wastewater services.

Table 2-1 sets out these adjustments. Once these items are removed, our adjusted FY25 base year figure is \$414.3 million (FY27 dollars).

Table 2-1: Adjustments to our base year expenditure (\$FY27, m)

Adjustment	Total (\$FY27, m)	Reason for exclusion
FY25 actual operating expenditure	\$474.4	
Less capital program expensed items	-\$12.8	Remove non-recurrent expenditure
Less non-recurrent items	-\$30.7	Remove non-recurrent expenditure
Less costs of other services	-\$1.6	Remove costs for services other than water and wastewater
Less digital capitalisation	-\$18.5	Remove expenditure no longer classified as operating expenditure
Plus ROU amortisation	\$3.6	
Recurrent FY25 operating expenditure	\$414.3	

Our FY25 recurrent, controllable operating expenditure provides an appropriate basis for our base expenditure provided it is efficient. Regulated businesses typically demonstrate the efficiency of their base expenditure by comparing actual expenditure against the allowance set at their previous determination. Where actual expenditure is below the allowance, it is taken to be presumptively efficient.

This practice relies on a revealed cost approach. Since prices or revenues are fixed against a forecast allowance for the price monitoring period, any underspend flows to the business as additional profit and any overspend is borne by the business as a loss. This gives the business a direct financial incentive to spend no more than its efficient cost, which is what allows the regulator to treat actual expenditure against the allowance as good evidence of that cost.

Because we are subject to price monitoring, having not been subject to that in the preceding period, no such determination exists for us to draw on and so this comparison is not available to us. While we apply our own top-down discipline to the costs we recover from customers, no external party sets or tests the benchmark this discipline relies on, so it does not, on its own, provide the same independent assurance of efficiency as a regulatory determination. Further, benchmarking against comparator businesses is of limited value in evaluating efficiency given the difficulty of constructing a robust and comparable peer set for our unique operating conditions.

In the absence of these conventional tools, we have scrutinised the efficiency of our base expenditure through a ZBB review of our cost base. ZBB is a disciplined budgeting approach that requires all expenditure to be justified from a zero base at the start of each budget cycle, rather than being based on historical spending levels. Under ZBB, activities and costs are systematically reviewed and assessed against strategic objectives, regulatory and service requirements, and outcomes to ensure resources are allocated efficiently and effectively. This approach promotes cost transparency, strengthens financial accountability and supports the identification of savings and reprioritisation opportunities while maintaining the delivery of core services and organisational objectives.

While ZBB principles have been applied wherever possible, the assessment has not been completed across the entirety of the expenditure base due to limitations in the availability and granularity of supporting data, particularly for less material costs. Consequently, a targeted approach has been adopted, focusing on material and controllable expenditure categories, such as electricity, biosolids, chemicals, property and fleet with remaining costs assessed using alternative forecasting and review methodologies. This phased implementation reflects a pragmatic approach to balancing the benefits of ZBB with current data and system capabilities.

ZBB was initiated in early 2025 in response to Board direction to strengthen cost transparency, improve expenditure discipline and embed a more rigorous approach to financial planning and resource allocation across the organisation. The QCA process has accelerated and informed this work; however, the underlying program of cost review and efficiency improvement was already underway and forms part of our broader strategy to enhance long-term financial sustainability.

Urban Utilities will continue to refine and expand the approach as part of future budgeting cycles, incorporating lessons learned and improvements in data availability and analytical capability. This ongoing process will support continuous identification of efficiency opportunities, strengthen financial accountability and ensure expenditure remains aligned with strategic, regulatory and service delivery objectives.

We consider a ZBB review of the nature outlined above meets the same intent (of evidencing prudence and efficiency) that revealed cost and benchmarking are designed to serve, while tailored to our circumstances as a business without a recent determination history to draw on.

Our ZBB analysis was completed for FY27, being the year immediately preceding the start of the price monitoring period. To assess the implications of the ZBB results, it is necessary to have an appropriate point of comparison, i.e., what our FY27 expenditure might otherwise look like.

To construct this point of comparison, we trend our recurrent, controllable FY25 operating expenditure forward to FY27. We do this to reflect:

- output growth
- real input price changes
- recurrent operating expenditure that is not captured in FY25 but form part of our ongoing operations.

We deliberately exclude a productivity or efficiency factor from this step, since the purpose of the ZBB exercise is to identify any potential efficiency improvement. This process produces an adjusted FY27 comparison point of \$447.1 million in FY27 dollars, see Table 2-2.

Table 2-2: Our FY27 point of comparison for the ZBB exercise

Adjustment	Total (\$FY27, m)
Recurrent FY25 operating expenditure	\$414.3
Plus growth factor to FY27	\$20.2
Plus price factor to FY27	\$2.3
Plus other recurring expenditure	\$10.3
Point of comparison for ZBB analysis	\$447.1

Comparing our FY27 ZBB result against trended-forward FY25 actuals, we find that ZBB has identified a range of efficiency opportunities for consideration, including immediate efficiencies relating to strategic workforce changes and benefits realised through recent procurement activities. As a result, we currently anticipate that up to a \$10 million efficient opportunity can be realised in FY27.

We adopt this \$10 million figure as the basis for forecasting our operating expenditure over the FY28-30 price monitoring period. In other words, we are applying an up-front efficiency dividend of \$10 million to our forecast operating expenditure. We have taken this approach to bring the benefit of these efficiencies to customers immediately.

This process gives us an efficient base of \$437.1 million (FY27 dollars) as the starting point for forecasting our operating expenditure.

As a cross-check on the efficiency of our base expenditure, we compare it to our efficient recurring, controllable expenditure found by the QCA in FY14. We 'roll forward' this figure to FY27 by applying a trend factor that:

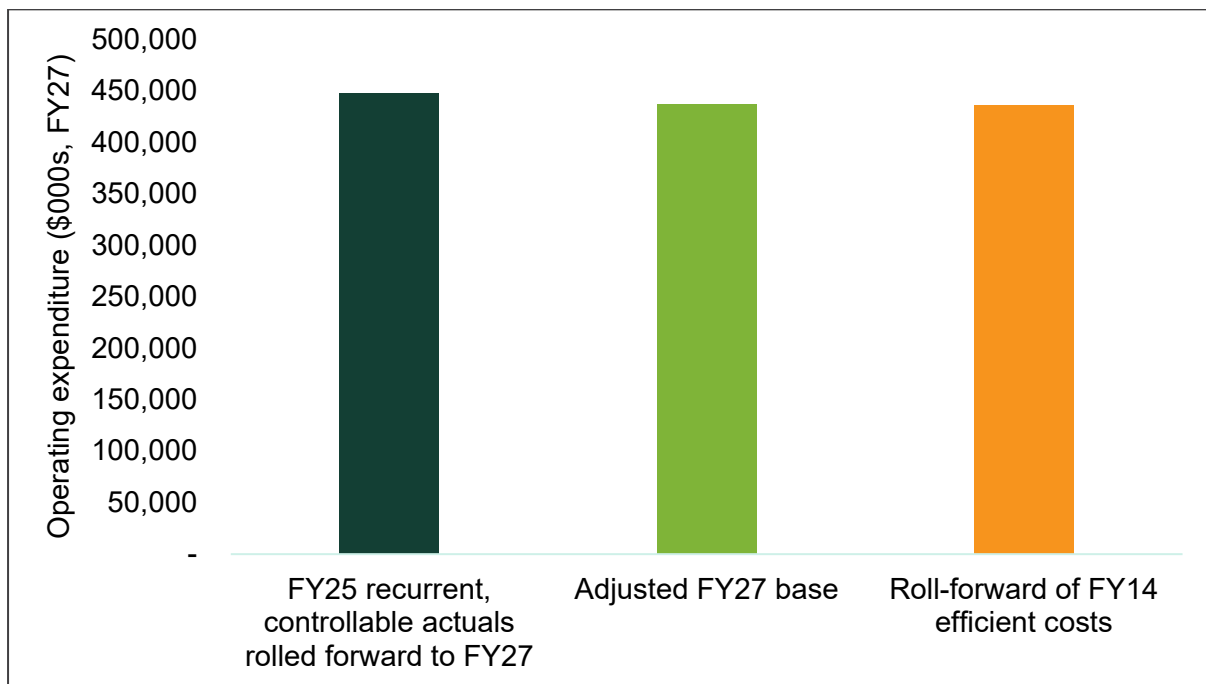
- accounts for growth in connections and water volumes
- assumes no real price increases in input costs between FY14 and FY27
- applies an efficiency factor of 1% per year, which compounds over the 13 years between FY14 and FY27.

We also apply no step changes, so the rolled-forward efficient costs do not reflect any new obligations, changes in scope or changes in operating conditions that have arisen since FY14.

We recognise that rolling forward the QCA finding as to our efficient costs involves judgement, since the choice of growth measure, the assumption of no real price escalation and the size of the efficiency factor cannot be derived mechanically from the FY14 price monitoring investigation. We have selected assumptions that we consider are reasonable and conservative so that this approach is more likely to understate the efficient cost for FY27 than to overstate it.

Figure 3-1 compares our actual FY25 recurrent, controllable operating expenditure (rolled forward to FY27) with the adjusted FY27 base and rolled-forward QCA findings. It shows that the base expenditure we adopt for forecasting purposes is less than 1% different from the roll forward of the QCA's findings as to our FY14 efficient costs. This close alignment supports our conclusion that the base expenditure we have adopted is efficient.

