



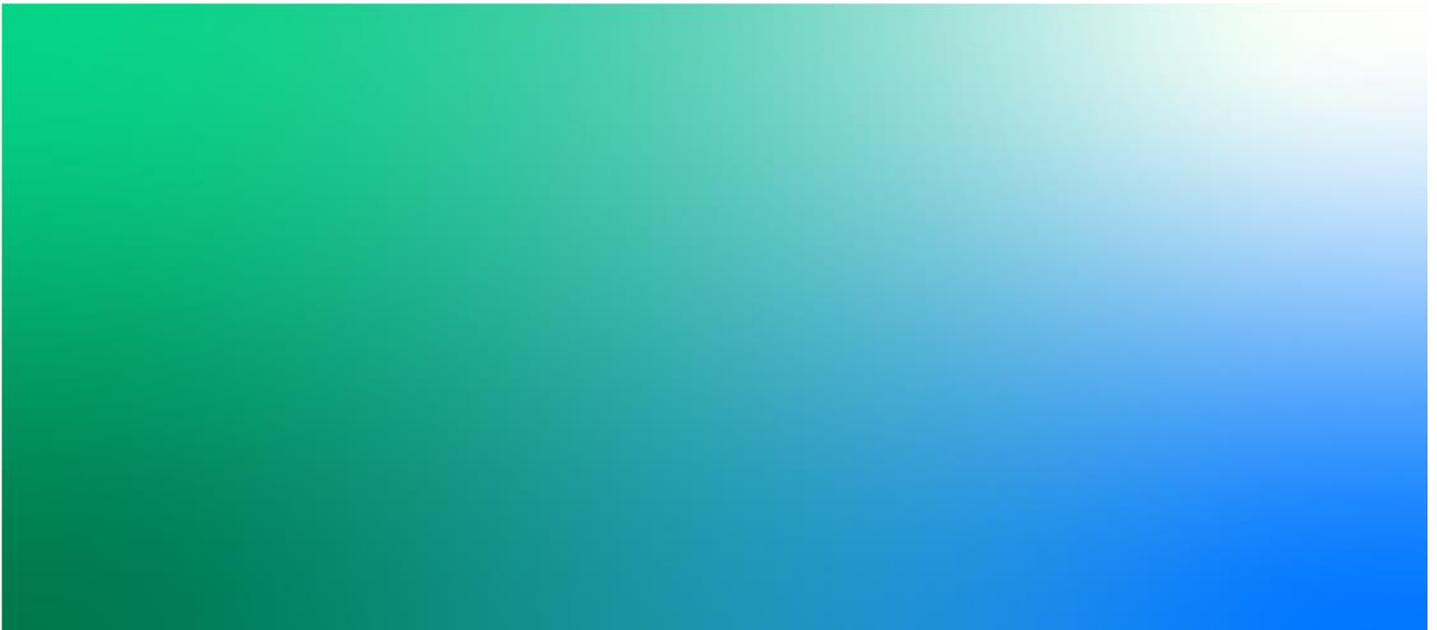
Hughenden Irrigation Project - Detailed Business Case

Round 2 - Land and Water Demand Assessment

1 | B

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HIPCo



Hughenden Irrigation Project - Detailed Business Case

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1. Executive Summary

Jacobs has been engaged to undertake a detailed business case for the Hughenden Irrigation Project. A fundamental component of this study is a demand assessment.

There are three parts to a robust demand assessment process:

- 1) Round 1: Expression of Interest (EOI) (non-binding) – Completed during DBC
- 2) Round 2: Letter of Intent (LOI) (non-binding) – Topic of this report
- 3) Round 3: Water sales (binding) – Will occur post-DBC if the project proceeds.

Round 2 has demonstrated strong demand for land and water. If the engineering design and costs are affordable and if the water plan entitlements can be secured and approved by government, round 2 provides a strong basis for the Hughenden Irrigation Project to proceed to funding and approvals phases post-DBC.

