



The Hon. Cameron Dick MP  
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Our Ref: 04777-2023

Professor Flavio Menezes  
Chair  
Queensland Competition Authority  
GPO Box 2257  
BRISBANE QLD 4001

Email: [REDACTED]

Dear Professor Menezes

*Flavio,*

Please find enclosed a referral notice issued under section 23A of the Queensland Competition Authority Act 1997 referring the relevant monopoly business activities of the Gladstone Area Water Board (GAWB) to the Queensland Competition Authority (the Authority) for a price monitoring investigation for the period from 1 July 2025 to 30 June 2030.

Stakeholder consultation is an important part of the investigation process. I suggest the notice given and published by the Authority on receipt of this referral notice seeks that GAWB provide its submission by no later than 31 May 2024, and that stakeholders provide submissions by no later than 31 July 2024.

I also suggest the Authority accept a submission from GAWB with prices charged over the period 1 July 2025 to 30 June 2028 justifying any deviations between prices charged to customers with the Authority's findings from the Final Report in E(1.1)(b) by no later than 31 July 2028.

The Fitzroy to Gladstone Pipeline is a key water security project that is being constructed during the price monitoring investigation period, to address the single source water supply risk from Gladstone's Awoonga Dam. The Pipeline will provide long-term water security and reliability for GAWB's customers, ensuring the continued operations of Gladstone's industry, which is a key contributor to the growth of the Queensland economy.

I look forward to receiving the Authority's findings on the matters outlined in the enclosed referral notice and appreciate the ongoing and effective regulatory oversight role provided by the Authority with respect to GAWB's monopoly business activities.

Officers from Queensland Treasury and the Department of Regional Development, Manufacturing and Water have consulted with staff from the Authority in the preparation of this referral notice. GAWB has also been advised of this investigation and has been encouraged to work closely with the Authority to ensure the reporting time frames for the review are met.

Should you have any queries regarding this matter, please contact [REDACTED], Director, Strategic Coordination and Economics, Department of Regional Development, Manufacturing and Water on [REDACTED] or email [REDACTED]

Yours sincerely



**CAMERON DICK MP**  
**Treasurer**  
**Minister for Trade and Investment**

14/12 / 2023

Encl. (1)

Cc: The Honourable Glenn Butcher MP, Minister for Regional Development and Manufacturing and Minister for Water

**QUEENSLAND COMPETITION AUTHORITY ACT  
1997**

**Section 23A and Section 24**

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**REFERRAL**

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

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

**B. Section 24 – Directions**

- (1.1) Under section 24 of the Act, I direct the Authority to consider the Stated Matters in conducting the Investigation, to the extent relevant, noting that the Stated Matter in Section C(1.2) will only be able to be considered and reported on by the Authority after 30 June 2028.

**C. The Stated Matters**

- (1.1) The Appropriate Prices for the Price Monitoring Period.
- (1.2) How the Appropriate Prices compare to actual prices charged by GAWB over the period 1 July 2025 to 30 June 2028.
- (1.3) The Queensland Government’s Renewable Energy Targets as detailed in the Queensland Energy and Jobs Plan.
- (1.4) The Queensland Government’s Common User Infrastructure Assessment Principles.

**D. Consultation**

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

**E. Timing**

- (1.1) I direct the Authority under section 24(1) to report the results of the Investigation in accordance with the following timetable:
  - (a) A Draft Report with respect to the Authority’s Investigation by no later than 29 November 2024;
  - (b) A Final Report with respect to the Authority’s Investigation by no later than 30 April 2025;
- (1.2) I require the Authority under section 23A(3)(b) to report the results of its Investigation in a Mid-Term Report by no later than 31 October 2028.

## F. Definitions and Interpretations

In this Referral these terms have the following meanings:

Term	Meaning
Allowable Costs	<ul style="list-style-type: none"> <li>(a) GAWB's contracted costs for operating and maintaining Water Security Assets.</li> <li>(b) Prudent and efficient operational, maintenance and administrative costs, including allowances for working capital and tax, where applicable.</li> <li>(c) Forecast expenditure for prudent and efficient operational, maintenance and administrative costs, assessed using a base-step-trend approach, focusing on necessary step changes of expenditure expected to occur during the period. Base-year operating expenditures are to be escalated using Forecast Inflation. Calculated considering issues of materiality between forecast operating and maintenance expenditure in aggregate.</li> <li>(d) Prudent and efficient capital expenditure</li> <li>(e) Prudent and efficient costs associated with catchment management.</li> <li>(f) Prudent and efficient recreational facilities costs.</li> <li>(g) An Appropriate Rate of Return on the RAB.</li> <li>(h) An appropriate allowance for the depreciation of the RAB assets determined consistent with the Authority's previous approach in the Authority's Gladstone Area Water Board price monitoring 2020-2025 Final Report.</li> <li>(i) An allowance for tax, where applicable.</li> <li>(j) Costs required to meet regulatory obligations and deliver agreed service levels taking into consideration the strategic and operational plans approved by the responsible Minister under the Water Act and the Water Supply Act.</li> </ul>
Allowable Revenue	Revenue received from providing Monopoly Business Activities.
Appropriate Prices	<p>Prices that are consistent with the following:</p> <ul style="list-style-type: none"> <li>(a) Allowable Costs;</li> <li>(b) Reserved Demand.</li> </ul> <p>Prices that are:</p> <ul style="list-style-type: none"> <li>(a) smoothed over the Price Monitoring Period; and</li> <li>(b) allow GAWB sufficient Allowable Revenue to recover the Allowable Costs of providing the Monopoly Business Activities.</li> </ul> <p>Appropriate Prices should include any proposed Network augmentation or expansion capital expenditure forecast to occur during the Price Monitoring Period, where that Network augmentation or expansion is sized, configured, priced, and timed to:</p> <ul style="list-style-type: none"> <li>(a) Service 2030 forecast Reserved Demand and any reasonably expected future demand that would make use of the Network; and</li> </ul>