Figure 3-1: Our adopted base expenditure is efficient



4 Methodology

We forecast our operating expenditure requirements using a base-step-trend approach. Urban Utilities has developed its opex forecast using a BST methodology. The BST methodology establishes an efficient recurrent opex base, incorporates step changes for material expenditure not otherwise reflected in the base or captured through trend allowances, and applies forecast trends to reflect changes in service demand and input costs.

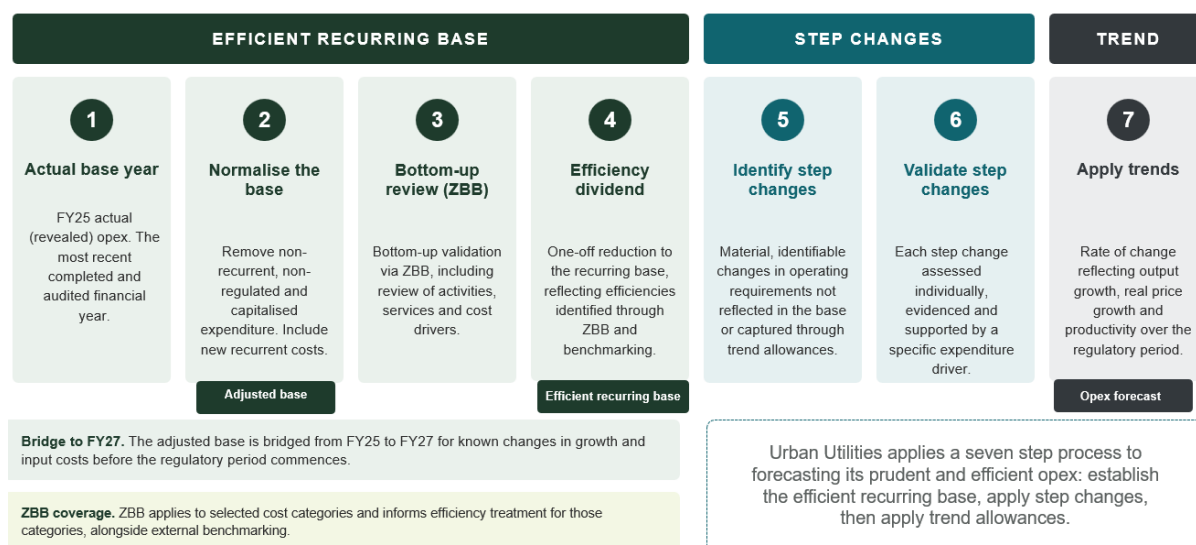
As shown in Figure 4-1 Urban Utilities' seven (7) step process to forecasting its prudent and efficient operating expenditure requirements over the FY28-30 period, Urban Utilities has applied a **seven (7) step process** to develop its opex forecast. **Steps one to four (1 - 4)** establish the efficient recurrent controllable opex base through expenditure normalisation, bottom-up business review through the ZBB initiative and efficiency adjustments. The ZBB program forms a core component of Urban Utilities' approach to forecasting efficient expenditure, providing a detailed assessment of the resources required to deliver services, maintain assets and meet regulatory requirements. It also supports Urban Utilities' ongoing focus on affordability, productivity and continuous improvement by challenging existing expenditure and identifying opportunities to deliver services more efficiently. **Steps five to seven (5 - 7)** identify step changes and apply trend allowances to forecast expenditure over the price monitoring period. In practice, we have applied trend to the efficiency recurrent controllable opex base before step changes are added.

Urban Utilities proposes seven step changes. Step changes are applied where a material and identifiable change in operating requirements is not reflected in the recurrent expenditure base or captured through trend allowances. The proposed step changes reflect increasing digital capability requirements, increasing maintenance requirements associated with a growing and ageing asset base, SOCI requirements, customer engagement requirements and participation in the QCA's price monitoring framework. Each proposed step change has been assessed individually and evidenced to confirm that it is supported by a specific expenditure driver, is not reflected in the recurrent base and is not otherwise captured through trend allowances.

Trend allowances reflect forecast changes in service demand and input costs over the price monitoring period. Demand-related trends capture growth in customers, network assets and service volumes, while input cost trends capture movements in labour, materials, energy and other operating costs. Together, these trends reflect the ongoing changes in operating requirements and input costs associated with delivering water and wastewater services.

The remainder of this Annexure applies the BST methodology to develop Urban Utilities' opex forecast. Section 5 establishes the recurrent base and bridges expenditure from FY25 to FY27. Section 6 presents the proposed step changes. Section 7 sets out the trend allowances applied to the forecast, and Section 8 explains the treatment of other operating expenditure adjustments, including expenditure proposed to be recovered through pass-through mechanisms.

Figure 4-1 Urban Utilities' seven (7) step process to forecasting its prudent and efficient operating expenditure requirements over the FY28-30 period



5 Establishing an efficient base year

Urban Utilities' has adopted FY25 actual opex as the base year for the forecast. FY25 is the most recent completed and audited financial year and is considered representative of ongoing operations. It therefore provides an appropriate starting point for establishing the recurrent opex base under the BST methodology.

Total FY25 opex was \$474.4 million (real 2027 dollars). Consistent with the BST methodology, a series of adjustments were applied to establish a recurrent expenditure base. These adjustments included:

- removal of non-recurrent expenditure, including expenditure associated with ex-Cyclone Alfred and extreme wet weather events, costs associated with transitioning to new maintenance service delivery arrangements, costs associated with the shutdown of the thermal hydrolysis process at Oxley Creek Sewage Treatment Plant (CAMBI), and other one-off expenditure not expected to continue over the price monitoring period
- removal of expenditure that does not relate to regulated water and wastewater services
- removal of capital program expenditure expensed through opex and D&I capitalisation adjustments
- inclusion of expenditure incurred in FY26 and FY27 that is recurrent in nature and expected to continue over the price monitoring period.

The recurrent base reflects the ongoing cost of delivering regulated water and wastewater services. The base was then bridged to FY27 to reflect growth, changes in input costs and other known changes in operating requirements that are expected to occur before the commencement of the price monitoring period.

The most significant movement between FY25 and FY27 relates to increases in input costs over the bridge period. Labour costs represent the largest component of this increase, reflecting Enterprise Bargaining Agreement (EBA) outcomes and broader labour market conditions. Additional increases arise from higher maintenance contractor costs, software licensing costs, chemical costs and other operating inputs. These increases are partially offset by the removal of non-recurrent expenditure and other base year adjustments.

Following the application of a \$10 million efficiency dividend, the resulting FY27 efficient recurring base is \$437.1 million (real 2027 dollars).

5.1 Base year adjustments

The key adjustments to the FY25 base year relate to capital program expensed items, the removal of non-recurrent expenditure and the reclassification of digital expenditure from opex to capex. Material adjustments are described below and reflected in Table 4-1.

Unless otherwise stated, base year adjustment values in this section are presented in FY25 nominal dollars. These adjustments are used to establish the recurrent FY25 expenditure base before expenditure is escalated and converted to real 2027 dollars for forecasting purposes.

- **Capital program expensed items:** Reclassification of integrated planning costs from capex to opex to reflect the accounting treatment resulting from enhanced integrated catchment planning leading to alternative capex solutions and reduction in future capital investment requirements. As a result, \$12.8 million has been removed from the FY25

opex base. Costs incurred from FY26 and beyond that are not capitalised will be considered for adding to the RAB where they are prudent and efficient. Annexure 7 - Regulatory Asset Base (RAB).

- **Maintenance contract transition (excluding civil maintenance):** We transitioned our contract for Mechanical, Electrical and Control Systems (MECS) to a new service delivery model. Non-recurrent costs associated with ceasing previous arrangement and establishing and transitioning to the new contract have been excluded from the base year as they are not representative of the ongoing cost of delivering maintenance services. This base adjustment represents \$16.8 million.
- **Biosolids management due to CAMBI shutdown:** The base has been adjusted to remove one-off costs associated with the temporary shutdown of the CAMBI thermal hydrolysis process at Oxley Creek Sewerage Treatment Plant. The adjustment also reflects higher biosolids throughput requiring treatment and disposal than was reflected in historical expenditure, including at Luggage Point. This has increased the ongoing cost of biosolids management. This base adjustment represents \$7.5 million.
- **Extreme weather events and ex-Cyclone Alfred:** During the FY25 and FY26 Urban Utilities incurred costs relating to:
 - Ex-cyclone Alfred. Ex-cyclone Alfred impacted South East Queensland in March 2025, resulting in abnormal expenditure associated with emergency response and clean-up.
 - 2022 Flood. In 2022 Southern Queensland experienced its most significant flooding event since 2011, causing widespread damage. In FY25, the business continued to incur costs associated with the tail end of the event, relating to contractor costs.
 - Extreme weather. Queensland also recorded its wettest year since 2011 in 2025, with record rainfall observed across many regions,² contributing to increased operational and response costs.

One-off and non-recurrent expenditure due to ex-Cyclone Alfred and other extreme weather, totalling \$(0.2)million, are excluded from the base.

