



Annexure 7 – Regulatory Asset Base



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).

Contents

1 Introduction	3
1.1 Referral notice	4
1.2 Our Approach to RAB.....	4
2 Opening RAB at 1 July 2027	5
2.1 RAB roll-forward methodology	5
2.2 Opening RAB value at 1 July 2013	6
2.3 Net commissioned capital expenditure.....	7
2.3.1 When capex rolls into the RAB (commissioning assumption)	7
2.3.2 What capex amount is rolled into the RAB	8
2.4 Indexation.....	14
2.5 Depreciation	15
2.6 Opening RAB at 1 July 2027	17
3 Forecast RAB FY28-FY30	19
3.1 Forecast RAB methodology	19
3.2 Forecast net commissioned capital expenditure	19
3.3 Forecast indexation	21
3.4 Forecast depreciation	22
3.5 New asset class to account for the planning costs for discontinued projects.....	22
3.6 Forecast RAB Roll-Forward FY28-FY30	24
3.7 Ex-post RAB reconciliation.....	24

1 Introduction

The Regulatory Asset Base (RAB) reflects the written-down value of efficient capital expenditure that Urban Utilities has incurred to provide water and wastewater services to customers. The RAB provides the basis for calculating both the return on capital and the return of capital (i.e. depreciation) – two of the building blocks that comprise Urban Utilities Maximum Allowable Revenue (MAR) requirement.

Key points

- The combined opening RAB value for water and wastewater services at 1 July 2013 of \$4,743 million (nominal) is based on the RAB value submitted by Urban Utilities to the Queensland Competition Authority during the 2013–2015 price monitoring investigation.
- The combined opening RAB as at 1 July 2027 of \$6,581 million (nominal) is calculated by rolling forward the opening RAB at 1 July 2013 by adding actual net commissioned capital expenditure; adding actual indexation; and subtracting actual depreciation.
- A cross-check for the overall reasonableness of the 1 July 2027 RAB shows the RAB value is below both inflation-indexed historical benchmarks; the Minister's 2008 valuation and the QCA-endorsed 2013 valuation.
- The forecast RAB from 1 July 2027 to 30 June 2030 is calculated by rolling forward the 1 July 2027 opening RAB using forecast net commissioned capital expenditure, forecast indexation and forecast depreciation. This gives a combined closing RAB as at 30 June 2030 of \$7,981 million (nominal).
- Forecast capital expenditure includes investment planned to deliver infrastructure needed for the 2032 Brisbane Olympic and Paralympic Games (the Games). If specific funding is provided for the Games delivered by Urban Utilities, then commensurate adjustments to the RAB will be made.
- Net commissioned capital expenditure is defined as the efficient capital expenditure net of capital (cash) contributions, including capitalised interest during construction, and adjusted for asset disposals that is recognised in the RAB with a lag of one year. All capital expenditure is assumed to be commissioned and is rolled into the RAB one year after the expenditure is incurred.
- Urban Utilities has adopted the asset-offset approach to deduct capital (cash) contributions from the RAB, and the maximum allowable revenue (MAR) is calculated on this reduced RAB. The resulting MAR is then recovered through prices.
- The RAB is indexed using actual inflation based on the Brisbane All Groups Consumer Price Index (CPI). Where actual inflation is not available, we have applied an indicative forecast rate of inflation as reported in the RBA's May 2026 Statement on Monetary Policy. These forecast inflation rates will be updated prior to setting prices for the FY28-30 period using actual inflation (where available) and the latest available RBA Statement on Monetary Policy.
- Urban Utilities calculates regulatory depreciation using the straight-line method and uses existing and new asset lives that are broadly consistent with those used in the previous price monitoring investigation.

1.1 Referral notice

The referral notice requires that to establish the opening RAB at 1 July 2027 the Queensland Competition Authority (QCA) is to:

- a) Assess actual capital expenditure from 1 July 2013 to 30 June 2027 for prudence and efficiency. The review should focus on items that would have a material impact rather than matters which are likely to have insignificant impact.
- b) Roll forward the RAB from 1 July 2013 using actual capital expenditures and forecast capital expenditure where actual expenditure is not available.
- c) Adjust for Depreciation, disposals and inflation over the period.

The forecast RAB for the period from 1 July 2027 to 30 June 2030 is to be estimated using an appropriate regulatory methodology, as determined by the QCA.

1.2 Our Approach to RAB

Our approach to establishing and forecasting the RAB involves two steps:

- First, we establish the opening RAB as at 1 July 2027 by rolling forward the opening RAB from 1 July 2013 using actual capital expenditure, forecast capital expenditure (where actual expenditure is not available), and adjustments for depreciation, disposals and inflation. Section 2 of this annexure sets out this approach for establishing the opening RAB as at 1 July 2027. 5. *Annexure 5 Infrastructure Capital Expenditure* and *Annexure 6 Digital & Information Investment* discuss the prudence and efficiency of capital expenditure.
- Second, we then forecast the RAB from 1 July 2027 to 30 June 2030 by rolling forward the 1 July 2027 opening RAB using forecast net commissioned capital expenditure, forecast indexation and forecast depreciation. Section 3 of this annexure sets out this forecast RAB calculation.

The opening value of the RAB for each year of the FY28-FY30 price monitoring period is shown in Table 1-1 below.

Table 1-1: Opening RAB 1 July 2027 (FY28) to 1 July 2029 (FY30) (\$ million, nominal)

	1 July 2027	1 July 2028	1 July 2029
Water	2,751	2,851	3,042
Wastewater	3,830	3,969	4,286
Combined Opening RAB	6,581	6,821	7,328

2 Opening RAB at 1 July 2027

2.1 RAB roll-forward methodology

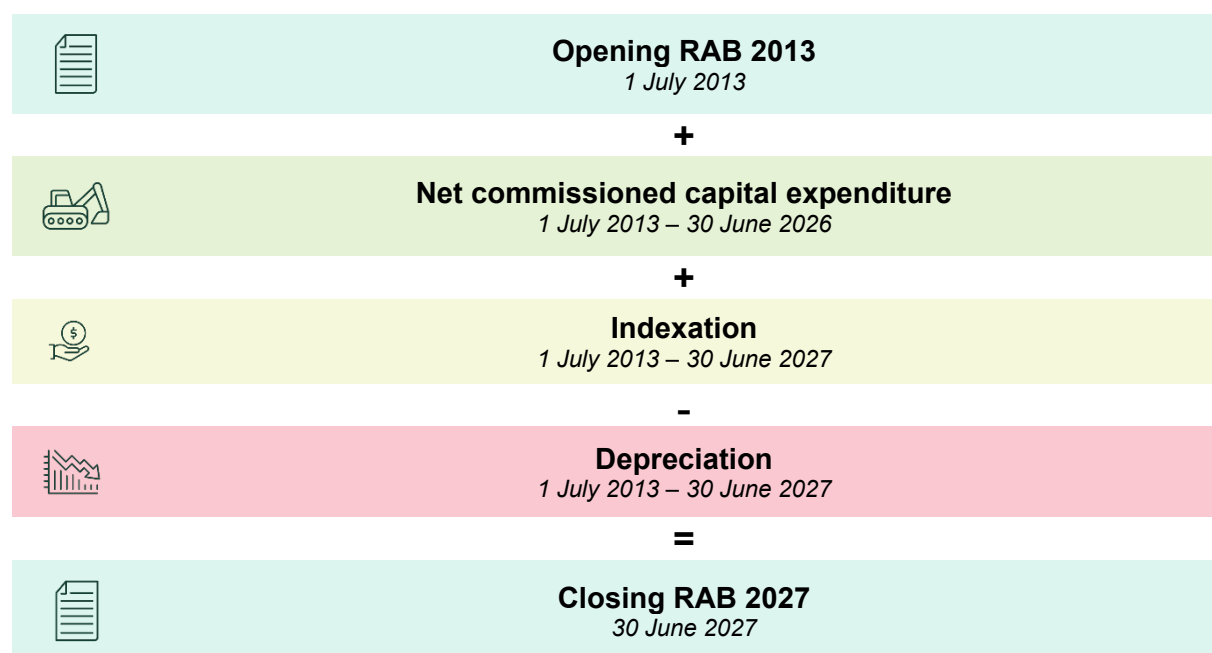
Urban Utilities adopts a RAB roll-forward methodology that gives effect to the requirements of the Referral notice and applies a methodology consistent with the practice of the QCA and other Australian economic regulators.

