

27 October 2025

## **Private & confidential**

Queensland Competition Authority  
GPO Box 2257  
Brisbane Qld 4001

## **RE: GLADSTONE AREA WATER BOARD REGULATORY SUBMISSION**

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) water security assets for the 2026-2030 regulatory period. Rio Tinto welcomes the opportunity to provide input to the QCA in relation to the appropriate prices for use of the water security assets and feedback on GAWB's submission to the QCA dated 5 September 2025 (GAWB Submission).

Rio Tinto holds ownership interests in several major operations in and around the Gladstone region that are customers of GAWB, including the Yarwun alumina refinery (100% interest), Queensland Alumina Limited (QAL) alumina refinery (80% interest), and Boyne Smelters Limited (BSL) aluminium smelter (73.5% interest). Collectively, these operations have been significant contributors to both the Gladstone and Queensland economies over many years. At the date of this submission, Yarwun, QAL and BSL collectively have approximately 2,850 employees.

However, as outlined in this submission, Rio Tinto has significant concerns regarding the material rate increase proposed in the GAWB Submission, which will more than double the water costs of these Rio Tinto businesses when compared to the 2023-24 year. Rio Tinto's concerns particularly relate to the fairness of GAWB's proposed price increase, the transparency of the entire cost of the Water Security Assets, and the resulting impact on the competitiveness of each of Rio Tinto's three Gladstone operations.

### **Australian manufacturing challenges**

Rio Tinto wishes the QCA to first note the significant and ongoing challenges facing the Australian manufacturing sector, and in particular, the aluminium industry in Gladstone.

Australia's aluminium industry is one of the country's largest manufactured export sectors, supporting over 20,000 jobs nationally. However, the industry faces persistent headwinds from depressed global aluminium prices, rising energy costs, and increasing competition from overseas producers—especially China, whose state-backed facilities have driven down global prices. Recent international trade developments, such as proposed US tariffs on aluminium imports, have further unsettled global trade flows and increased the risk of cheaper, subsidised aluminium flowing into the market, making it even harder for local producers to compete on price.

Australian aluminium producers are price takers, not price setters, and GAWB's substantial proposed price increases will place further pressure on Rio Tinto's three Gladstone operations, compounding the effects of global price competition, rising energy costs, and the threat of potentially below cost competition from subsidised global imports. Without careful consideration of these challenges, further increases in input costs risk undermining the competitiveness and sustainability of Australia's aluminium manufacturing sector. We refer you to the recent paper produced by the Australian Aluminium Council:

<https://aluminium.org.au/wp-content/uploads/2025/10/251024-Securing-a-Level-Playing-Field.pdf>

### GAWB Submission

The GAWB Submission indicates that GAWB proposes to introduce a new Water Security Price to recover the costs of its Water Security Assets, which include the Fitzroy to Gladstone Pipeline (FGP), water allocations, and integration works. This charge is separate from and additional to the existing business-as-usual (BAU) bulk water rates. This pipeline will not have any material benefit to our operations and that the cost of this infrastructure should be met by parties who will benefit from this infrastructure under user-pay principles.

The indicative Water Security Price for FY2027 is set at \$1,406.88 per megalitre and will apply uniformly to all customers, including Yarwun, BSL, and QAL, based on their reserved demand volumes, with annual adjustments linked to CPI (Section 7.4.2). This indicative rate is primarily driven by the following factors proposed in the GAWB Submission:

- **Annual Revenue Requirement (ARR):** The total Annual Revenue Requirement (ARR) for the financial year 2027 is \$87.47 million. This amount comprises operating expenditure of \$26.88 million, a return on capital totalling \$66.10 million, and a return of capital, or depreciation, of negative \$8.94 million. The negative figure for depreciation results from indexation. Additionally, the ARR includes a tax allowance of \$3.43 million, as detailed in Table 7-3 on page 56.
- **Return on capital for 2027:** is opening regulated asset balance (RAB) \$877 million (from Table 7-2) multiply weighted average cost of capital (WACC, 7.29%, post-tax nominal, from Section 6.1.2). RAB is primarily driven by the base construction cost for the Fitzroy to Gladstone Pipeline which is \$950 million, net of a \$200 million capital grant from the Queensland Government, plus \$33 million to cover pre-construction and ancillary costs, and interest during construction amounting to \$95.2 million.
- **Operating expenditure:** Operating expenditure consists mainly of payments to the McConnell Dowell BMD Joint Venture (MCD BMD JV) for the FGP O&M contract—the largest part of the \$26.88 million OPEX—and GAWB's increased internal costs for managing the Water Security Assets.
- **Reserved Demand:** The total volume of water reserved by customers for FY2027 is 63,355 ML (See Table 7-1, p.54)
- **Price Calculation Method:** The price is set by dividing the ARR by total reserved demand and applies equally to all customers. GAWB uses price smoothing to minimise sharp year-to-year changes, leading to slightly higher prices early on and lower later, while ensuring full revenue recovery over time.

In the 2023/2024 financial year, Rio Tinto's Gladstone operations paid a total of \$27 million for water and associated services from GAWB. Under the proposed price increase, our annual costs are expected to rise to \$35 million for 25/26 and

greater than \$65 million for 26/27. This dramatic escalation in costs will have a significant impact on the financial sustainability and competitiveness of already challenged assets in the region.

