

## Private & confidential

Queensland Competition Authority  
GPO Box 2257  
Brisbane Qld 4001

## RE: GLADSTONE AREA WATER BOARD REGULATORY SUBMISSION

Date  
31 July 2024

We refer to the current price monitoring investigation being conducted by the Queensland Competition Authority ('QCA') in relation to the Gladstone Area Water Board ('GAWB') for the period 1 July 2025 to 30 June 2030. Rio Tinto appreciates the opportunity to comment on the submission prepared by GAWB as part of the QCA's price monitoring investigation.

Rio Tinto has ownership interests in significant operations in and around the Gladstone region that are customers of GAWB including the Yarwun alumina refinery (Rio Tinto has a 100% interest), the Queensland Alumina Limited alumina refinery ('QAL') (Rio Tinto has an 80% interest) and the Boyne Smelters Limited aluminium smelter ('BSL') (Rio Tinto has a 59.4% interest<sup>1</sup>). These operations have collectively been significant contributors to the Gladstone and the Queensland economies over an extended period of time. In 2023, the collective purchases of water and associated services from GAWB by these operations was approximately \$[REDACTED].

For the reasons outlined in this submission, however, Rio Tinto has significant concerns about the material rate increase proposed by GAWB in its submission dated 31 May 2024 ('GAWB Submission'), including the fairness of the increase and its impact on the competitiveness of each of Rio Tinto's three operations in Gladstone.

## Aluminium Industry Challenges

By way of background, Rio Tinto wishes the QCA to first note the following challenges being faced by the industries in which Rio Tinto holds interests in Gladstone.

Since the global financial crisis, the Australian aluminium industry has been facing some well publicised challenges from depressed aluminium prices and rising energy costs. In this time, two Australian aluminium smelters have closed

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<sup>1</sup> Rio Tinto has agreed to acquire additional shares in BSL. On completion of these transactions, Rio Tinto's interest in BSL will increase to 73.5%. For details see <https://www.riotinto.com/en/news/releases/2024/rio-tinto-to-acquire-mitsubishis-11-65-stake-in-boyne-aluminium-smelter>

(Norsk Hydro's Kurri Kurri and Alcoa's Point Henry),<sup>2</sup> as has one alumina refinery (Rio Tinto's Gove alumina refinery).

Aluminium is a product which is traded internationally and whose price is determined by reference to the price of metal published by the London Metal Exchange. Accordingly, producers of aluminium are not price setters but price takers. As a result, localised increases in input costs (such as major increases to the price of water supplied to Rio Tinto's Queensland smelter), impact the long-term viability of specific aluminium producing facilities when the same cost pressures do not impact global competitors' facilities.

The market for aluminium and alumina is highly volatile. Since 2017, our alumina refineries and aluminium smelters have weathered steeply rising input costs for key raw materials. GAWB's substantial proposed price increases will place further pressure on Rio Tinto's operations.

### **GAWB Submission**

Section 12.3 of GAWB's submission provided an indicative pricing impact which shows that Rio Tinto's three operations in Gladstone will see rate increases ranging from 32% to 72%, and a total annual cost increase of \$[REDACTED], for FY2025-26. GAWB noted that the increases are primarily due to:

- increase in the WACC (Chapter 9);
- increase to GAWB's operating costs (Chapter 7); and
- capital forecast for the FY2026-30 regulatory period (Chapter 8).

The Executive Summary states that demand for water is expected to exceed GAWB's existing annual allocation from Awoonga Dam, due to the increased level of interests from the hydrogen and renewable energy sector. Section 8.3 states that GAWB forecasts \$504.95m total capital spend during FY2026-2030, of which approximately 50% is attributed to network augmentation. In Section 7.5 GAWB has proposed 9 step changes for operating costs that account for a total annual cost increase of \$55.8m. A significant contributor to the increase is additional resourcing to position the business to effectively respond to the potential growth from new hydrogen customers in a timely and efficient manner.