The starting point for RAB roll-forward is the opening RAB value at 1 July 2013, which is based on the RAB value considered by the QCA during the 2013–2015 price monitoring investigation.¹

The closing RAB as at 30 June 2027, which becomes the opening RAB as at 1 July 2027, is calculated by rolling forward the opening RAB at 1 July 2013 as follows:

- adding net commissioned capital expenditure from 1 July 2013 to 30 June 2026, defined as capital expenditure net of capital (cash) contributions and asset disposals, with a commissioning lag of one year;
- adding indexation from 1 July 2013 to 30 June 2027; and
- subtracting depreciation from 1 July 2013 to 30 June 2027.

Figure 2-1: RAB roll-forward methodology



The following sections provide more detail on each of these calculations.

¹ Queensland Competition Authority. (2014). SEQ price monitoring for 2013–15: Part B—Detailed assessment, pp. 57–58.

2.2 Opening RAB value at 1 July 2013

The opening RAB value at 1 July 2013 is based on the RAB value considered by the QCA during the 2013–2015 price monitoring investigation.²

The 1 July 2013 RAB value is itself a roll forward of the initial RAB value at 1 July 2008 using actual expenditure from 1 July 2008 to 30 June 2013, noting:

- The initial RAB at 1 July 2008 for Urban Utilities of \$3,945 million was established in March 2010 by the (then) Minister for Natural Resources, Mines and Energy and the Minister for Trade. This initial RAB value was based on the distribution and retail asset valuations of the respective Councils merged to create Urban Utilities. The QCA was required to accept this initial RAB for the 2010-13 interim price monitoring of Urban Utilities.
- The RAB roll-forward to 30 June 2013 included allowable establishment costs as advised by the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade.
- The QCA was required to accept as prudent and efficient actual capital expenditure for water and sewerage (excluding establishment costs) as included in councils' financial accounts from 1 July 2008 to 30 June 2010
- Capital expenditure from 1 July 2010 to 30 June 2013, considered prudent and efficient by the QCA, was included in the RAB roll-forward to 30 June 2013.³

During the 2013-15 price monitoring investigation, the QCA assessed Urban Utilities' RAB positions from 1 July 2008 to 1 July 2013 and established an opening RAB value of \$4,745 million at 30 June 2013 (nominal).⁴

A review of the RAB model Urban Utilities submitted to the QCA during the 2013–2015 price monitoring investigation shows a RAB value of \$4,743 million at 30 June 2013, which is \$2.3 million lower than the QCA's assessed value (see Table 2-1). For the Part 2 Submission, we have conservatively adopted the (lower) opening RAB value of \$4,743 million at 30 June 2013 (nominal).

Table 2-1 compares the QCA assessed RAB value at 1 July 2013 and Urban Utilities Opening RAB position.

Table 2-1 Opening RAB value at 1 July 2013 (\$ million, nominal)

	Water	Wastewater	Total
QCA report (SEQ 2013-15 price monitoring)	1,889	2,856	4,745
Urban Utilities August 2026 submission	1,888	2,855	4,743
Difference	- 0.9	- 1.4	- 2.3

² Queensland Competition Authority. (2014). SEQ price monitoring for 2013–15: Part B—Detailed assessment (pp. 57–58).

³ Queensland Competition Authority. (2014). SEQ price monitoring for 2013–15: Part B—Detailed assessment (pp. 24–26).

⁴ Queensland Competition Authority. (2014). SEQ price monitoring for 2013–15: Part B—Detailed assessment, (pp. 57–58).

To calculate depreciation, the water and wastewater RABs at 1 July 2013 are grouped into broad asset classes which are consistent with the 2013-15 monitoring investigation.

During the 2013-15 price monitoring investigation, the water and wastewater asset classes were also grouped by region. The regional asset groupings related to the previous water supply activities of the Councils and has ceased to be relevant since Urban Utilities was established. For the Part 2 Submission and consistent with Urban Utilities' current practice, the regional assets at 1 July 2013 have been consolidated at the enterprise level and a value-weighted approach applied to estimate the remaining asset lives for the asset classes at the enterprise level.

2.3 Net commissioned capital expenditure

Net commissioned capital expenditure is added to the RAB each year from 1 July 2013 to 30 June 2027. Net commissioned capital expenditure is defined as the efficient capital expenditure commissioned including capitalised interest during construction, net of capital (cash) contributions and adjusted for asset disposals. We assumed that all capital expenditure is commissioned one year after the expenditure was incurred. For example, capital expenditure incurred in FY14 is assumed to enter the RAB in FY15.

The sections below outline our approach for

- when capital expenditure rolls into the RAB, that is, the one-year commissioning approach; and
- what capex amount is rolled into the RAB.

2.3.1 When capex rolls into the RAB (commissioning assumption)

All capital expenditure is assumed to be commissioned and is rolled into the RAB one year after the expenditure is incurred. In addition, we apply a mid-year timing assumption, which assumes that all expenditure occurs evenly throughout the financial year. These assumptions mean that capital expenditure incurred over a financial year (for example, FY25) is assumed to occur at the mid-point of the year and is rolled into the RAB at the mid-point of the following financial year (in this example, FY26).

Our commissioning assumption differs from the approach taken during the previous price monitoring review (2010-15). In that review, Urban Utilities applied a detailed commissioning model to calculate when capital expenditure for individual projects was commissioned and should be rolled into the RAB. However, that model was complex, error-prone and administratively burdensome. As a result of this complexity, the QCA identified a range of hard-coded inputs and modelling errors that required correction. These issues reflected the challenges associated with managing a large and evolving portfolio of projects characterised by deferrals, early completions, scope changes and project redefinitions over time, which reduced the reliability and practicality of the commissioning model.

For this Part 2 submission, we have applied a simpler approach that applies an average commissioning period to all capital expenditure. The objective was to calculate an average commissioning period to roll all capital expenditure into the RAB based on an approach that is evidence based, transparent, simple to administer, reduces risk of error from tracking commissioning time of individual projects/programs, and delivers a balanced outcome for

customers and Urban Utilities. In developing this approach, we considered actual projects/programs completed since Urban Utilities was formed. This spanned about 1,950 projects/programs from FY11 to FY25.

Using actual capital expenditure data from FY11 to FY25, we calculated the expenditure-weighted average project duration. We consider that this provides a reasonable proxy for the average commissioning period. Projects were categorised by type to capture structural differences in delivery and commissioning practices. Given capital expenditure includes post-commissioning and project completion works, which extends the timeline to complete a project/program in an accounting sense, we applied expenditure thresholds to approximate the percentage of total capex incurred that would relate to construction activities with the remainder assumed for post-commissioning closeout works. We also allowed additional time for commissioning, once the expenditure threshold is crossed.

