

Our Ref: QLD01C0001-LTS-0011

Professor Flavio Menezes
Chair
Queensland Competition Authority
GPO Box 2257
Brisbane Q 4001

16 August 2024

Dear Professor Menezes

Gladstone Area Water Board Price Monitoring 2025-2030

Reference is made to the price monitoring investigation being undertaken by the Queensland Competition Authority (**QCA**) into the submission by Gladstone Area Water Board (**GAWB**) in relation to the bulk water price review for the period 1 July 2025 to 30 June 2030. Fortescue Hydrogen Systems Australia Pty Ltd (**Fortescue**) is seeking to appeal the latest price review as outlined in the *Bulk Water Price Review GAWB Submission 2026-30 Period* (the Review) – Section 12.3 Indicative Prices – the price.

The indicative prices stipulated in the Review differ substantially to the amounts advised to us by GAWB for the period 2020-25. These revised rates indicate an increase of approximately 90% - 97% across FHS' three delivery points.

Other Queensland Water Supply Authorities such as Seqwater have maintained more stable pricing, with only modest increases. Specifically, Seqwater has increased their bulk water prices by 3% - 4% between 2024-25 and 2025-26, reflecting a more gradual approach to price changes.

Fortescue is developing two significant projects in Gladstone. These include an electrolyser manufacturing facility (**GEF**) and a 50MW Proton Exchange Membrane (**PEM50**) Green Hydrogen Production Facility. Construction of GEF is complete and presently undergoing ramp-up of operations. The PEM50 project is in the initial stages of construction, with key activities underway to support its full-scale development.

Fortescue is currently not using its water points and has proceeded to progress the two projects on the 2020-25 rates. While we can appreciate reasonable inflationary factors on the supply of certain services, we are disappointed to note the overwhelming increase published by GAWB for 2026-30.

The development of the two projects above is introducing pioneering renewable energy technology and new industries to diversify the economy of Queensland, paving the way for more development and employment in the renewable energy sector within the region.

The revised rates published by GAWB introduce a material risk to the economic viability of these projects, which have received Queensland and Australian Government support. The rates also set a precedent to introduce unsustainable price increases not just for the provision of water but also other utilities and services.

Further the introduction of new pricing zones to accommodate increased customer demand raises additional concerns regarding the allocation of costs. Fortescue is seeking assurance that these new pricing zones and the associated charges will be equitable and that existing customers will not disproportionately bear the burden of the costs associated with new infrastructure.

We attach below some additional considerations for QCA to consider as part of this pricing review below.


Fortescue seeks your support and cooperation to help us make these projects successful. We therefore appeal the proposal to increase the water rates as published in the *Bulk Water Price Review GAWB Submission 2026-30 Period*. Fortescue further requests that the water rates remain unchanged from the 2020-25 published rates until the end of FY2030.

Please do not hesitate to contact the undersigned to discuss the matter further. Fortescue looks forward to a favourable review of the proposed pricing regime from your office.

Thank you.

Yours sincerely

FORTESCUE



MARK HUTCHINSON

Chief Executive Officer

Fortescue Energy

APPENDIX 1 – WIDER STRATEGIC ISSUES FOR QCA CONSIDERATION

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1. Review the reasonableness of the indicative prices proposed for the four new hydrogen pricing zones, having regard to:
 - a. GAWB's obligations as a declared government monopoly business activity which provide bulk water supply services to customers seeking access to GAWB's 78 ML/a water allocation at Awoonga Dam.
 - b. Matters listed in Part 3, section 26 of the *Queensland Competition Authority Act 1997*, with specific focus on sub-clauses (j), (k) and (m).
 - c. Alternative pricing approaches (including loss capitalisation) that would deliver lower upfront prices for new hydrogen customers to mitigate the higher start-up costs new hydrogen projects experience during the ramp up to full production.
 - d. Facilitate socially desirable investment in new industries with the highest potential to support Queensland's clean energy transition to net zero and strengthen the competitiveness and growth of Queensland's renewable hydrogen industry.
2. Review the appropriateness of GAWB's water supply proposal to create four pricing zones to price hydrogen customers who comprise no more than 10% of GAWB's maximum water supply capacity.
3. Review the appropriateness of GAWB's water supply proposal which will charge hydrogen customers (a) 100% of the incremental costs to connect them to the network; and (b) a common-cost charge for them to use the existing network, having regard to, among other things,
 - a. Whether GAWB's proposal is transparent and equitable. For example:
 - i. Does GAWB's water proposal unfairly penalise hydrogen customers because they are "last on" to GAWB's common-user water supply and delivery network?
 - ii. Does GAWB's water proposal unfairly benefit existing customers (with a windfall gain) because GAWB is not charging them for any of the common-user costs associated with increasing the maximum delivery capacity of GAWB's raw water network (i.e., trunk infrastructure located between Awoonga Dam and Fisherman's Landing) so that GAWB can fully contract with customers (existing and hydrogen) to deliver GAWB's best estimate of its maximum water supply capacity?
 - b. Whether it is in the public interest for a hydrogen customer who may have a delivery location near to a delivery location for an existing industrial bulk water customer (eg. Yarwun or Fisherman's Landing) is charged a significant and materially higher cost for water when compared to the water cost being levied on the existing customer. Note that in this scenario, GAWB will be delivering water services to both delivery locations using the same common-user delivery system (pipes, pumps, intermediate storage facilities, water treatment plants, and related works owned and operated by GAWB).
 - c. Whether there is a public benefit and regulatory pricing precedent for GAWB to

apply a hybrid differential pricing model to new hydrogen customers (this is the expansion pricing model implemented by Aurizon Network in the common-use central Queensland coal network). For example:

- i. if the incremental cost for GAWB to supply raw water to hydrogen customers located in the northern precinct of GAWB's network is higher than the cost to supply existing customers in the same area, then the hydrogen customers should only be charged the incremental cost to connect to GAWB's network.
 - ii. If the incremental cost to supply new customers is equal to, or less than, the cost to supply existing customers, then the water costs for all customers (existing and new) should be socialised.
4. Review the full range of regulatory pricing models available to GAWB and the hydrogen customers. Identify the regulatory pricing models with the highest potential to: support clean energy transition; underpin and accelerate regional economic growth; secure investor confidence; and build the international competitiveness of a renewable hydrogen industry in Gladstone.
5. Review GAWB's pricing principles and identify if the pricing principles need to be amended to allow GAWB to implement the alternative regulatory pricing models the QCA has identified. If the QCA finds that amendments are necessary, can the QCA provide advice on the scope of amendments that would need to be made.