### **Rio Tinto Concerns**

As a major customer of GAWB, Rio Tinto has significant concerns about the cost impact of the current pricing proposal. In the interests of responding to the QCA in a timely manner, Rio Tinto has outlined its main concerns below, but would be happy to discuss these and other concerns further with the QCA if that would be beneficial to the price monitoring investigation.

#### **1. The cost of providing water services and efficient resource allocation**

Rio Tinto submits that the GAWB Submission does not correctly allocate the cost of providing services to specific GAWB customers, and in particular the costs proposed to be incurred by GAWB to extend or expand its existing infrastructure. In particular, GAWB proposes to socialise the capital and operating costs associated with augmentation of its operations to meet anticipated demand by the hydrogen and renewable sectors across all users. This requires existing

<sup>2</sup> See <https://www.hydro.com/en/global/media/news/2012/hydro-will-close-the-kurri-kurri-aluminium-plant/>; and [https://news.alcoa.com/press-releases/press-release-details/2014/Alcoa-to-Close-Point-Henry-Aluminum-Smelter-and-Rolling-Mills-in-Australia/default.aspx#:~:text=Alcoa%20\(NYSE%3A%20AA\)%20today,in%20Yennora%2C%20New%20South%20Wales..](https://news.alcoa.com/press-releases/press-release-details/2014/Alcoa-to-Close-Point-Henry-Aluminum-Smelter-and-Rolling-Mills-in-Australia/default.aspx#:~:text=Alcoa%20(NYSE%3A%20AA)%20today,in%20Yennora%2C%20New%20South%20Wales..)



users to bear a substantial cost in circumstances where they may receive little or no economic benefit from the expansion.

While Rio Tinto appreciates inherent difficulties in modelling future demand for infrastructure projects, Rio Tinto submits the QCA should consider the fairness of existing users bearing capital costs incurred for a expansion and extension costs triggered by new users. Existing users have been contributing to the existing infrastructure for years, a cost which is not similarly borne by new users where capital costs are socialised.

## **2. Consideration of economic and regional development issues**

When the QCA conducts a price monitoring investigation, the *Queensland Competition Authority Act 1997* (Qld) ('the Act') requires the QCA to have regard to a range of factors, relevantly including "economic and regional development issues, including employment and investment growth".<sup>3</sup> Rio Tinto encourages the QCA to closely review and consider the impact of GAWB's proposed significant price increases on the economic viability of businesses operating in the Gladstone region. As part of that consideration, Rio Tinto considers that the QCA should specifically note the likely negative impact that GAWB's price increases will have on investment incentives by major businesses operating in the area, including the flow on impacts to regional growth and employment.

Rio Tinto sees clear negative impacts to economic and regional development as a direct result of GAWB's pricing proposal, including:

### **a. Continuing significant price increases will undermine the viability of operations at Gladstone.**

In its response to the QCA's 2020-2025 price monitoring investigation of GAWB's pricing, Rio Tinto noted that GAWB's proposed price increases at that point in time were significant when compared to the previous review period. Specifically, Rio Tinto's operations faced price increases of between [REDACTED] % during that review period. As detailed above, Rio Tinto now faces further price increases of between 32% and 72% if GAWB implements its current proposal.

Due to the nature of aluminium supply, aluminium and alumina producers have limited ability to price differently to the global market and therefore has no ability to recoup any local price increases that impact Rio Tinto's operations. Repeated major price rises in Rio Tinto's operating costs at Gladstone have impacted, and will continue to significantly undermine, the viability of Rio Tinto's Gladstone facilities. While Rio Tinto's Gladstone facilities have undertaken significant business transformation in recent years to remain globally competitive, they all have a current strong focus on costs and efficiency to ensure their long term future.

Rio Tinto submits that the QCA should consider that price jumps of the magnitude proposed by GAWB have the potential to undermine the competitiveness of customers in the Gladstone area, which in turn detrimentally impacts the perception of the Gladstone region as an investment area and disincentivises further investment, ultimately leading to fewer employment opportunities at sites around Gladstone.

### **b. Future cost implications of the FGP or future new assets**

<sup>3</sup> The Act, s 26(1)(m).