For a range of assumptions, the expenditure-weighted average project duration ranged between 0.9 to 1.1 years. Based on this analysis, we adopted a 1.0 year commissioning period as the basis for all capital expenditure rolled into RAB. The 1.0 year commissioning lag assumption is applied to capital expenditure incurred from FY14. That is, capital expenditure incurred in FY14 is rolled into the RAB at the mid-point of FY15, and so on for subsequent years.

The one-year commissioning period is applied at the aggregate capital expenditure program level when rolling capital expenditure incurred into the RAB. The projects Urban Utilities undertakes have different delivery and commissioning practices. For projects/programs that are commissioned as expenditure is incurred, the one-year commissioning assumption means capital expenditure is rolled into the RAB a year later relative to commissioning timing. Whereas for projects/programs where expenditure is incurred over multiple years, the expenditure incurred in the initial years is rolled into the RAB earlier relative to the commissioning time. On average, the one-year commissioning assumption offsets these two results.

We consider that the one-year commissioning approach provides a reasonable and straightforward approximation of average commissioning period across a large and diverse capital program compared to the previous approach that was applied during the 2010-15 price monitoring review, which was administratively burdensome and prone to error, and increased regulatory costs for no real benefit.

2.3.2 What capex amount is rolled into the RAB

2.3.2.1 Capex incurred but not commissioned till 30 June 2013

The opening RAB at 1 July 2013 includes capital expenditure 'as commissioned' by 30 June 2013 as per the previous commissioning model. It does not include capital expenditure incurred but not commissioned by 30 June 2013. The commissioning model Urban Utilities provided to the QCA during the 2013-15 price monitoring investigation included a work-in-progress (WIP) balance at 30 June 2013 that represented capital expenditure incurred but not commissioned by 30 June 2013.

When transitioning from the previous commissioning model to the 1-year commissioning lag assumption from FY14, the WIP balance at 30 June 2013 is included in the RAB roll-forward

to ensure historical incurred, but not commissioned, capital expenditure is captured in the RAB roll-forward.

The WIP balance submitted to the QCA during the 2013-15 price monitoring investigation was \$279 million (nominal), which reflected then forecast capital expenditure for 2012-13.⁵ After updating for the actual capital expenditure spent in 2012-13, the revised WIP balance is \$262 million (nominal). The revised WIP balance is included at the mid-point of FY14 in the RAB roll-forward.

2.3.2.2 Net commissioned capex from 1 July 2013 to 30 June 2026

Net commissioned capital expenditure is the:

- efficient capital expenditure incurred in the prior year
- net of capital (cash) contributions;
- including capitalised interest; and
- net of asset disposals,

that rolls into the RAB with a commissioning lag of one year.

Capital expenditure

Capital expenditure incurred from FY14 to FY26 is sourced from the Capital Investment Program (CIP). We deduct expenditure related to competitive services, which represent professional services Urban Utilities provides to commercial customers and councils, such as SAS Laboratories and developer services. This treatment reflects the principle that customers of regulated water and wastewater services should only pay for services they use and benefit from.

For each year, capital expenditure is identified by asset classes and products (water, wastewater, recycled water, support and competitive services):

- Capital expenditure related to recycled water service is included with wastewater services for RAB roll-forward, noting Urban Utilities offsets all recycled water revenue against the maximum allowable revenue.
- Capital expenditure related to support services covers expenditure on corporate and billing systems, buildings, and plant, property and equipment. Because these are shared assets, this capital expenditure is allocated across water, wastewater and competitive services.
- Capital expenditure related to competitive services, including those allocated from support services, is deducted from the capital expenditure that is rolled into the RAB. On average, 0.15% of capex incurred from FY14 to FY26 related to competitive services is deducted from the capital expenditure that rolls into the RAB.

⁵ Water and wastewater WIP was derived from the total WIP value reported in Commissioning Model 5yr Summary 2014.xlsm (sheet 10Yr-Workings, cell I3902), using the water and wastewater allocation proportions provided in the Capital Investment Plan (CIP) tab (CIPV38a). This workbook is listed as a supporting workbook in Queensland Competition Authority. (2013). SEQ price monitoring for 2013–15: Queensland Urban Utilities Submission (Part B – Data Template).

Annexure 5 Infrastructure Capital Expenditure and Annexure 6 Digital & Information Investment provide details of the capital expenditure program, including explanation of the prudence and efficiency of the capital expenditure program.

Treatment of capital contributions (donated assets and cash contributions)

When determining the revenue required to set prices, the key principle is that prices should recover only the costs that have been incurred and paid for by the entity. Assets funded by external parties, such as developer contributions or government grants and subsidies, should not be included in the costs recovered from customers. This ensures that customers are not charged for assets that the entity did not finance itself.

Capital contributions comprise both cash contributions through infrastructure charges and donated assets, and are used to build water and wastewater infrastructure. This assists funding towards Urban Utilities' investment in infrastructure, while enabling us to keep our prices lower. Capital contributions can be excluded through either a revenue-offset approach or an asset-offset approach.

Urban Utilities adopted the revenue-offset approach to account for capital contributions from FY11 to FY13. Under this approach, all assets, including those funded through capital contributions, were added to the RAB. The calculated Maximum Allowable Revenue (MAR) was then reduced by an amount equal to the capital contributions received during the year, with the remaining MAR recovered through customer prices. This approach had previously been applied by the councils before the establishment of Urban Utilities and continued to be used by Urban Utilities until FY13. As a result, it forms the basis of the opening RAB as at 1 July 2013.

Urban Utilities adopted the asset-offset approach from FY14. Under this approach, capital contributions are deducted from the RAB, and the MAR is calculated on this reduced RAB. The resulting MAR is then recovered through prices. In practice, Urban Utilities deducts the value of cash capital contributions received during the year from the annual capital expenditure (excluding donated assets).⁶ The asset offset approach is relevant for rolling forward the RAB from 1 July 2013.

The adoption of the revenue-offset approach and the change to the asset-offset approach was applied during the 2010-15 price monitoring investigation. Under the 2013-15 Ministerial Direction, the QCA was required to accept the revenue offset approach until such time as Urban Utilities nominated to adopt the asset offset method. Where a change in methodology was adopted, the RAB was not to be adjusted retrospectively. The QCA had accepted these approaches in the 2010-15 price monitoring investigation.⁷

Both approaches result in the same revenue impact in net present value terms and effectively result in the business recovering only costs that have been incurred by the entity. However, under the revenue offset approach, annual volatility in capital contributions will result in volatility in MAR. Whereas under the asset offset approach, the effect of capital

⁶ In relation to donated assets, Urban Utilities has adopted the Australian Energy Regulator's (AER) approach of excluding donated assets from the calculation of MAR. Consequently, donated assets are also excluded from the calculation of the corporate income tax building block. However, cash capital contributions continue to be reflected in the estimated cost of corporate income tax building block. Further details are provided in *Annexure 9 Regulatory Setting & Revenue Requirements*.

⁷ Queensland Competition Authority. (2014). SEQ price monitoring for 2013–15: Part B—Detailed assessment (p. 88).

contributions is spread over the life of assets and the resulting MAR is relatively stable also reducing resulting pricing volatility for customers.

For RAB roll-forward, cash contributions are identified separately for water and wastewater services. Because cash contributions relate to trunk infrastructure (i.e. asset classes of distribution network, pump station, reservoirs, and treatment plants as relevant for water and wastewater assets), the total value of these contributions in a year is apportioned across those asset classes, for both water and wastewater assets. This apportionment is undertaken by aggregating the capital expenditure incurred during the year across these asset categories, calculating the relative percentage share of each category, and then applying those percentages to the total amount of cash contributions. This methodology ensures that all contributions are systematically allocated to an appropriate asset class, broadly reflecting the underlying infrastructure that the funding is intended to support.