- **Adjustment for non-regulated services in FY25:** Urban Utilities provides laboratory services, including research and analytical services, on a commercial basis through its Scientific Analytical Services Laboratory (SAS) business.
 - **SAS laboratory services:** Expenditure associated with SAS activities that is provided on a commercial basis and does not form part of the regulated water and wastewater services provided by Urban Utilities and has therefore been removed from the forecast. This adjustment removes approximately \$1.6 million of base-year expenditure.
- **Adjustment for Right of Use Asset Accounting treatment:** The base has also been adjusted to add right-of-use amortisation expenditure. This lease-related expense is reported outside the operating expenditure category in Urban Utilities' financial statements but represents an ongoing cost associated with the provision of regulated water and wastewater services. Accordingly, it has been included in establishing the recurrent opex base. This adjustment represents \$3.6 million.

² Bureau of Meteorology, Queensland in 2025: Annual climate summary, 2025, at <https://www.bom.gov.au/climate/current/annual/qld/summary.shtml>

- **Digital capitalisation:** The base has been adjusted to reflect a revised regulatory treatment of digital expenditure. From FY28, for regulatory purposes, expenditure on digital assets that deliver enduring benefits is capitalised and reclassified from opex to capex, while software subscriptions, licences, maintenance and operational support are treated as opex. This results in \$18.5 million of FY25 expenditure being removed from the operating expenditure base. These capitalisation principles are informed by approaches adopted in recent regulatory submissions, including ³ submission to the QCA's review of RAB-based irrigation prices from 1 July 2027.⁴

5.2 Bridging the base to FY27

The adjusted FY25 base has been bridged through to FY27 to reflect known changes in operating activities and conditions expected to occur before the commencement of the price monitoring period. Total operating expenditure increases from \$414.3 million in FY25 to an adjusted base of \$447.1 million in FY27, representing an increase of approximately 7.9% over the bridge period. The key drivers of this movement are the growth factor (\$20.2 million), other base adjustments (\$10.3 million) and the price factor (\$2.3 million):

- **Growth Factor:** The output growth factor uses a weighting of 70% customer connections and 30% water and wastewater volumes. This recognises that operating expenditure is primarily driven by growth in customers, network assets and service obligations, rather than changes in consumption alone. As Urban Utilities' service area expands, additional expenditure is required to operate, maintain and support a larger network, regardless of whether average customer consumption changes. Water and wastewater volumes remain an important driver of asset utilisation and operational workload and are therefore incorporated through a 30% weighting. The proposed growth factor is consistent with approaches adopted by other Australian water businesses, including Icon Water, which apply weighted output growth measures that recognise both customer growth and service demand when forecasting operating expenditure requirements.⁵ Growth factor represents \$20.2 million of the movement.
- **Price factor:** EBA outcomes account for approximately \$16 million of the increase in opex between FY25 and FY27. While labour and other input cost increases place upward pressure on expenditure over the bridge period, these impacts are substantially offset by reductions associated with non-recurrent expenditure, changes in capitalisation, productivity and efficiency initiatives, and other normalisation adjustments applied in establishing the recurrent expenditure base. As a result, the net price factor adjustment reflected in the bridge is \$2.3 million.
- Urban Utilities has used actual EBA outcomes to forecast labour costs between FY25 and FY27 rather than applying a generic labour escalation index. This approach reflects known and committed wage increases that will apply over the bridge period. While the EBA outcomes applying in FY26 and FY27 are above forecast inflation, they partly reflect a catch-up from the COVID and post-COVID period, when wage growth more broadly lagged increases in consumer prices. Over the period as shown in Figure 5-1 the overall trajectory of wage growth remains broadly consistent with broader economic

⁴ Sunwater Review of RAB-based irrigation prices from 1 July 2027, Appendix 2: Sunwater's draft revised capitalisation procedure page 54

⁵ Icon Water, *Attachment 6: Operating Expenditure*, 2023-28 price review submission to the Independent Competition and Regulatory Commission, June 2022.

conditions. The use of actual EBA outcomes therefore provides a reasonable basis for forecasting labour costs over the bridge period.

Figure 5-1 Comparison of Queensland wage growth, CPI and Urban Utilities EBA outcomes



Source: Australian Bureau of Statistics, Wage Price Index, Queensland; Australian Bureau of Statistics, Consumer Price Index, Brisbane; Queensland Treasury economic forecasts; Urban Utilities Enterprise Bargaining Agreement.

• Other Base adjustments

- **Additional licences, new systems and applications:** Expenditure increases between FY25 and FY27 due to growth in software licence volumes and the introduction of new systems and applications across the business. This includes additional licences required for employees and delivery partners who access Urban Utilities' core business systems and digital workflows, reflecting the increasing integration of delivery partners within delivery teams and day-to-day operations. The increase also reflects licensing costs associated with new digital platforms, enterprise applications and supporting technologies introduced into the operating environment. These systems support customer service, operational delivery, asset management, cyber security and corporate functions, resulting in a higher ongoing cost of software licensing and digital services. In aggregate, these changes represents an adjustment of \$3.1 million.
- **Chemicals:** Chemical expenditure has been adjusted to reflect the current level of chemical consumption required to support ongoing operations. Key drivers include increased carbon source dosing required to maintain denitrification performance and compliance with nitrogen limits, increased hypochlorite and magnesium hydroxide dosing to maintain treatment performance and odour management requirements. Further, recommissioning of the CAMBI thermal hydrolysis process at the Oxley Creek Sewerage Treatment Plant has increased biosolid throughput and increased chemical demand. These increases have been partially offset by optimisation initiatives

that reduce our reliance on chemicals such as misting agents. In aggregate, these changes represent an adjustment of \$1.9 million.

- **Project delivery D&I services:** Expenditure increases between FY25 and FY27 due to higher external service provider costs associated with the delivery of digital and ICT initiatives. Urban Utilities utilises specialist delivery partners and contractors to provide delivery capacity and technical expertise across activities such as solution design, project implementation, testing, change management and system integration. This approach enables the business to efficiently access specialist capability and scale delivery resources in line with project requirements, rather than maintaining equivalent capability permanently in-house. The increase reflects the level of project delivery support required under the current operating model during the bridge period. In aggregate, these changes represents an adjustment of \$1.5 million.
- **Laptop replacement:** The change in laptop treatment reflects Queensland Treasury's 2025 Non-Current Asset Policies (NCAP)⁶, which sets out specific criteria and cost thresholds. Under these policies, laptops are classified as *Plant & Equipment* due to being portable and costing below the \$5,000 threshold per unit. Applying this categorisation means that laptops are expensed rather than capitalised. As this is an annual program, we consider that aligning with the NCAP for laptops is appropriate as it provides consistency and transparency in how the business categorises these expenses. This represents an adjustment of \$1.3 million.
- **Land tax:** Land tax increased between FY25 and FY27 due to updated statutory land valuations and new land holdings, resulting in higher land tax liabilities over the bridging period. This represents an adjustment of \$1 million.
- **Customer engagement:** The base adjustment for customer engagement reflects the current ongoing cost of customer research and engagement activities that support service planning, investment decision-making and inform future regulatory submissions. This includes engagement activities associated with our capital program and understanding customer preferences regarding service outcomes and expenditure priorities. This represents an adjustment of \$0.4 million.
- **Other:** Other opex adjustments include a range of smaller cost items that are not individually large but collectively contribute to the increase in opex between FY25 and FY27. These include higher bad debt provisions, biosolids management adjustments, calibration and renewal of safety-critical equipment, partly offset by lower bank charges and merchant fees. In aggregate, these items represent an adjustment of \$0.9 million.

QCA regulation costs and fees: Introduction of formal price monitoring by the QCA has resulted in expenditure in FY26 and FY27 that was unanticipated. This will also require increased resources to meet recurring regulatory reporting and compliance requirements. The FY26 and FY27 expenditure related to this work is being passed through separately and has not been included in the adjusted base (see Annexure 9 -

⁶ Queensland Treasury, *Non-Current Asset Policies for the Queensland Public Sector: For reporting periods beginning on or after 1 July 2024*, June 2025, at <https://www.treasury.qld.gov.au/files/NCAPS-Parts-1-to-6-Combined-with-illustrative-examples-2024-25.pdf>

Regulatory Setting & Revenue Requirements). The additional ongoing costs, expected to be incurred from FY28, have been included as a step change.

5.3 Efficiency and productivity adjustments

To test the efficiency of our expenditure, we undertook the ZBB initiative to build up and review of our cost base. We recognise that ZBB goes beyond what is typically expected within an economic regulatory framework, which ordinarily relies on revealed cost as the starting point for forecasting. As discussed earlier in this Annexure, since this is our first price monitoring review in over a decade, no such comparison is available to us. Benchmarking against comparator businesses is similarly limited in this context due to the difficulty of constructing a robust and comparable peer set given our unique operating conditions.

In the absence of these conventional tools, we consider a bottom-up ZBB review of our cost base meets the same intent that revealed cost and benchmarking are designed to serve. We are testing whether our expenditure reflects an efficient and prudent level by justifying each activity from first principles. This approach is tailored to our business given the lack of a recent determination history to draw on.

Efficiency adjustment: We have applied a **\$10 million efficiency adjustment** in establishing the FY27 efficient base. This reflects identified reductions in opex following our targeted bottom-up review of cost drivers, unit rates, expenditure requirements and opportunities to improve efficiency.