Term	Meaning
	(b) Not be inconsistent with the Queensland Government's Common User Infrastructure Assessment Principles.
Appropriate Rate of Return	<p>A Weighted Average Cost of Capital based on the methodologies outlined in the Authority's <u>Rate of Return Review Final Report 2023</u>.</p> <p>For estimating the cost of debt, a 10-year transition from the 'on-the-day' approach to the 'trailing average' approach (consistent with the Australian Energy Regulator's transition arrangements) applies.</p>
Authority	Queensland Competition Authority
FGP	Fitzroy to Gladstone Pipeline
Forecast Inflation	Inflation based on the methodology outlined in the QCA's <u>Inflation Forecasting Position Paper</u> .
GAWB	Gladstone Area Water Board
Monopoly Business Activities	<ul style="list-style-type: none"> <li>• Bulk water storage, including water storage for another person.</li> <li>• Bulk water delivery services.</li> <li>• Bulk water treatment services.</li> <li>• Supplying bulk water to another person, other than supplying bottled or containerised water.</li> </ul>
Network	GAWB's bulk water delivery infrastructure network in the Gladstone region which includes Awoonga Dam and more than 200 kilometres of bulk water pipelines, treatment plants, quality testing facilities, raw and potable water pumping stations, raw and potable water reservoirs, and offline water storage facilities.
Price Monitoring Period	1 July 2025 to 30 June 2030.

Term	Meaning
RAB	<p>Regulated Asset Base</p> <p>(a) The opening RAB as at 1 July 2020* is not to be optimised and have the remaining lives as used by the Authority in the Authority's Gladstone Area Water Board price monitoring 2020-2025 Final Report.</p> <p>(b) The opening RAB as of 1 July 2025 determined by:</p> <ol style="list-style-type: none"> <li>i. Assessing the prudence and efficiency of capital expenditure from 1 July 2020 to 30 June 2025, based on an appropriate sample of capital projects.</li> <li>ii. Rolling forward the RAB from 1 July 2020 to 30 June 2025, in accordance with the methodology previously applied by the Authority in the Authority's Gladstone Area Water Board price monitoring 2020-2025 Final Report, adjusted for any findings in (i) above.</li> <li>iii. Adjusted for depreciation and actual inflation over the period.</li> </ol> <p>(c) The RAB for the period 1 July 2025 to 30 June 2030 forecast:</p> <ol style="list-style-type: none"> <li>i. Including an appropriate allowance for prudent and efficient capital expenditure, based on an appropriate sample of capital projects, focusing on the projects with a material impact on the RAB in aggregate.</li> <li>ii. Accepting the forecast \$983 million (excluding GST) FGP capital cost.</li> <li>iii. Accepting the capital cost of purchasing FGP Water Allocations as a non-depreciating asset that receives a Rate of Return.</li> </ol> <p>*Noting that for the 2019-20 year the capital expenditure used to determine the RAB will be adjusted to take into account GAWB's actual capital expenditure.</p>
Referral	<p>This referral notice issued by the Treasurer to the Authority, under Section 23A and Section 24 of the QCA Act, for the Authority to conduct a price monitoring investigation relating to the Monopoly Business Activities.</p>
Reserved Demand	<p>The total quantity of water reserved by GAWB's customers under their contractual arrangements (including any conditional contractual arrangements) and water that is the subject of a water supply proposal provided under GAWB's <i>Queuing Guideline (Source Capacity)</i>.</p>
Stated Matters	<p>Those matters listed in Section D</p>
Treasurer	<p>Treasurer of Queensland</p>
Water Act	<p><i>Water Act 2000</i></p>
Water Allocation	<p>An authority granted under section 146 or section 147 of the Water Act to take water from an available water resource, managed under a Resource Operations Licence in an approved water plan area (in accordance with Chapter 2, Part 2, Division</p>

Term	Meaning
	3 of the Water Act).
Water Security Assets	<p>The FGP and all Water Allocations transported to the Network via the FGP.</p> <p>Water Allocations delivered through the FGP may include an up-front capital component (eg. Rookwood Weir Water Allocation purchase cost) which is to be treated as a non-depreciating asset that receives a Rate of Return.</p> <p>Water Security Assets and costs are to be allocated to all customers (existing and potential) based on reserved volumes.</p>
Water Supply Act	<i>Water Supply (Safety and Reliability Act) 2008</i>