For RAB roll-forward, cash contributions are recognised in the year they are received. The treatment of cash contributions may result in periods where capital expenditure net of cash contributions is significantly low (and sometimes negative where contributions exceed capital expenditure incurred in the same year). This outcome primarily reflects a timing mismatch between the receipt of cash contributions and the amount of capital expenditure incurred in that year on that asset class which might indicate delayed receipt of cash contributions or receipt in advance. Over time, these timing effects unwind through the RAB roll-forward, and the cumulative RAB outcome appropriately reflects the balance between cash contributions and customer-funded investment.

Over the period FY14 to FY27, capital contributions averaged \$149.8 million per annum (real 2027 dollars).

Adjustment for insurance funded capex

Urban Utilities maintains insurance coverage over its assets to ensure that, in the event of an unexpected disaster, damaged infrastructure can be rebuilt without imposing significant costs on customers.

The RAB roll-forward includes a one-off adjustment for capital expenditure funded from insurance receipt of \$9.8 million (real 2027 dollars) in FY23. Following the 2022 flood event, Urban Utilities sustained substantial damage to network assets which have been replaced, with part of the costs recovered from insurance. The insurance claims process is ongoing, and the capex-related costs recovered to date from insurance have been deducted from capital expenditure that is rolled into the RAB. Any additional insurance capex claim recovery will be accounted for through the ex-post update of RAB, as outlined in Section 3.7.

From a regulatory perspective, capital expenditure funded through insurance proceeds is excluded from the RAB to prevent double counting and hence over-recovery of the same cost. Otherwise, the expenditure could be recovered twice: first through the insurance payout, and then again from customers through prices if the capital expenditure were included in the RAB.

Capitalised Return on Assets (CROA)

Consistent with regulatory practice, capital expenditure is assumed to occur half-way through the financial year. Because capital expenditure net of cash contributions (including

one-off insurance funded capex) is rolled into the RAB with a 1-year commissioning lag we added:

- a half year of the Weighted Average Cost of Capital (WACC) to compensate for the six-month period in the year expenditure is incurred, and
- a further half year of the WACC to compensate for the six-month before capital expenditure is included in the RAB at the mid-point of the following financial year.

This adjustment recognises the opportunity cost of committing funds to projects that are yet to be commissioned and earn a return, and is consistent with established regulatory practice. Without this adjustment, Urban Utilities would not recover the net present value of the costs associated with committing funds to projects.

The WIP balance at the end of 30 June 2013 is rolled into the RAB at the mid-point of FY14. As this balance is commissioned half-way through the following year, a half WACC value is added to compensate for the six-month period before the WIP balance is included in the RAB.

Over the period FY14 to FY27, capitalised return on assets averaged \$13.3 million per annum (real 2027 dollars).

Asset disposals

Asset disposals are removed from the RAB to ensure that assets that are no longer required to provide regulated services are efficiently sold or otherwise disposed of, so that customers do not continue to pay for these assets.

The QCA has previously accepted the following principles on asset disposals:

- once the disposal has occurred, the disposed asset's residual RAB value is removed from the RAB. This is the value of the asset as it entered the RAB (if known), adjusted for the effects of depreciation and indexation to the time of disposal;
- to ensure the entity can fully recover the efficient costs of investment in that asset, the residual RAB value is recovered through accelerated depreciation; and
- any sales proceeds the entity receives from disposing of that asset is deducted from the accelerated depreciation amount, net of efficient sale costs.⁸

In practice, one way to give effect to these principles is through adjusting the depreciation amount in the RAB.

However, data on the value of individual assets in the RAB and their original cost may be limited, or disposals may not be of material value.

In the previous price monitoring investigation, the QCA accepted an approach whereby disposed assets remained in the RAB and were depreciated over their remaining nominal life, except where the value of the disposal was considered material.⁹

⁸ GAWB, GAWB price monitoring – Submission to midterm review 2023, July 2023; QCA, GAWB price monitoring – 2023 midterm report, October 2023.

⁹ Urban Utilities, QCA Interim Price Monitoring – Information Return 2013-15, 28 June 2013, p.45

For pragmatic reasons, IPART applies a simplified approach to asset disposals for water utilities regulated under its 3Cs framework. Under this approach, the amount deducted from the RAB is generally calculated as 50% of the asset sale proceeds, net of any efficient costs incurred in making the sale. IPART may also consider exceptions on a case-by-case basis, subject to the materiality of the impact on the businesses' RAB, revenue requirement and prices.¹⁰

Prior to its 3Cs framework, IPART's asset disposals policy distinguished between significant and non-significant asset disposals.¹¹ A non-significant asset disposal was an asset, or class of assets, where either the book value of the disposed assets or the sale proceeds accounted for 0.5% or less of the opening RAB in the year the asset was disposed of or sold. IPART treated the non-significant asset disposals differently depending on whether they are sales or write-offs.

- For asset sales, IPART removed the sales value from the RAB, net of efficient sales costs. It considered that this approach is simple to administer, particularly for disposals that represent a relatively small proportion of the utility's RAB (i.e., less than 0.5%).
- For asset write-offs, IPART did not deduct any value from the RAB, except as deemed necessary on a case-by-case basis.

For Urban Utilities, asset sale proceeds represented only 0.01% to 0.05% of the opening RAB in the year of sale, while the book value of asset write-offs ranged from 0.01% to 0.29% of the opening RAB between FY14 and FY26. These levels are well below IPART's materiality threshold.

Consistent with regulatory practice, asset sale proceeds have been deducted from the RAB to reflect the value recovered through asset sales. Over FY14 to FY26, asset sale proceeds averaged \$1.4 million per annum (real 2027 dollars). Consistent with the treatment of immaterial asset disposals, asset write-offs have not been deducted from the RAB. This approach reflects the principle that expenditure incurred prudently and efficiently should remain recoverable from customers.

We also considered whether customers funded the disposed assets, in which case they formed part of the RAB, or whether external parties funded them through capital contributions, in which case they sit outside the RAB. Because it is complex to distinguish between these asset categories, we have adopted a simplified and pragmatic allocation approach.

Specifically, we applied an allocator based on the ratio of the RAB to total assets reported in our financial statements, as at 1 July 2013. This allocator is used to determine the proportion of asset sale proceeds attributable to assets included in the RAB and therefore to be removed from the RAB. In addition, we allocated disposals between water and wastewater

¹⁰ IPART, Water Regulation Handbook, July 2023, p 96 (available at https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Handbook-Water-regulation-July-2023-V2.PDF)

¹¹ IPART, IPART's asset disposals policy – for water businesses, February 2018 (available at <https://www.ipart.nsw.gov.au/Home/Industries/Water/Reviews/Metro-Pricing/Asset-disposals-policy-2017/20-Feb-2018-Policy/IPARTs-asset-disposals-policy-for-water-businesses-February-2018>)

based on the relative shares of the opening water and wastewater RAB balances as at 1 July 2013.

The resulting allocated asset sale values for water and wastewater are deducted from net commissioned capital expenditure incurred between FY14 and FY26 before those amounts are rolled into the RAB.

Adjustment for non-operational recycled water scheme assets

As noted above, capital expenditure associated with recycled water services is included within wastewater services and incorporated into the RAB roll-forward. Urban Utilities also offsets all recycled water revenue against its maximum allowable revenue requirement. This approach ensures that customers only contribute to the cost of recycled water assets where they benefit from the services provided, or alternatively receive a revenue offset where they were not the primary beneficiaries of the investment.