The efficiency adjustment is informed by Urban Utilities' ZBB initiative and benchmarking using National Performance Reporting (NPR) and Water Services Association of Australia (WSAA) data. ZBB provided a more detailed view of the activities, services and cost drivers underpinning expenditure across the business. It improved visibility of where resources are being directed and supported a more transparent assessment of whether expenditure remains aligned to current service requirements, operational needs and regulatory requirements. This allowed Urban Utilities to identify opportunities to reduce or remove expenditure that did not need to continue in the FY27 base, while maintaining required service outcomes.

Benchmarking also provided an external reference point for this assessment. NPR and WSAA data were used to identify areas of controllable expenditure requiring further scrutiny, while taking account of differences in operating context, service scope, customer mix and data treatment across utilities. This ensured benchmarking insights were considered alongside Urban Utilities' own operating environment and the bottom-up findings from ZBB.

Together, ZBB and benchmarking identified targeted efficiency opportunities that have been incorporated into the FY27 base through the **\$10 million efficiency adjustment**. Following application of this adjustment, the FY27 adjusted base of \$447.1 million is reduced to an **FY27 efficient recurring base of \$437.1 million**. This adjustment passes identified efficiency opportunities directly to customers from the start of the FY28-FY30 period and reflects the efficient ongoing cost of delivering regulated water and wastewater services.

Further detail on the efficiency adjustment approach and findings is provided in the Annexure 11 - Benchmarking & Efficiency.

Productivity adjustment: Urban Utilities also proposes an additional productivity adjustment applied through the trend forecast (see Annexure 11 - Benchmarking & Efficiency). While the efficiency adjustment represents a one-off and enduring reduction to the FY27 efficient base, the productivity adjustment reflects an ongoing expectation of, and

commitment to, efficiency improvement over the price monitoring period, consistent with the BST framework.

The proposed productivity rate is also informed by opportunities identified through ZBB, benchmarking and the implementation of Urban Utilities' broader Operational Efficiency Program (OEP) – see Annexure 11 - Benchmarking & Efficiency. ZBB is important in this context because it has improved visibility of expenditure, strengthened understanding of cost drivers and created a stronger basis for ongoing review of resource allocation across the business. The productivity adjustment reflects Urban Utilities' commitment to these disciplines to continue to support efficiency improvements beyond the establishment of the FY27 base.

This adjustment is forecast to deliver cumulative benefits of approximately \$30 million over FY28-FY30 (including the efficiency dividend applied to the base), ensuring customers continue to share in efficiency improvements achieved during the price monitoring period. Collectively the efficiency and productivity adjustments have reduced our total opex allowance over the three years of FY28-30 by \$71 million (FY27\$). That is, without the efficiency and productivity adjustments, our total opex allowance over the period would have been higher by \$71 million.

Further detail on the productivity adjustment is provided in the Annexure 11 - Benchmarking & Efficiency.

5.4 Base adjustment summary

An overview of our base year proposal for the FY28-30 is shown in Table 4-1.

Base year adjustment values are presented in FY25 nominal dollars. Growth, price and other bridge adjustments are presented in real FY27 dollars.

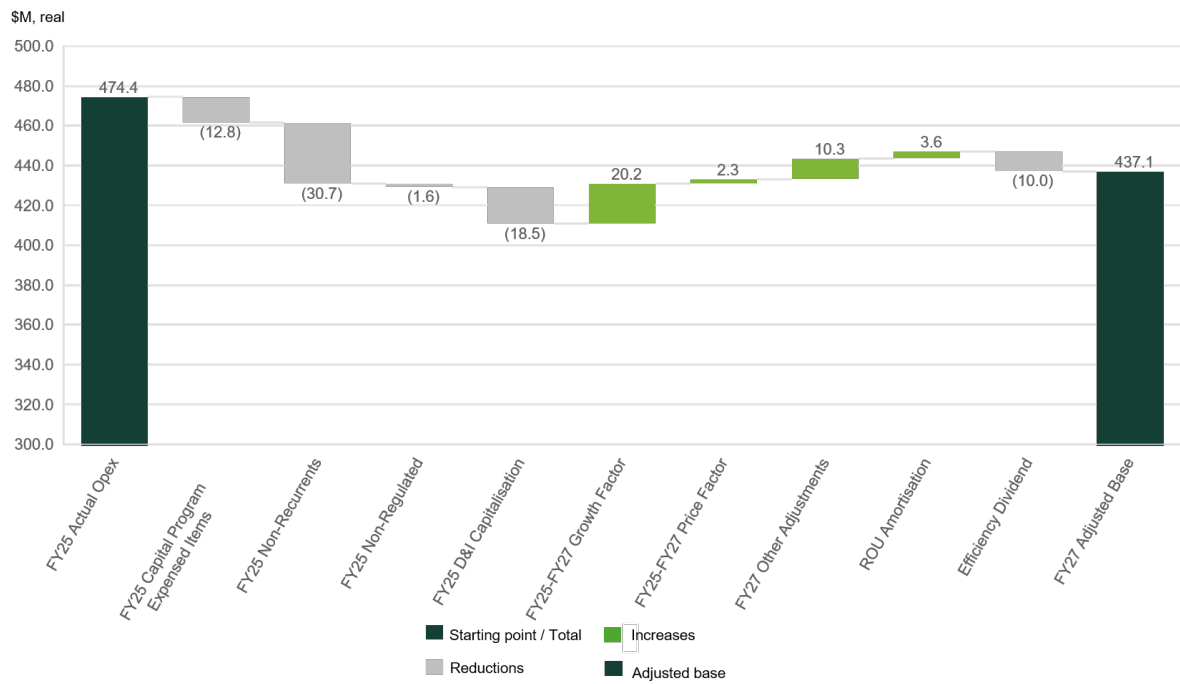
The preceding sections describe the key adjustments and assumptions used to establish the FY27 efficient recurring base. Table 4-1 summarises these movements and presents the reconciliation from FY25 actual operating expenditure to the FY27 efficient recurring base under the BST methodology. All values are presented in real FY27 dollars.

Table 4-1. Summary of adjustments applied to FY25 expenditure to establish the FY27 efficient recurring base

FY27 base year reconciliation	\$m, real FY27
FY25 actual operating expenditure	474.4
FY25 capital program expensed items	(12.8)
FY25 non-recurrent expenditure	(30.7)
MECS related costs	(16.8)
Biosolids management (CAMBI shutdown)	(7.5)
Extreme weather events including Cyclone Alfred	0.2
Organisational Realignment costs	(2.6)
Special projects	(1.6)
Debt collection	(1.1)
Other	(1.3)
FY25 non-regulated services	(1.6)
SAS laboratory services	(1.6)
FY25 Right of Use Adjustment	3.6
FY25 D&I capitalisation	(18.5)
FY25 to FY27 growth factor	20.2
FY25 to FY27 price factor	2.3
FY25 to FY27 other base adjustments	10.3
Additional licences and new systems and applications	3.1
Chemicals	1.9
Project delivery D&I services	1.5
Laptop replacement	1.3
Land tax	1.0
Customer engagement	0.4
Other	0.9
FY27 adjusted base (pre-efficiency adjustment)	447.1
Efficiency adjustment	(10.0)
FY27 efficient recurring base	437.1

Individual line items have been rounded and may not sum to the totals presented.

Figure 5-2: Waterfall chart for adjustments applied to FY25 expenditure to establish the FY27 efficient recurring base



Note: Totals may not sum due to rounding.

6 Our forecasted step changes

Urban Utilities proposes seven step changes over FY28-FY30. Step changes are included where expenditure requirements are driven by material and identifiable changes in operating requirements and are not reflected in the recurrent base or captured through trend allowances. The proposed step changes are summarised in Table 5-8 below.

We developed our proposed step changes in reference to the QCA's step change criteria. Step changes have been included for prudent costs that are incremental to the base, that:

- are necessary to fulfill new, or changed, binding statutory or regulatory obligations
- are reasonably required to achieve an outcome that is explicitly endorsed by customers (for example, specific reliability outcomes) or broadly accepted changes in community expectations in relation to corporate responsibility (such as commitment to climate change mitigation)
- are not funded through other components of other approved allowances (to avoid double counting of costs)
- represent cyclical activities that are not within annual business-as-usual budgets
- are of sufficient materiality that the costs could not reasonably be met by an efficient entity operating within business-as-usual budget constraints, through prudent prioritisation of expenditures, or be otherwise mitigated.⁷

Each step change is summarised below. Information packs and business cases are being prepared for each step change to further explain the basis for each, along with the approach used to develop the expenditure forecast.

6.1 Security of Critical Infrastructure (SOCi)

We propose a step change in opex to meet expanded obligations under the *Security of Critical Infrastructure Act 2018* (SOCi Act), including the implementation and ongoing operation of a Critical Infrastructure Risk Management Program (CIRMP) for Urban Utilities' critical water and sewerage infrastructure assets. The SOCi framework requires responsible entities to identify, assess and manage material risks that could affect the availability, integrity and reliability of essential services. The CIRMP rules require entities to address risks across cyber and information security, personnel, supply chain, physical security and natural hazards.⁸

Compliance with CIRMP requirements requires Urban Utilities to establish and maintain an ongoing capability to identify critical assets and dependencies, assess risks across critical systems and suppliers, implement risk controls, monitor compliance and maintain supporting governance and assurance activities. These requirements extend beyond the activities undertaken during the base period and represent a permanent increase in the level of security and resilience capability required to operate critical infrastructure assets.