Rio Tinto is concerned about further cost increases from recovery of costs associated with the Fitzroy to Gladstone Pipeline ('FGP') and potentially overly optimistic demand forecasts. GAWB noted that the costs associated with the construction and operation of the FGP have been excluded from the current price monitoring review, and are intended to be subject to a separate QCA review process.<sup>4</sup>

Rio Tinto respectfully submits that separate pricing applications are not an appropriate way to address substantial expected cost increases from capital investments, such as the FGP, because:

- GAWB is responsible for the construction, ownership, maintenance and operation of the FGP. On that basis, Rio Tinto assumes that GAWB intends to operate the FGP as part of its network, and ultimately include the FGP in its overall pricing.
- The FGP is intended to become operational in 2026.<sup>5</sup> That is within this monitoring period, and currently less than 2 years away. Rio Tinto does not consider that it is appropriate to incur, and to cause users to incur, further costs engaging in another QCA price monitoring process within such a short period of time.
- Currently existing users have limited oversight of how GAWB intends to treat the capital and operating costs of the FGP. Without any further detail, existing users may be facing a further significant cost increase within this current monitoring period if GAWB chooses to socialise those costs.
- In any event, some element of FGP pricing appears to have been included in the current pricing submission, as "GAWB is forecasting a material increase in its operating expenditure for the FY2026-30 regulatory period... [reflecting] significant cost pressures across the business as well as the expansion in the scale and scope of GAWB's activities".<sup>6</sup> Rio Tinto notes that this appears to align with increases expected from the FGP, and the QCA should not allow double-recovery of these costs through a separate submission from GAWB for FGP costs.

Rather, Rio Tinto considers that it would be more appropriate for GAWB to provide transparency during the current price monitoring process in relation to the expected costs for FGP and how GAWB intends to allocate those costs between its customers. Again, Rio Tinto submits that it is unfair and inequitable for current users to be required to compensate for all capital costs incurred for a service that is significantly in excess of what is required by the current users.

Even without incorporating the FGP costs, GAWB has submitted that its "capital expenditure forecast for the FY2026-30 regulatory period represents the largest capital program in its history",<sup>7</sup> including because its capital expenditure in the current regulatory period has been lower than forecast after the deferral of the Awoonga Dam Improvement Project "due to a material change in the scope, timing and cost of the project".<sup>8</sup> This capital expenditure is separate to the FGP costs incurred, and already represents a major capital cost that GAWB intends be borne by all users.

Rio Tinto notes that this capital expenditure, including the FGP, is based on speculative demand forecasts for the Gladstone region, which exceed GAWB's current and future contracted commitments. In particular, the

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<sup>4</sup> GAWB Submission, 5.

<sup>5</sup> GAWB Submission, 5.

<sup>6</sup> GAWB Submission, 6.

<sup>7</sup> GAWB Submission, 7.

<sup>8</sup> GAWB Submission, 6.



demand by hydrogen and renewable sector could be uncertain and if the forecast demand is not realised, this will result in significant under-recovery. Rio Tinto notes GAWB's 2020 submission in relation to accumulated under recoveries of \$124.7M, which resulted in no relief and a significant cost to Rio Tinto's operations in Gladstone.

In this regard, Rio Tinto submits that GAWB should bear a degree of utilisation risk associated with capital projects to ensure capital is deployed in an efficient manner. If a capital or augmentation project by a monopoly provider has benefits which are far beyond those then required by the users, then the monopoly provider should have some responsibility for funding such excess. Under the GAWB pricing proposal, GAWB bears little to no risk associated with inefficient capital allocation if all such costs can simply be recovered from the end user.

Rio Tinto welcome GAWB's plan to commence the pricing structure review which promises to deliver simplicity and more transparency in the pricing for customers. However, Rio Tinto expects GAWB to optimise the review to find an optimal balance between costs and benefits, and to deliver the benefits to customers.

We would be happy to discuss any of the above in further detail with the QCA.

Please contact Su Zheng ([REDACTED]@riotinto.com) if you have any further queries.

Yours sincerely

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