Urban Utilities has made a one-off adjustment to the RAB in FY20 to remove the regulatory written-down value of a recycled water scheme asset that became non-operational of \$7.3 million (real 2027 dollars). As the scheme is no longer generating revenue, there is no corresponding revenue offset available. Removing the residual RAB value of the asset from the RAB ensures that the broader customer base does not continue to pay for assets that are no longer required to provide regulated services.

2.4 Indexation

Consistent with standard regulatory practice, the RAB is indexed to maintain its value in real terms over time.

We have indexed the RAB by applying actual inflation for the period FY14 to FY25 (see Table 2-2). Consistent with the previous price monitoring investigation, actual inflation is based on the Brisbane All Groups CPI published by the Australian Bureau of Statistics (ABS). Where actual inflation is not available, we have applied an indicative forecast rate of inflation for FY26 and FY27 as reported in the RBA's May 2026 Statement on Monetary Policy.¹² We will update the indicative forecasts with actual inflation for FY26 and updated forecast for FY27 ahead of setting prices for the FY28-30 price monitoring period.

The opening RAB is indexed for the full year. Net commissioned capital expenditure is assumed to enter the RAB at the mid-point of the year and is therefore indexed for only half a year in the year it is added to the RAB.

Table 2-2 shows the actual and forecast inflation rates applied to index the water and wastewater RABs.

Table 2-2 Inflation rate (%)

Year	Brisbane CPI growth rate (June to June %)
2013-14	3.24%
2014-15	1.54%
2015-16	1.45%
2016-17	1.80%

¹² <https://www.rba.gov.au/publications/smp/2026/may/contents.html> (accessed 15 May 2026)

Year	Brisbane CPI growth rate (June to June %)
2017-18	1.72%
2018-19	1.66%
2019-20	-1.01%
2020-21	4.97%
2021-22	7.27%
2022-23	6.32%
2023-24	3.36%
2024-25	2.48%
2025-26	4.80%*
2026-27	2.40%*

Note: * Forecast inflation

Source: Australian Bureau of Statistics (2026), RBA (2026)

2.5 Depreciation

Urban Utilities calculates regulatory depreciation using the straight-line method. This method recovers an equal proportion of each asset's value in each year of its useful life. It is simple, transparent, consistent with regulatory practice and consistent with the approach used in the previous price monitoring investigation.¹³

For each year of the RAB roll-forward, we calculate depreciation using the opening RAB at the start of the financial year, plus 50% of each year's net commissioned capital expenditure, after applying indexation.

During the 2013-15 price monitoring investigation, we grouped water and wastewater assets as at 1 July 2013 by region and asset class. For the RAB roll-forward, we have consolidated these regional asset groups to the enterprise level. We then used a value-weighted approach to estimate the average remaining asset life for each asset class at the enterprise level, based on the regional asset life information submitted to the QCA during the 2013-15 price monitoring investigation. These enterprise-level asset groups form the opening asset portfolio as at 1 July 2013. We then roll this opening asset portfolio forward separately for each asset class using the estimated average remaining asset life at the enterprise level.

We also group net commissioned capital expenditure for water and wastewater by asset class and year. This grouping forms the capital expenditure portfolio, which rolls forward separately.

As net commissioned capital expenditure is rolled into the RAB, we assign each new asset a useful economic life, as set out in Table 2-3 below. These new asset economic lives are broadly consistent with those used in the previous price monitoring submission.¹⁴ The one exception is water pump stations, which we have assigned a standard asset life of 30 years. This aligns with the 30-year standard asset life applied to wastewater pump stations, but

¹³ Queensland Competition Authority. (2014). SEQ price monitoring for 2013–15: Part B – Detailed assessment. pp. 56 https://www.qca.org.au/wp-content/uploads/2019/05/12708_Final-report_-SEQ-price-monitoring-for-2013-15-Part-B_-Detailed-Assessment-QUU711248_4-1.pdf

¹⁴ Queensland Competition Authority. (2014). Water and sewerage retail price monitoring 2013–15: QUU data template [Excel file]. https://www.qca.org.au/wp-content/uploads/2019/05/7875_W-SEQRetailPriceMon201315-QUU-DataTemp-0813.xlsm

exceeds the 25-year life applied in the previous monitoring investigation. We also combined billing systems with the corporate systems asset class and applied a standard asset life of 10 years.

Land is excluded from depreciation calculation, as it does not have a finite asset life.

Table 2-3 Asset lives for new water and wastewater assets

Asset class	New Asset Life	
	Water	Wastewater
Distribution	70	65
Pump stations	30	30
Reservoirs	90	90
SCADA/telemetry	10	10
Meters	15	NA
Treatment plants	NA	25
Buildings	60	60
Plant & equipment	10	10
Corporate systems	10	10
Land	NA	NA

Source: Urban Utilities

As net commissioned capital expenditure is added to the RAB at the mid-point of a financial year, depreciation is calculated on a half-year basis in the first year.

We initially track capital expenditure separately by asset class and year of commissioning. In effect, we treat each year's capital expenditure as a distinct asset sub-class. For example, we divide the water pump station asset class into sub-classes such as FY14 water pump stations, FY15 water pump stations and FY16 water pump stations. We then roll forward and depreciate each sub-class separately using the standard asset life for the water pump station asset class.

This approach provides a high level of accuracy, but it becomes increasingly complex to administer over time because we must continue to track each year's capital expenditure separately. As we add further years of expenditure, the data requirements and complexity of the roll-forward model increase.

To simplify administration and align with common regulatory practice, we consolidate the existing asset portfolio and capital expenditure portfolio at the asset class level at periodic intervals, in this case FY20 and FY25.

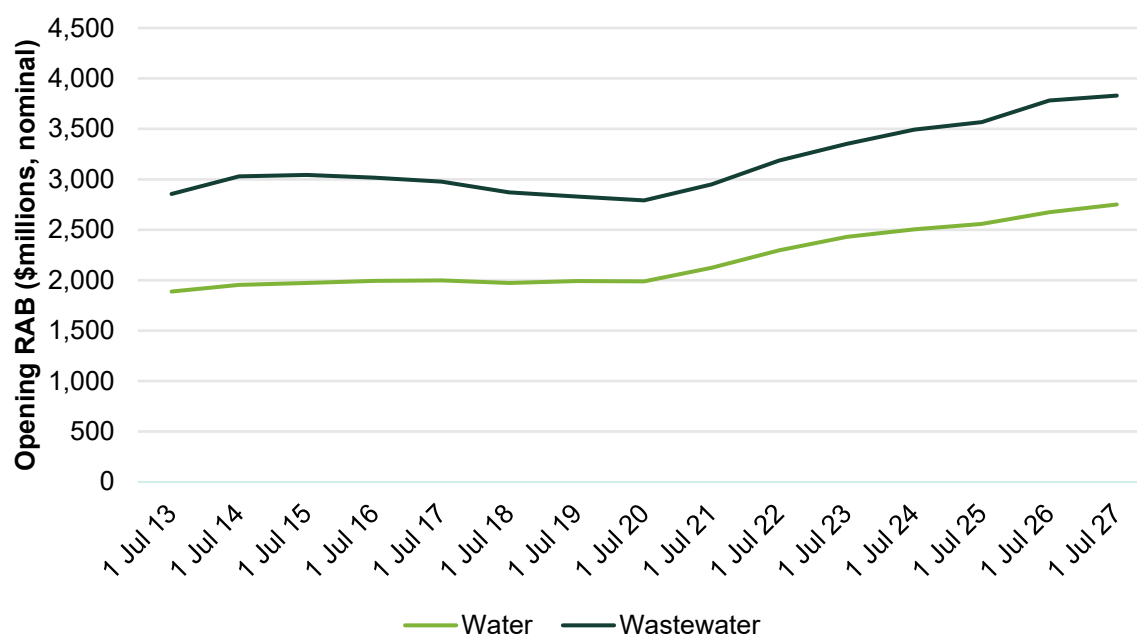
For each asset class, we combine the opening values of the existing asset portfolio and the associated capital expenditure portfolio, and calculate a value-weighted average remaining asset life for the merged portfolio. This consolidation effectively resets the asset portfolio for that asset class and establishes a new average remaining life. As we incorporate newer assets with longer economic lives into the portfolio, the average remaining life increases. This smooths depreciation over time and avoids the need to maintain an ever-growing number of asset sub-classes.