## **Rio Tinto Concerns**

As a major customer of GAWB, Rio Tinto has significant concerns about the cost impact of the current pricing proposal, in addition to the price increase in GAWB's 2024 submission. 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. Consideration of economic and regional development issues**

We note that the QCA is required to have regard to a range of factors, relevantly including "economic and regional development issues, including employment and investment growth". 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 the following:

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

In its response to the QCA's 2025-2030 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 32% and 72% during that review period. This is after 11% and 15% increase during the 2020-2025 review period. As detailed above, Rio Tinto now faces further price increases of between 56% and 91% if GAWB implements its current proposal. Over a 10-year period, the result is that the cost to Rio Tinto of procuring a significant input for aluminium manufacturing has increased by 153%, an increase that has not been faced by Rio Tinto's competitors, and that would be challenging for any business to absorb.

Due to the nature of aluminium supply, Rio Tinto has no 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.

### **2. Contractor Costs and GAWB own costs efficiency**

Rio Tinto respectfully submits that the GAWB Submission contains insufficient detail regarding the O&M selection process and the associated O&M contract and Service Fee. Substantially more information should be provided to

stakeholders and the QCA in order to assess the appropriateness of the Service Fee, particularly in circumstances where the O&M Contract has been executed for a period of up to 10 years (5 years, with a 5-year extension option).

The GAWB Submission notes that:

- the O&M contractor's Service Fee is commercial-in-confidence and not disclosed to customers;
- the key reason for selecting the O&M Contractor was that it outperformed the other party in non-price terms; and
- "analysis by expert advisors" was required for the O&M Contractor to outperform the other party in price terms (but GAWB does not provide the relevant analysis or reasoning to support this position).

Given the O&M Service Fee is the largest component of GAWB's operating expenditure. Rio Tinto respectfully requests that the QCA require greater transparency (for both the QCA and stakeholders) or independent benchmarking of these costs to ensure they are efficient and competitive. If benchmarking shows the fee is above market, Rio Tinto strongly urges the QCA to seek a reduction in costs.

Further, the terms of the O&M Contract are unclear from the GAWB Submission or any other material released by GAWB. Rio Tinto respectfully requests that the QCA require that the O&M Contract, along with GAWB's own operating costs, include efficiency incentives, with any savings passed on to GAWB's customers.

### **3. Request for Clarity on FGP Costs, Grants, and RAB Treatment**

We are concerned about a potential cost increase to FGP, which will add further cost pressure to our operations in Gladstone. Chapter 2.4 "Current status" (pages 18–19) provides a summary of the construction progress, and confirms significant capital expenditure has occurred. The submission did not specify the exact total spent out of the estimated total \$983 million; only the regional expenditure (\$147 million) is mentioned. In Section 2.4 "Current status" and throughout the GAWB Submission, GAWB acknowledges that while construction is well progressed, there are still uncertainties and challenges in submitting robust cost forecasts because the project is "well in advance of the commissioning date."

Further, GAWB acknowledges that "there remain some uncertainties regarding aspects of [the FGP's] operations, including how the new Water Security Assets will perform within the context of GAWB's existing delivery and water treatment network" (Section 2.5.1, p.18-19). If there are issues of this nature, they may result in substantial unplanned capital expenditure so that GAWB can ensure the integration of the Water Security Assets and not have a wholly-stranded asset.

These are significant outstanding costs and risks related to the capital expenditure incurred by GAWB for the FGP and the long-term integration of the FGP into GAWB's existing network. Rio Tinto respectfully submits that it is not appropriate to make any decision regarding the cost of the FGP across all of GAWB's customers by incorporating those costs into the RAB until the true cost of the FGP, including its integration, is known and can be transparently assessed.

Finally, while GAWB's submission details the \$200 million grant netted off the FGP capital cost, the \$365 million grant for water allocations and integration works is less visible in the price calculation. We request a clear, public reconciliation showing how all government grants are applied to reduce the Regulated Asset Base (RAB), and for GAWB to provide assurance that

customers are not paying for any capital funded by grants. Section 3.1–3.4 ("FGP asset value and funding arrangements"), p.23–25.

#### 4. Asset life assumption transparency

GAWB has applied a weighted average asset life to calculate depreciation and the return of capital for the Water Security Assets, but the breakdown of asset lives will only be finalised once the project is complete and assets are capitalised (Submission, p.54–55). As asset life directly affects annual depreciation and, consequently, water pricing, we request greater transparency on the assumptions used, including the specific asset lives for the FGP and its components, and alignment with industry benchmarks.

#### 5. WACC

The WACC applied is 7.29% (post-tax, nominal), slightly below QCA's estimate of 7.39%, using the same methodology and parameters as last year. Rio Tinto understands that this is substantially out of line with other regulatory decisions for water assets operated in Australia, which have recently set real post-tax WACC estimates between 3 – 5%. Given that GAWB operates as a risk-free quasi-monopoly with full cost recovery (and, therefore, faces little to no risk on either capital or operating expenditure), we urge a reassessment of the return on equity, which carries a 3% premium over debt.

Alternatively, if GAWB is entitled to maintain its very high WACC, Rio Tinto respectfully submits that GAWB should be required to assume greater risk (for example, in relation to the outstanding costs associated with the integration of the FGP) and be required to strive for improved cost efficiency, as is required of other competitive and regulated businesses.

#### Conclusion

We respectfully request that QCA consider these points in its review of GAWB's submission. Our goal is to ensure water security is delivered efficiently, transparently, and at a price that supports the sustainability of local industry and the Gladstone community.

Rio Tinto welcomes further engagement with the QCA and is available to provide additional information or participate in in-person consultation as required.

Please contact [Benjamin.Briggs@riotinto.com](mailto:Benjamin.Briggs@riotinto.com) if you have any further queries.

Yours sincerely



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