The proposed expenditure supports the additional security, assurance and resilience activities required to meet Urban Utilities' SOCi and CIRMP obligations over FY28-FY30. This includes governance, monitoring, assurance and specialist security capability to identify, assess and manage risks to critical water and sewerage infrastructure assets and the services they support. Key activities include developing an all-hazards risk management

⁷ Aither, *Prudency and efficiency review: Review of Gladstone Area Water Board's forecast capital and operating expenditure for 2025-30*, Final Report prepared for the Queensland Competition Authority, October 2024, at <<https://www.qca.org.au/wp-content/uploads/2024/12/aither-report.pdf>>

⁸ Australian Government, *Security of Critical Infrastructure (Critical Infrastructure Risk Management Program) Rules (LIN 23/006) 2023*, at <[Security of Critical Infrastructure \(Critical infrastructure risk management program\) Rules \(LIN 23/006\) 2023 - Federal Register of Legislation](#)>

framework, identifying critical assets and service dependencies, assessing risks across primary, secondary and tertiary supply chains, implementing personnel security screening and assurance processes, strengthening security governance and reporting, and increasing specialist security capability. These activities are required to demonstrate that risks to critical assets, critical suppliers, critical workers, business-critical information and operational technology systems are being identified and managed.

The step change also reflects the need to assess and uplift our cyber and operational technology capability. We identified that our operational technology environment requires further maturity uplift, and that a Cybersecurity Capability Maturity Model (C2M2) assessment has been pursued to support this work. This provides a structured basis for assessing current cyber and operational technology capability and identifying the controls required to manage SOCI-related risks.

In addition, the expenditure supports operational resilience planning, including defining the minimum viable functions required to maintain essential services during significant disruption events. This reflects emerging Commonwealth expectations for critical infrastructure resilience, including consideration of how critical systems and services would continue to operate under extended disruption scenarios. This as a key area of discovery, including consideration of cloud dependency, operational technology resilience and the services that are fundamental to the business.

A further component of the step change relates to opex arising from physical security and resilience investment. This includes the operation, monitoring and maintenance of enhanced physical security controls, including systems such as cameras and related security infrastructure. While these assets may be delivered through capital expenditure, they give rise to ongoing operating costs required to ensure the controls remain effective and support compliance with SOCI requirements.

The expenditure is incremental to existing business-as-usual cyber and information, physical security, technology and business resilience and associated risk control improvement activities. It reflects a permanent increase in the activities required to comply with SOCI compliance requirements and the SOCI legislative reforms introduced in 2026 through the Enhanced SOCI Critical Infrastructure Risk Management Program (CIRMP) Rules and the further reforms to the SOCI Act currently being proposed following the 2026 Independent Review of the effectiveness of the SOCI Act.⁹

A summary of the proposed step change operating expenditure for SOCI compliance is shown below in Table 5-1.

Table 5-1 Step change: SOCI compliance (\$m, real 2027)

Step change	FY28	FY29	FY30
SOCI compliance	1.75	1.75	0.50

⁹ Cyber and Infrastructure Security Centre, *From compliance to resilience: Australia's critical infrastructure enters next phase of reform*, at <https://www.cisc.gov.au/news-media/archive/article?itemId=1412>; Australian Government, *Security of Critical Infrastructure Legislation Amendment (Enhanced Critical Infrastructure Risk Management Program) Rules 2026*, June 2026, at <https://www.legislation.gov.au/F2026L00701/asmade/text>; Australian Signals Directorate, *CI-ISAC Fortify: Strengthening the security of operational technology environments*, at <https://www.cyber.gov.au/business-government/secure-design/operational-technology-environments/ci-fortify>

While these costs have been mapped out for the next three years, based on expectations of CIRMP Rules, the Department of Home Affairs (SOCl regulator), has already signalled further reforms to the SOCl act is likely through this period. Further uplift in investment to meet these requirements is likely over the coming years and could be considered as an additional passthrough should additional compliance requirements be imposed above these captured here within the FY28-FY30 period.

6.2 Maintenance (contracts, services and materials)

We propose a step change in maintenance expenditure over FY28-30 in relation to Mechanical Electrical and Control Systems (MECS) only (excluding civil maintenance costs).

Our asset base is large and geographically dispersed, comprising a greater number and diversity of wastewater treatment assets than would typically be observed in a single entity utility. Ageing water and wastewater infrastructure is a recognised national priority, with networks across Australia reaching the end of their useful life as population growth places increasing demand on infrastructure not designed to meet long-term growth requirements.¹⁰

The step change in maintenance expenditure over FY28-30 reflects two drivers, discussed below.

- **Rebalancing the maintenance profile to address increasing infrastructure risk:** The proposed step change reflects an increase in planned and corrective maintenance activities for critical Mechanical, Electrical and Control Systems (MECS) assets. Historically, MECS related maintenance expenditure has been constrained, resulting in a maintenance profile that is increasingly reliant on reactive interventions. As our understanding of infrastructure risk has matured, this profile is no longer considered consistent with the level of reliability, resilience and compliance required for critical wastewater assets. The proposed expenditure supports a rebalancing towards planned and corrective maintenance to reduce failure risk, improve asset reliability and avoid higher-cost reactive interventions.
- **Increased maintenance requirements for assets operating under constrained capacity conditions.** The proposed step change also reflects increased maintenance and monitoring requirements for wastewater treatment assets operating at or near design capacity. As available operational headroom reduces, asset failures have a greater impact on treatment performance, compliance and service continuity. These pressures are being compounded by asset ageing, increasing operating complexity and more frequent wet weather events. Additional maintenance expenditure is required to maintain asset performance, manage increasing infrastructure risk and support resilient operation of critical wastewater services. We anticipate that this expenditure will reduce in future periods as infrastructure expenditure expands the capacity of treatment assets in our growth corridors.

A summary of the proposed step change operating expenditure for maintenance is shown below in Table 5-2.

¹⁰ Infrastructure Australia (2026), *2026 Infrastructure Priority List: Secure, Sustainable Water for Growth*, Australian Government.

Table 5-2 Step change: Maintenance (\$m, real 2027)

Step change	FY28	FY29	FY30
Maintenance (contracts, services, materials)	2.83	3.03	3.24

6.3 Additional environmental monitoring

This proposed step change reflects the anticipated environmental monitoring requirements associated with key projects. While these requirements are subject to ongoing engagement with the Department of Environment, Tourism, Science and Innovation (DETSI) and are expected to arise from environmental approval conditions linked to these assets, it provides an indication of proposed expenditure as it relates to future monitoring activities.

These activities will be required to assess and manage environmental impacts and costs estimated using a percentage of capital expenditure associated with the relevant assets, reflecting the expected level of ongoing monitoring and compliance activity.

The step change represents the estimated ongoing cost of meeting these anticipated regulatory requirements for this type of investment, noting that the scope and quantum will be refined following further discussions with DETSI.

A summary of the proposed step change operating expenditure for environmental monitoring is shown below in Table 5-3.

Table 5-3 Step change: Environmental monitoring (\$m, real 2027)

Step change	FY28	FY29	FY30
Environmental monitoring	-	-	1.33

6.4 Customer engagement

Urban Utilities has continued to mature its customer engagement approach to support service planning, investment decision-making and pricing decisions. The introduction of QCA price monitoring increases the importance of demonstrating how customer views have informed these decisions, but the proposed step change reflects Urban Utilities' broader commitment to customer-led planning and decision-making.

Urban Utilities must be able to demonstrate not only that its proposed expenditure is prudent and efficient, but also that the resulting service and price outcomes reflect customer needs and priorities. This requires customer evidence that is sufficiently robust, representative and timely to inform decisions and demonstrate how customer views have been considered.

Urban Utilities proposes a step change in opex from FY28 to establish a more mature, systematic and evidence-based approach to customer engagement. The step change builds on the Voice of the Customer activities reflected in the base year, which provide ongoing insights into customer experience, satisfaction and service preferences. While these activities remain important, they are not designed to support the deeper and more structured consideration of expenditure priorities, affordability and service trade-offs now required across Urban Utilities' planning and decision-making processes.

The additional expenditure will support an expanded program of targeted research and structured engagement with residential, business and other customer groups. This will enable Urban Utilities to:

- obtain representative evidence of customer needs, priorities and affordability concerns
- test preferences and trade-offs between bills, service standards, reliability, resilience and long-term investment
- understand how preferences and impacts differ across customer groups, locations and circumstances, including customers experiencing vulnerability
- incorporate customer evidence earlier and more consistently into service planning, expenditure prioritisation and pricing decisions
- demonstrate transparently how customer evidence has influenced the decisions and outcomes ultimately proposed.

The uplift is required throughout FY28-FY30 because these activities form part of an ongoing approach to customer-led planning, rather than a one-off exercise associated with preparing a regulatory submission.

Engagement will need to be refreshed as customer circumstances, community expectations, affordability pressures and business priorities change, and as specific expenditure and service proposals are developed. Maintaining this capability across the forecast period will allow Urban Utilities to identify changes in customer priorities and apply current evidence to material business decisions.