2.6 Opening RAB at 1 July 2027

Using the roll-forward methodology and the inputs set out above, the opening RAB at 1 July 2013 is rolled forward to give a combined opening RAB at 1 July 2027 of \$6,581 (nominal) comprising of \$2,751 million for water and \$3,830 million for wastewater. The opening RAB values at 1 July 2027 will be updated for actual inflation for FY26 and FY27 before we finalise prices for the FY28-30 price monitoring period.

Figure 2-2 shows the movement of Urban Utilities opening RAB for water and wastewater from 1 July 2013 to 1 July 2027.

Figure 2-2 Opening RAB movement from 1 July 2013 (FY14) to 1 July 2027 (FY28) (\$million, nominal)



To provide a cross-check for the overall reasonableness of the 1 July 2027 RAB value, we have compared the 1 July 2027 RAB against the inflation adjusted historical RAB valuations of:

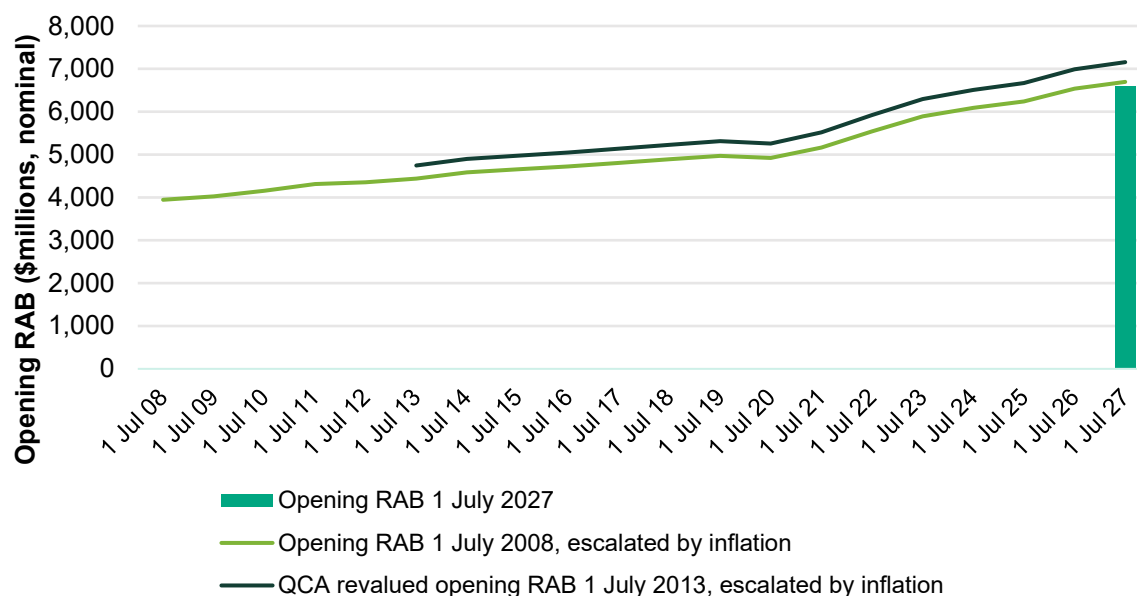
- the initial RAB at 1 July 2008 established by the (then) Minister for Natural Resources, Mines and Energy and the Minister for Trade in March 2010. This initial RAB value was \$3,945 million (\$6,696 million indexed to 1 July 2027); and
- the opening RAB at 1 July 2013 endorsed by the QCA during the 2013-15 price monitoring investigation. This RAB value was \$4,745 million (\$7,156 million indexed to 1 July 2027).

The historical RAB values were indexed using the Brisbane All Groups CPI (June to June). Figure 2-3 shows that Urban Utilities' 1 July 2027 RAB of \$6,581 million is:

- \$115 million less than the indexed value of the Minister's 2008 valuation; and
- \$575 million less than the indexed value of the QCA's 2013 valuation.

We consider that the submitted 1 July 2027 opening RAB is reasonable because it is below both inflation-indexed historical benchmarks: the Minister's 2008 valuation and the QCA-endorsed 2013 valuation.

Figure 2-3 Opening RAB at 1 July 2027 compared to indexed 2008 and 2013 valuation (\$million, nominal)



3 Forecast RAB FY28-FY30

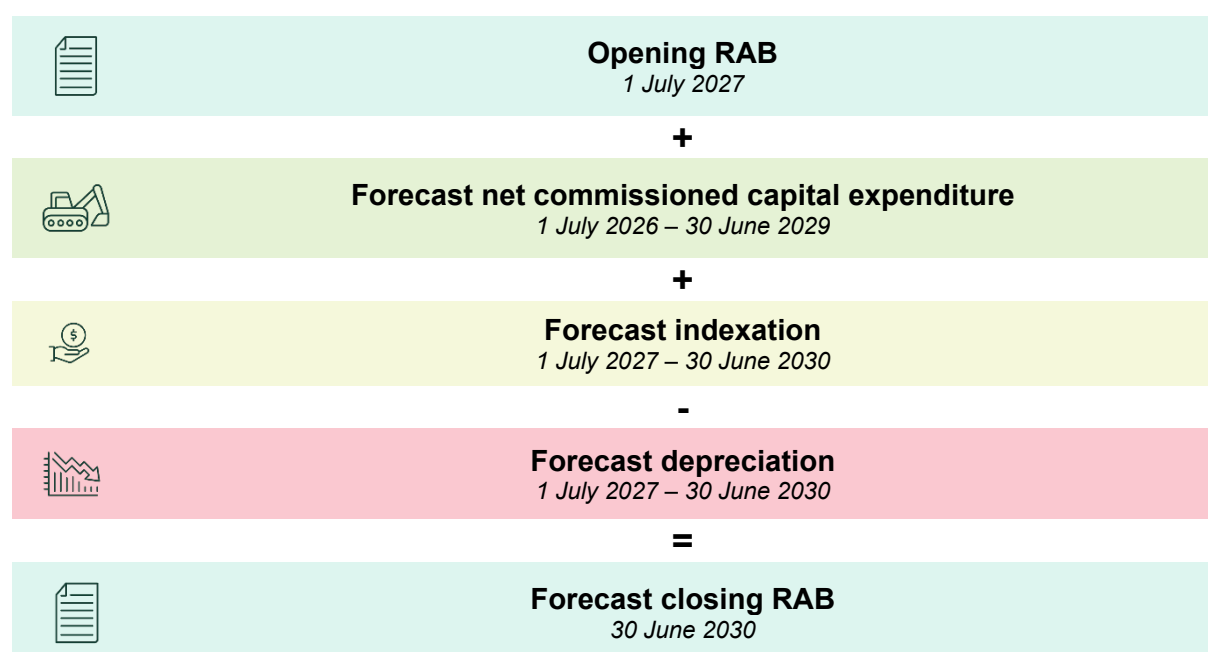
3.1 Forecast RAB methodology

The referral notice requires the QCA to estimate the forecast RAB from 1 July 2027 to 30 June 2030, which represents the FY28-30 period.