The proposed step change represents the incremental cost of delivering this expanded engagement program above the ongoing activities already reflected in the base year. It will provide a stronger evidence base for Urban Utilities' decisions, improve transparency and ensure that service, expenditure and pricing outcomes are more closely aligned with the needs and priorities of its customers.

A summary of the proposed step change operating expenditure for customer engagement is shown below in Table 5-4,

Table 5-4 Step change: Customer engagement (\$m, real 2027)

Step change	FY28	FY29	FY30
Customer engagement	0.16	0.17	0.19

6.5 QCA regulation

Urban Utilities proposes a step change in opex to meet the efficient incremental costs arising from ongoing QCA price monitoring oversight during FY28-FY30. The proposed expenditure is limited to activities undertaken after the completion of the initial Part 1 and Part 2 submissions and excludes costs recovered separately through pass-through treatment.

Costs associated with preparing the Part 1 and Part 2 submissions that are eligible for pass-through treatment will be recovered separately once their scope and cost are known. These costs are excluded from the proposed step change to avoid double counting. The proposed step change reflects the ongoing regulatory costs that are expected to continue beyond the initial review process and form part of Urban Utilities' ongoing participation in the QCA's price monitoring framework.

The introduction of QCA price monitoring has increased the regulatory obligations applying to Urban Utilities. While the costs of providing submissions to the Part 1 and Part 2 requirements of the initial review will be assessed and processed as a passthrough (see Annexure 9 - Regulatory Setting & Revenue Requirements), the ongoing participation in

price monitoring through periodic reporting requires Urban Utilities to prepare and maintain additional detailed evidence supporting its expenditure, service and pricing decisions and to respond to the QCA's assessment throughout the ongoing monitoring process which we expect to carry through the FY28 to FY30 period. These activities are additional to the regulatory functions and costs reflected in the FY27 efficient base (noting this base does not include the additional costs incurred through the reintroduction of price monitoring oversight from September 2025). The costs incurred through Price monitoring through FY26 and FY27 will be recovered through an ex-post passthrough in the FY28-FY30 period.

The QCA's investigation considers Urban Utilities' monopoly business activities over the period from 1 July 2026 to 30 June 2030. Its assessment includes forecast opex and capex, service standards, pricing and the outcomes delivered to customers. Supporting this process requires Urban Utilities to maintain a clear and auditable evidence base and provide further information, analysis and assurance as required.

The proposed expenditure includes QCA fees and the internal and external resources required to support the remaining investigation activities. Depending on the requirements applying during FY28-FY30, this may include responding to information requests, updating regulatory analysis, providing supporting data and explanations, undertaking assurance, and responding to findings or recommendations arising from the QCA's review.

Customer engagement expenditure is captured separately under the customer engagement step change and is not included in this forecast.

A summary of the proposed step change opex for QCA price monitoring is provided in Table 5-5.

Table 5-5 Step change: QCA regulation (\$m, real 2027)

Step change	FY28	FY29	FY30
QCA regulation	1.00	1.00	1.00

6.6 Digital systems and ICT services

Urban Utilities relies on digital systems to monitor and manage its networks, assets, laboratories, customer services and enterprise activities to deliver water and wastewater services. These systems support critical operational, asset management, laboratory, customer service and enterprise functions, including network visibility, operational monitoring, incident response, data management and decision-making across the business.

Urban Utilities is progressively transforming its digital environment by replacing legacy and fragmented systems with modern enterprise platforms and integrated information services. This transformation extends beyond system replacement and includes the introduction of new digital capabilities across operational, asset management, laboratory, information management, cyber security and corporate functions. These capabilities improve the quality, accessibility and integration of information, supporting earlier identification of emerging risks, improved asset and network visibility, more efficient operations and better-informed planning and investment decisions.

Urban Utilities proposes a step change in opex from FY28 to reflect the additional operating and support costs associated with this expanded digital environment. The key drivers of expenditure are:

- increased utilisation of enterprise platforms across a growing user base
- growth in the volume and complexity of digital services required to support business operations
- deployment of new operational, information management, cyber security and compliance capabilities
- ongoing support, maintenance and management of an expanded portfolio of enterprise technology platforms and services.

Consistent with broader software-as-a-service (SaaS) market trends, technology providers are increasingly incorporating advanced analytics, automation and artificial intelligence capabilities into enterprise platforms while adopting pricing structures that include consumption-based charging. These trends, together with increased utilisation and capability requirements, are increasing the cost of operating and supporting Urban Utilities' digital environment.

The step change also includes specialist and managed-service support required to operate the enhanced technology environment. Urban Utilities uses external service providers where platform-specific expertise is required or where maintaining equivalent capability permanently in-house would not be efficient. This approach provides access to specialist technical capability while allowing support resources to be matched to operational requirements.

The proposed step change represents the incremental opex required to operate and support the enhanced digital environment from FY28. It excludes costs already reflected in the FY27 efficient base and software licence cost escalation, which is captured separately through the trend forecast. Refer to Annexure 6 - Digital & Information Investment for further details.

A summary of the proposed step change opex for digital systems and ICT services is provided in Table 5-6.

Table 5-6 Step change: ICT costs (\$m, real 2027)

Step change	FY28	FY29	FY30
ICT costs	1.80	1.83	1.83

6.7 Digital strategic programs

Urban Utilities' digital environment is critical to the delivery of safe, reliable and efficient water and wastewater services. Evolving cyber threats, requirements under the Security of Critical Infrastructure framework, ageing technology assets, accumulating technical debt, greater reliance on operational technology and expanding operational data requirements have significantly elevated the level of digital capability required to support the business. In response, Urban Utilities has developed a strategic program of investment to strengthen cyber security, modernise technology infrastructure, improve operational intelligence, renew core enterprise systems and expand automation and analytics capability.

Urban Utilities proposes a step change in operating expenditure from FY29 to sustain the additional cyber security, resilience, operational intelligence, technology sustainment, data management and enterprise systems capability required to respond to increasing cyber threats, critical infrastructure obligations, ageing technology assets, growing technical debt and increasing reliance on digital technology to support service delivery.

The program comprises five strategic programs:

1. Manage and Protect
2. Infrastructure Modernisation
3. Operational Intelligence
4. Digital Core Modernisation
5. Automation and Analytics.

Together, these programs will deliver new and enhanced cyber security capability, technology infrastructure, operational technology platforms, enterprise systems, data environments, analytics capability and automation tools to support the delivery of water and wastewater services. Once operational, these capabilities require ongoing support, maintenance, monitoring, governance and lifecycle management to remain secure, reliable and effective.

The proposed step change reflects the additional opex required to sustain these capabilities and maintain the associated service, operational, customer and risk management outcomes. Expenditure includes platform support, cyber security operations, vendor management, integration services, data governance, monitoring and lifecycle management required to maintain the ongoing operation of Urban Utilities' digital environment.

Manage and Protect

The Manage and Protect program strengthens Urban Utilities' cyber security, information governance, technology resilience and operational continuity. It responds to increasing cyber threats, obligations under the SOCI legislation and the need to protect critical digital, operational systems and information assets.

The associated step change reflects the ongoing operating capability required to maintain the controls and resilience measures delivered by the program. This includes security monitoring, identity and access management, backup and recovery services, information governance, security operations, and ongoing support and maintenance of cyber security platforms and tools. These activities are required to identify and respond to threats, maintain the effectiveness of security controls, support compliance and reduce the risk of disruption to critical services.

Infrastructure Modernisation

The Infrastructure Modernisation program renews and modernises the technology infrastructure underpinning Urban Utilities' operations, including networks, hosting environments, operational technology infrastructure, IoT capability and supporting technology platforms. The program establishes the secure, resilient and scalable digital backbone required to support enterprise systems, operational technology, data platforms and future digital capability.

As the modernised infrastructure enters service, Urban Utilities will incur additional operating costs for infrastructure support, network operations, monitoring, maintenance, cloud and hosting support, and specialist vendor support. These activities maintain the security, availability and performance of the infrastructure and support the reliable operation of the systems and services that depend on it.

Operational Intelligence

The Operational Intelligence program expands Urban Utilities' ability to collect, integrate and use operational data. It includes operational data platforms, IoT capability, monitoring systems, analytics environments and decision-support tools intended to improve network visibility, operational decision-making, asset management and service reliability.

The step change includes the additional costs of operating and supporting these capabilities, including data platform operations, connectivity, systems integration, monitoring, analytics operations, data governance and specialist technical support. These activities maintain the quality, availability and usefulness of operational information, support earlier identification of emerging risks and enable more informed operational and asset management decisions.

Digital Core Modernisation

The Digital Core Modernisation program replaces and modernises critical enterprise systems that support Urban Utilities' core business processes. The program improves system supportability, strengthens integration across the organisation, simplifies business processes and provides more consistent enterprise information to support decision-making and service delivery.

The step change captures the additional costs of operating and supporting the enhanced enterprise environment. This includes application support, integration management, vendor management, platform administration, reporting, data management and lifecycle support. These activities maintain system security, functionality and availability and sustain the operational improvements delivered through the modernised platforms.

Automation and Analytics

The Automation and Analytics program establishes expanded automation, analytics and artificial intelligence capability across Urban Utilities. These capabilities are intended to improve productivity, reduce repetitive manual activity and strengthen operational and business decision-making.

The step change includes the additional costs of operating and governing the expanded capability, including data pipeline support, platform administration, monitoring, automation governance, model governance, risk controls, adoption support and capability development. These activities ensure that automated processes and analytical tools remain accurate, secure, controlled and fit for purpose over time.

Basis for the step change

The D&I strategic programs are expected to improve productivity, operational performance, service reliability, cyber resilience and organisational decision-making. These benefits depend on the new systems, platforms and controls being maintained over time. Appropriate operating support preserves the reliability, security and effectiveness of the new capabilities and allows Urban Utilities to realise the value of the capital investment.

The proposed step change reflects the efficient incremental operating expenditure required to sustain the new D&I capabilities as they are progressively commissioned and transitioned into business-as-usual operation. The forecast includes costs that arise from the new capabilities delivered through the strategic program and become part of the ongoing operating requirement once those capabilities enter service.

This treatment reflects the relationship between digital capital investment and ongoing operating expenditure. Major digital capital programs create enduring assets and capabilities. Those assets require support, monitoring, maintenance, governance and lifecycle management throughout their useful lives. The proposed expenditure provides the operating capability required to sustain cyber security, resilience, infrastructure, operational intelligence, enterprise systems and automation capability across the D&I portfolio.

SOCI-related digital requirements are embedded across the D&I strategic programs. Capabilities delivered through Manage and Protect, Infrastructure Modernisation and other digital initiatives support cyber resilience, operational resilience, governance and protection of critical infrastructure. The D&I strategic programs therefore contribute to Urban Utilities' critical infrastructure obligations while also supporting operational performance, service reliability and enterprise risk management outcomes.

A summary of the proposed step change operating expenditure for D&I strategic programs is provided in Table 5-7. Refer to Annexure 6 - Digital & Information Investment for further details.

Table 5-7 Step change: Digital Strategic Programs (\$m, real 2027)

Step change	FY28	FY29	FY30
Digital Strategic Programs	-	3.84	6.86

6.8 Step change summary

An overview of our step change proposal for the FY28-30 is shown in Table 5-8.

Table 5-8 Urban Utilities step changes per annum (\$m, real 2027)

Step change	FY28	FY29	FY30	Driver / Description
SOCI compliance	1.75	1.75	0.50	Expanded regulatory obligations and increasing security risks. Additional capability is required to meet obligations under the Security of Critical Infrastructure (SOCI) framework, including all-hazards risk management, supply chain assurance, personnel security and physical security controls.
Maintenance (contractors, services and materials)	2.83	3.03	3.24	Increasing asset risk and a transition to a more proactive maintenance approach. Additional contractor services, specialist support and materials are required to increase planned and corrective maintenance, address identified asset risks and support reliable service delivery across a growing asset base
Environmental monitoring	-	-	1.33	New and expanded environmental approval and compliance requirements. Additional environmental monitoring, sampling, reporting and compliance activities are expected to arise from Environmental Authority requirements associated with key projects. The estimate remains subject to ongoing discussions with DETSI and has been developed with reference to the scale and characteristics of the associated capital works.
Customer engagement	0.16	0.17	0.19	Increasing customer expectations and enhanced regulatory scrutiny. Additional expenditure is required to support a more mature and evidence-based engagement program that informs service, expenditure and investment decisions and incorporates customer preferences into business planning.
QCA regulation	1.00	1.00	1.00	Introduction of independent QCA price monitoring. Additional regulatory, economic, forecasting and assurance capability is required to support Urban Utilities' ongoing participation in the QCA's price monitoring framework and respond to information, reporting and review requirements.
ICT costs	1.80	1.83	1.83	Expansion of enterprise digital platforms and services. Additional operating expenditure and specialist support is required to manage growing utilisation of enterprise technology platforms, support an expanding user base and operate enhanced operational, information management, cyber security and compliance capabilities. set out in the Annexure 6 - Digital & Information Investment
D&I strategic programs	-	3.84	6.86	Commissioning and operation of new digital capability. Additional recurring operating expenditure is required as new cyber security, infrastructure, operational intelligence, enterprise systems, automation and analytics capabilities from strategic programs are commissioned and transitioned into business-as-usual operation.

7 Trend factors

The trend component of the BST approach to forecasting our operating expenditure accounts for:

- Cost escalation for key operating inputs where these differ from CPI (real price inputs)
- The additional operating expenditure needed to service growing customer numbers and volumes (output growth)
- Efficiency adjustments that reflect efficiency improvements implemented over time. This includes (i) an efficiency dividend to embed identified efficiency opportunities to the starting base, and (ii) a productivity adjustment applied over the forecast period to progressively improve efficiency in line with sector expectations.

7.1 Real price inputs

Our approach to determine cost escalation has regard to the QCA's Inflation Forecasting Position Paper:

Our position is to use expected CPI inflation to escalate operating expenditure and capital expenditure input costs where the underlying cost drivers are not materially different from CPI inflation; however, to use input specific or sector-specific cost escalators where underlying cost drivers are materially different from CPI inflation.¹¹

We propose to largely apply CPI, applying the QCA approach to forecasting inflation, to escalate most of our cost categories. The key areas where the business deviates from using CPI for escalation are detailed below.

Employee costs:

Our proposed price factor aligns with the Queensland Treasury Wage Price Index (WPI) forecast for FY28 and FY29. For FY30, we have applied the 10-year average Queensland Treasury WPI.

Employee costs are primarily driven by labour market conditions, which are reflected in movements in wages and salaries. Queensland Treasury's WPI forecast provides the most appropriate estimate of future labour cost escalation as it reflects expected wage growth in the Queensland economy over the price monitoring period.

Queensland continues to experience strong demand for skilled workers, supported by ongoing investment in energy, water and major infrastructure. These conditions have increased competition for technical and operational employees across the State and continue to place upward pressure on wages. These labour market conditions are particularly relevant to the utilities sector, businesses compete for scarce technical and operational skills (e.g., field crews and specialist engineers) that are also in demand across construction and major infrastructure programs, including energy transition-related projects.

Wages across the utilities sector have grown faster than the broader economy. Nominal utilities industry wage growth was 4.7% in the year to December 2024, compared with 3.2% across all industries.¹² Queensland utilities industry wages have also increased at a

¹¹ Queensland Competition Authority (2021a). Final Position Paper, Inflation Forecasting, p.15 at < <https://www.qca.org.au/wp-content/uploads/2021/10/inflation-forecasting-final-position-paper-october-2021.pdf>>

¹² Deloitte Access Economics - Labour price growth forecasts (utilities industry) (March 2025 report) at < <https://www.aer.gov.au/system/files/2025-05/Deloitte%20Access%20Economics%20-%20AER%20Final%20Decision%20-%20JGN%20access%20arrangement%202025-30%20-%20DAE%20-%20Labour%20price%20growth%20forecasts%20-%20March%202025.pdf>>

significantly faster pace than national utilities industry wages in 2024, reflecting strong labour market conditions and employment growth within Queensland's utilities sector.¹³

Urban Utilities operates within this Queensland labour market and competes with other utilities, local government, construction and major infrastructure projects to attract and retain a skilled workforce. Urban Utilities' workforce is covered by three Enterprise Bargaining Agreements and employees engaged on common law contracts. The outcomes of these employment arrangements are negotiated within, are influenced by prevailing labour market conditions. Urban Utilities therefore considers the Queensland Treasury WPI provides the most appropriate basis for forecasting employee cost escalation over the price monitoring period. This adopted labour cost forecast remains broadly consistent with historical wage growth outcomes in Queensland and provides a reasonable basis for forecasting labour costs over the price monitoring period.

MECS contractors, materials and services (excluding civil contract and maintenance):

MECS costs are escalated using a blended price factor to reflect the underlying cost structure of these activities. MECS expenditure comprises a mix of labour and non-labour inputs, including contractor services, materials, equipment and consumables. A single labour or general inflation index would not appropriately capture these cost drivers. A weighted approach has therefore been adopted, applying the WPI to the labour component (30%) and the Producer Price Index (PPI) to the materials and services component (70%).

Escalation is based on the average annual rate of cost growth observed over the last three (3) years PPI and is applied to estimate PPI forecast. This reflects recent increases in contractor, materials and services costs. Urban Utilities has adopted this approach as it anchors forecast escalation to observed input price movements rather than relying on a single forward-looking index. Civil maintenance contracts are escalated separately using the CPI and a growth factor, reflecting its different cost structure and exposure to construction-related cost drivers.

ICT costs: Urban Utilities has applied a technology-specific escalation factor of 6.1% per annum to software licences, subscriptions and cloud platform costs. These costs are influenced by global technology market conditions rather than domestic inflation and have experienced sustained increases driven by vendor pricing practices, cloud-based delivery models, increasing cyber security requirements and the growing incorporation of analytics and artificial intelligence capabilities into enterprise software platforms. Urban Utilities relies on these systems to support customer service, operational technology, asset management, cyber security and regulatory compliance functions. Due to the high costs, implementation effort and operational risks associated with replacing enterprise technology platforms, there is limited ability to avoid market-wide price increases over the price monitoring period. Urban Utilities therefore considers a technology-specific escalation factor provides a more appropriate basis for forecasting ICT costs than a general CPI assumption. The adopted escalation rate is supported by market evidence set out in the Annexure 6 - Digital & Information Investment, which demonstrates that forecast software licence, subscription and cloud service cost increases are expected to materially exceed CPI over the forecast period. This factor applies only to the escalation of existing licence, subscription and cloud service commitments. Expenditure associated with new ICT capability and digital initiatives is

¹³ Deloitte Access Economics - Labour price growth forecasts (utilities industry) (March 2025 report) at <
<https://www.aer.gov.au/system/files/2025-05/Deloitte%20Access%20Economics%20-%20AER%20Final%20Decision%20-%20JGN%20access%20arrangement%202025-30%20-%20DAE%20-%20Labour%20price%20growth%20forecasts%20-%20March%202025.pdf>>

addressed separately through the ICT and Digital Strategic Programs step changes described in Section 6.