We calculate the forecast RAB by starting with the opening RAB at 1 July 2027, as described in Section 2.6.

We then roll the opening RAB forward each year by adding forecast net commissioned capital expenditure and forecast indexation, and subtracting forecast depreciation. We apply the same methodology used to derive the opening RAB at 1 July 2027, as set out in Sections 2.3 to 2.6. We have not forecast any asset disposals over the FY28-FY30 period.

Figure 3-1: Forecast RAB calculation methodology



3.2 Forecast net commissioned capital expenditure

We use forecast net commissioned capital expenditure from FY27 to FY29 to calculate the forecast RAB from 1 July 2027 to 30 June 2030. Forecast net commissioned capital expenditure is defined as forecast efficient capital expenditure, including capitalised interest during construction, net of forecast cash capital contributions and adjusted for any forecast asset disposals. We apply a one-year commissioning lag, which means forecast capital expenditure incurred from FY27 to FY29 enters the forecast RAB from FY28 to FY30.

As outlined in 2.3.2.2, we source forecast capital expenditure from FY27 to FY29 from the CIP and adjust it for competitive services. *Annexure 5 Infrastructure Capital Expenditure* and *Annexure 6 Digital and Information Investment* outline the forecast capital expenditure program, including the prudence and efficiency of the forecast program.

We have applied a composite weighted escalator to convert forecast capex from real dollar to nominal dollar for the purpose of RAB roll-forward. This comprises a 65% weighting to Wage Price Index (WPI) and 35% weighting to Producer Price Index (PPI). We use the same WPI and PPI forecasts that we apply to forecast operating expenditure for the price monitoring period, as set out in *Annexure 4 Operating Expenditure*. These weightings broadly reflect the labour and materials composition of our capital expenditure, which differs materially from the basket of goods captured by CPI inflation. We use the escalator to establish an ex-ante capital budget for the price monitoring period. Only actual prudent and efficient capital expenditure will be rolled into the RAB at actual cost at the end of the price monitoring period.

As outlined in section 2.3.2.2, we apply the asset-offset approach when accounting for capital contributions. Accordingly, forecast cash capital contributions from FY27 to FY29 has been deducted from the forecast capital expenditure (excluding forecast donated assets). There is currently uncertainty related to Urban Utilities receiving government funding for the Games capital expenditure. We have included a passthrough event to account for the Games funding if we receive a funding commitment, to enable us to passthrough the benefits to customers within the price monitoring period.

As outlined in section 2.3.2.2, we calculate a CROA on forecast capital expenditure net of capital (cash) contributions to account for the 1-year commissioning lag to recognise forecast capex in the forecast RAB. We have applied the indicative regulatory weighted average cost of capital (see details of indicative forecast *Annexure 8 Rate of Return*) for calculating the CROA. No asset disposals are forecast over the FY28-FY30 period.

Consistent with the commissioning assumptions outlined in section 2.3.1, we include forecast capital expenditure in the forecast RAB after one year, at the midpoint of the following financial year.

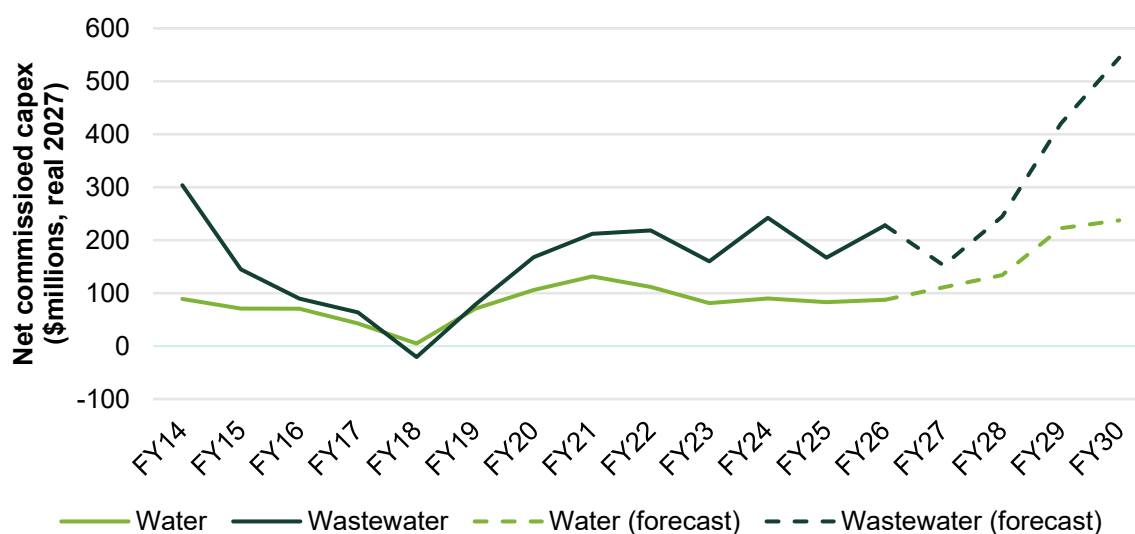
Figure 3-2 shows historical and forecast net commissioned capital expenditure entering the RAB over the FY14 to FY30 period.

Urban Utilities expects a significant increase in the forecast net commissioned capital expenditure that would enter the RAB during the FY28-FY30 period. This reflects the substantial investment required to support South East Queensland's population and housing growth, the renewal and replacement of ageing assets to sustain service performance outcomes for our customers, and to deliver infrastructure needed for the 2032 Games.

However, there are structural funding gaps associated with growth-related infrastructure. Under the current Maximum Adopted Charges (MAC) and Priority Development Area (PDA) charging frameworks, growth-related infrastructure costs are not fully recovered from developers. As a result, a portion of the forecast growth-related capital expenditure would effectively be funded by Urban Utilities' customers through future prices.

If specific funding is provided for the Games infrastructure delivered by Urban Utilities, then commensurate adjustments to the RAB will need to be made.

Figure 3-2 Net commissioned capex profile per annum (\$millions, \$real 2027)



3.3 Forecast indexation

Consistent with standard regulatory practice, we index the forecast RAB to maintain its value in real terms over time.

We have indexed the RAB by applying forecast inflation for the FY28 to FY30 price monitoring period.

To do this, we adopted the QCA's preferred approach to forecasting inflation.¹⁵ This methodology applies the RBA's short-term national headline CPI forecasts for the first two years of the regulatory period and derives headline CPI forecasts out to five years ahead using a linear glide path.

We used the RBA's May 2026 Statement on Monetary Policy for the indicative forecast inflation rate for FY28, the first year of the price monitoring period. We then apply the QCA's methodology to derive the indicative forecast inflation rates for FY29 and FY30. These forecast inflation rates will be updated prior to setting prices for the FY28-30 period using the latest available RBA Statement on Monetary Policy.

Table 3-1 shows the indicative inflation forecasts. We will update the forecast inflation rates ahead of finalising prices for the FY28-30 price monitoring period.

Table 3-1 Indicative forecast inflation

Year	2027-28	2028-29	2029-30
Indicative forecast CPI (%)	2.5%	2.5%	2.5%

Source: Reserve Bank of Australia, Urban Utilities

¹⁵ Queensland Competition Authority. (2021). *Inflation forecasting: Final position paper* (October 2021). <https://www.qca.org.au/wp-content/uploads/2021/10/inflation-forecasting-final-position-paper-october-2021.pdf>

Consistent with regulatory practice, we have deducted from maximum allowable revenue an amount equivalent to the forecast inflationary gain in the RAB, as we apply a nominal rate of WACC. This avoids the double counting of inflation that would otherwise occur from indexing the RAB by inflation and applying a nominal rate of return on assets that embodies the inflation rate.