Energy: Electricity costs are forecast using contracted electricity prices through to 2029, consistent with Urban Utilities' current electricity supply agreement. This provides a robust basis for forecasting costs over the contract term.

Beyond 2029, electricity costs are forecast using projected retail electricity prices and regulated network charges. These forecasts reflect the key drivers of future electricity expenditure once current contractual pricing arrangements expire.

7.2 Output Growth

Output growth reflects the increase in efficient real opex required to deliver water and wastewater services to a growing customer base over the price monitoring period. Urban Utilities has applied an output growth factor of 1.3% per annum. Further information on the output growth forecast and underlying demand assumptions is provided in Annexure 3 - Demand Forecast.

Opex increases as customer connections grow and demand for water and wastewater services expands across Urban Utilities' service area. Urban Utilities operates within one of Australia's fastest-growing regions. The Queensland Government's ShapingSEQ 2023 forecasts approximately 900,000 additional dwellings across South East Queensland by 2046,¹⁴ with a significant proportion of this growth expected within Urban Utilities' service area, particularly across Brisbane, Ipswich and the western growth corridor. This growth increases the recurrent activities required to deliver safe, reliable and compliant water and wastewater services.

The location of future growth also influences efficient opex. While significant population growth is expected across Brisbane and Ipswich, Urban Utilities also serves the regional communities of Lockyer Valley, Scenic Rim and Somerset, where dispersed growth results in a higher cost to serve than more densely developed urban areas. At the same time, continued urban renewal and higher-density development within Brisbane requires existing assets to accommodate higher levels of demand. Growth also increases recurrent activities across customer service, digital services, regulatory compliance and corporate support functions that support the delivery of regulated water and wastewater services.

As Urban Utilities continues to grow, serves more customers, manages more connections, delivers more water and wastewater services, and operates a larger asset base, the activities required to support service delivery also increase. Growth drives additional customer records, service requests, billing activity and operational data that must be managed across the business. It also increases the activities required to inspect, monitor, maintain and renew an expanding asset base, while higher demand on existing assets increases operational and maintenance requirements. Growth similarly increases reliance on digital systems, information management and corporate support functions that enable Urban Utilities to deliver its regulated services. Urban Utilities has therefore developed its output growth factor using a weighting of 70% customer connections and 30% water and wastewater volumes. Customer connections reflect growth in the number of customers requiring regulated water and wastewater services, while water and wastewater volumes capture changes in service demand. More information on our growth factor is at Annexure 3 - Demand Forecast.

¹⁴Queensland Department of State Development Infrastructure and Planning, ShapingSEQ South East Queensland (SEQ) Regional Plan, at <https://www.planning.qld.gov.au/__data/assets/pdf_file/0020/86150/grow.pdf>

7.3 Efficiency adjustments

Urban Utilities has incorporated efficiency improvements into the forecast through:

- a \$10 million efficiency adjustment applied in establishing the FY27 efficient recurring base
- an ongoing productivity adjustment of 1.5% per annum applied through the trend forecast over FY28-FY30.

The efficiency adjustment reflects opportunities identified through Urban Utilities' ZBB initiative and external benchmarking. The productivity adjustment reflects Urban Utilities' ongoing commitment to improving productivity and efficiency throughout the price monitoring period.

Further detail on the efficiency adjustment, productivity adjustment, benchmarking and OEP is provided in the Annexure 11 - Benchmarking & Efficiency.

7.4 Summary tables

Table 6-1 and Table 6-2 summarise the trend factors applied to Urban Utilities' opex forecast. Table 6-1 presents the annual rate of change applied to each expenditure category, while Table 6-2 shows the cumulative dollar impact of the growth and price factors over FY28-FY30.

Urban Utilities has generally adopted CPI-based escalation for expenditure categories where expected cost movements are not materially different from general inflation. This is consistent with the QCA's inflation forecasting position, which supports the use of expected CPI inflation for opex categories where underlying cost drivers are not materially different from CPI, and the use of input-specific or sector-specific escalators where underlying cost drivers differ materially from CPI.¹⁵

For some categories, Urban Utilities has applied specific escalation assumptions where better evidence is available, including EBA outcomes and Queensland Treasury Wage Price Index for employee costs, maintenance-specific escalation using a weighted maintenance-specific index for maintenance costs (price factor only), electricity contract pricing and market-based energy assumptions for energy costs and digital specific price factor for ICT costs.

Most opex categories are escalated by CPI.

¹⁵ Queensland Competition Authority, Inflation Forecasting: Final Position Paper, October 2021, at <<https://www.qca.org.au/wp-content/uploads/2021/10/inflation-forecasting-final-position-paper-october-2021.pdf>>

Table 6-1. Urban Utilities operating expenditure forecast trend (rate of change p.a.)

Item	FY28	FY29	FY30
Specific escalation factors			
Employee costs	3.2%	2.8%	2.8%
Maintenance contractors, materials and services	3.0%	2.9%	2.9%
ICT costs	6.1%	6.1%	6.1%
Energy	1.2%	1.2%	2.5%
CPI-based escalation factors			
Contractors (non-maintenance)	2.5%	2.5%	2.5%
Materials (non-maintenance)	2.5%	2.5%	2.5%
Services (non-maintenance)	2.5%	2.5%	2.5%
Biosolids management	2.5%	2.5%	2.5%
Insurance costs	2.5%	2.5%	2.5%
Chemicals	2.5%	2.5%	2.5%
Fleet costs	2.5%	2.5%	2.5%
Printing, postage and stationery	2.5%	2.5%	2.5%
Meter services	2.5%	2.5%	2.5%
Corporate compliance costs	2.5%	2.5%	2.5%
Property	2.5%	2.5%	2.5%
Conferences, courses and training	2.5%	2.5%	2.5%
Plant and equipment costs	2.5%	2.5%	2.5%
Consultancy fees	2.5%	2.5%	2.5%
Advertising, marketing and promotion	2.5%	2.5%	2.5%
Managed services (non-ICT)	2.5%	2.5%	2.5%
Other costs	2.5%	2.5%	2.5%

Table 6-2 presents the cumulative dollar impact of the trend forecast by expenditure category. Employee costs, maintenance expenditure and ICT costs represent the largest contributors to trend growth over the forecast period, which reflects the growing challenges we are addressing in maintaining our ageing assets to serve a growing population. Values are presented in nominal dollars and therefore reflect the cumulative impact of both output growth and price escalation over FY28-FY30.

Table 6-2. Urban Utilities operating expenditure forecast trend dollar value (\$m, real)

Trend: Growth and Price factor	FY28	FY29	FY30
Employee Costs	4.0	7.3	10.5
Contractors	0.1	0.2	0.3
Materials	0.0	0.0	0.1
Services	0.3	0.7	1.0
Maintenance Contractors	1.6	3.1	4.7
Maintenance Materials	0.1	0.2	0.3
Maintenance Services	0.4	0.8	1.2
ICT Costs	1.7	3.4	5.3
Biosolid Management	0.2	0.5	0.8
Energy	0.0	0.0	0.2
Other Costs	0.2	0.4	0.6
Insurance Costs	0.2	0.3	0.5
Chemicals	0.1	0.3	0.4
Fleet Costs	0.1	0.2	0.2
Printing Postage and Stationery	0.0	0.1	0.1
Meter Services	0.0	0.1	0.1
Corporate Compliance Costs	0.0	0.0	0.0
Property	0.1	0.1	0.2
Conferences Courses and Training	0.0	0.0	0.1
Plant and Equipment Costs	0.1	0.1	0.2
Consultancy Fees	0.0	0.1	0.1
Advertising Marketing and Promotion	0.0	0.0	0.0
Managed Services Non ICT	0.0	0.0	0.0
Internal Allocations	1.2	2.4	3.6
Capital Program Expensed Items	-	-	-
Total Trend (Cumulative)	10.5	20.4	30.5

Note table may not sum due to rounding

8 Other operating expenditure adjustments

In addition to the BST forecast, total operating expenditure includes specific costs that are not incorporated within the base year or trend allowances and are therefore identified separately. These costs are proposed to be recovered through a pass-through mechanism, with further detail provided in Annexure 9 - Regulatory Setting & Revenue Requirements.

This includes regulatory submission costs. Costs incurred during FY26 and FY27 to prepare Urban Utilities' initial regulatory submission will be recovered through a pass-through mechanism once actual costs are known. Ongoing costs associated with participation in the QCA's price monitoring framework, including recurring reporting, analysis and regulatory support activities, are forecast separately as a step change over FY28-FY30.