3.4 Forecast depreciation

As outlined in section 2.5, we calculated forecast depreciation using the straight-line method, and using remaining asset lives for the existing asset portfolio and new asset lives for the capex that rolls into forecast RAB.

For each of the forecast RAB calculations, forecast depreciation is calculated based on the opening RAB at the start of the financial year plus the addition of 50% of each year's forecast net commissioned capital expenditure and following indexation.

3.5 New asset class to account for the planning costs for discontinued projects

Urban Utilities carefully plans and manages its capital investment program. Where a project proceeds to construction, planning and development costs are capitalised and form part of the cost of the completed asset. However, each year some projects are cancelled, deferred or significantly rescope as investment priorities are refined to address evolving service needs.

When a project is discontinued, any planning costs incurred to date are removed from the Capital Investment Program (CIP). This adjustment reduces the capital expenditure incurred in that year and, consequently, reduces the amount of capital expenditure rolled into the RAB.

For accounting purposes, planning costs removed from the CIP are reclassified as operating expenditure. However, for establishing the regulatory operating expenditure allowance for FY28-30, these costs have been excluded from the recurring base year expenditure (see *Annexure 4 Operating Expenditure*). As a result, the costs are not reflected either in the RAB or in the FY28-30 regulatory operating expenditure allowance.

The regulatory treatment should preserve the incentive to discontinue projects when further expenditure is no longer justified. If planning costs are automatically disallowed whenever a project does not proceed, the business may face a financial incentive to continue with an uneconomic or unnecessary project simply to preserve recovery of the planning expenditure already incurred. Accordingly, we consider that planning costs for discontinued projects should be recoverable for regulatory purposes, provided they supported a reasonable investment decision, avoided inefficient expenditure, or remain useful to future service delivery. This is consistent with the QCA's practice in respect of other regulated infrastructure services. For instance, the QCA has previously allowed regulated entities to recover project study costs for discontinued projects.¹⁶

¹⁶ See, QCA, Final report, Seqwater Bulk Water Price Review 2022-26, March 2022, p. 26. QCA, Decision, May 2017 DBCT Management Incremental expansion study DAAU; QCA, Final Decision, April 2013, DBCT Management's Post-85 Mtpa Expansion Study Costs

Consistent with this principle, we have considered the extent to which planning costs that were not capitalised should be recovered from customers.

In FY26, the actual planning costs that were not capitalised were \$16m. There are five discontinued projects with material planning costs of at least \$1.0m per project that total \$8.7m and account for 54% of the FY26 planning costs removed from the CIP.

The remaining \$7.3m cost is spread across 48 projects with an average cost of \$0.15m per project. The relatively low expenditure per project is consistent with the projects having been discontinued before progressing to more costly stages of development, such as detailed design, procurement or construction. This suggests that Urban Utilities generally ceased expenditure before substantial costs were committed.

We reviewed a sample of three larger projects totalling \$5.7m for prudence and efficiency. For each project, we considered the original investment need, the options or investigations undertaken, the reason the project did not proceed as originally planned, whether the decision could reasonably have been made earlier, and whether the planning work remains useful. In each case, the planning activity produced customer value by identifying a lower-cost pathway, supporting project deferral, avoiding inefficient capital expenditure, or confirming that a proposed investment should not proceed. However, for two projects (totalling \$2.9m), the decision not to proceed could have been made earlier and some planning activity may have been avoidable.

Overall, the review indicates that the discontinuation of most projects – 48 projects with immaterial costs and 1 sampled project, representing 92% of the projects by count – was reasonable and avoided inefficient expenditure. For the two sampled projects where some costs may have been avoidable, it is difficult to pinpoint the exact time a decision to discontinue the project should have been made. Assuming half of the planning costs associated with these two projects is recoverable would mean that about 91% of the overall planning costs removed from the CIP in FY26 is recoverable. Based on these considerations, we conservatively consider it is appropriate to recover \$14.4m (90%) of the actual \$16m planning costs removed from the CIP.

Additionally, given each year, some projects are likely to be discontinued, for the Part 2 submission, we have pre-emptively included a forecast adjustment of \$9m per annum (FY27\$) in the CIP. That is, capital expenditure forecast to be incurred from FY27 to FY29 is reduced by \$9m each year, and that \$9m amount is reclassified as forecast capital planning costs that may be associated with projects that may not proceed to capitalisation.

To avoid bill volatility for customers, we consider it is appropriate to spread the recovery of actual and forecast costs over more than one year. Accordingly, our treatment is to:

- recover such costs through the RAB setting
- create a new asset class in the RAB 'CAPEX planning costs' with a standard recovery life of 5 years
- include the FY26 actual costs (\$14.4m) as the opening balance in FY28.
- include the forecast adjustment of \$9m per annum (FY27\$) from FY27 to FY29, subject to an ex-post prudence and efficiency assessment when actual costs are known.

The recovery through the RAB setting smooths the impact on customer bills, maintains incentives for appropriate planning and optioneering through the ex-ante recovery mechanism, and the ex-post assessment mechanism ensures only prudent and efficient actual costs are recovered from customers.

3.6 Forecast RAB Roll-Forward FY28-FY30

Based on the above, the roll-forward of forecast RAB for the FY28-30 price monitoring period is shown in Table 3-2 (water) and Table 3-3 (wastewater).

The combined closing RAB as at 30 June 2027, which is also the opening RAB at 1 July 2027, is \$6,581 million (nominal). The combined forecast closing RAB at 30 June 2030 is \$7,981 million (nominal), which is an increase of \$1,400 million (21.3%) over the price monitoring period. Of the 21.3% increase in combined RAB, the increase in wastewater RAB is contributing 13.7% and the increase in water RAB is contributing 7.6%.

Table 3-2 Water RAB roll-forward, \$ millions, nominal

	FY28	FY29	FY30
	<i>forecast</i>	<i>forecast</i>	<i>forecast</i>
Opening RAB	2,751	2,851	3,042
Forecast net commissioned capital expenditure	138	234	256
Forecast indexation	71	74	79
Forecast depreciation	108	117	129
Closing RAB	2,851	3,042	3,249

Note: Closing RAB may not equal Opening RAB + Capex + Indexation – Depreciation, due to rounding.

Table 3-3 Wastewater RAB roll-forward, \$ millions, nominal

	FY28	FY29	FY30
	<i>forecast</i>	<i>forecast</i>	<i>forecast</i>
Opening RAB	3,830	3,969	4,286
Forecast net commissioned capital expenditure	251	441	587
Forecast indexation	99	105	115
Forecast depreciation	211	230	254
Closing RAB	3,969	4,286	4,732

Note: Closing RAB may not equal Opening RAB + Capex + Indexation – Depreciation, due to rounding.

3.7 Ex-post RAB reconciliation

At the start of FY31, the closing RAB at 30 June 2030 will be updated by reconciling forecast inputs adopted in the FY28-30 price monitoring period with actual outcomes.

The closing RAB value at 30 June 2030 will be calculated by rolling forward the opening RAB value as of 1 July 2027 by:

- adding actual net commissioned capital expenditure from FY27 to FY29, defined as actual prudent and efficient capital expenditure incurred from FY27 to FY29 net of actual capital (cash) contributions and actual asset disposals, with a commissioning lag of one year;
- applying actual indexation; and
- subtracting depreciation.