In terms of Round 2 results, we recommend that the **risk adjusted minimum demand** be used as the basis for DBC decisions. This information is outlined in greater detail in this report.

The low-price scenario was strongly preferred by all customers who submitted Lol forms. Using these lower prices will also give the scheme the best chance of realising strong demand in Round 3.

Our recommendation would be to progress with a low-price scenario in Round 3 – Binding Water Sales in 2022.

This is subject to the project generating a benefit cost ratio (BCR) exceeding on (1) – once costs are known – and subsequent government funding and other regulatory approvals.

Community engagement

The community engagement for Round 2 has been extensive and has built on the significant work to date in both the DBC and the Round 1 process. It has included three stages

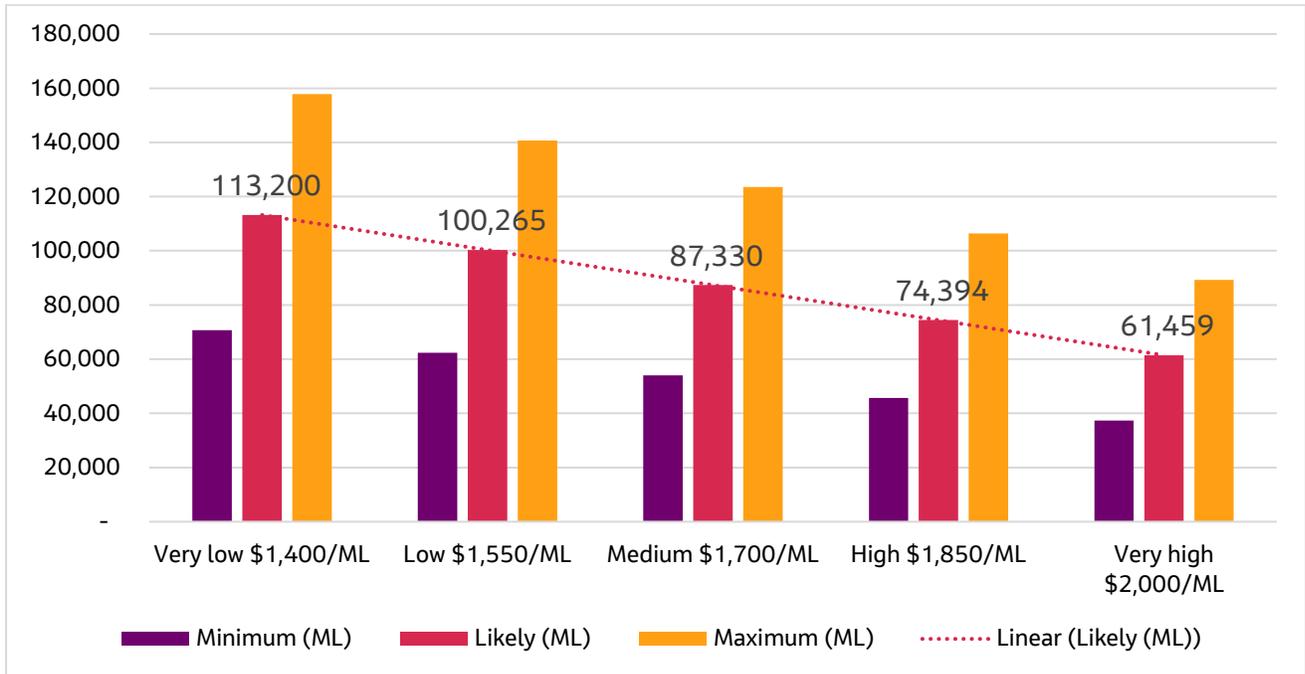
- Phase 1 – Two Community meetings and workshops in the local region
- Phase 2 - Horticultural businesses in Queensland – face to face meetings and workshops
- Phase 3 - Water and land funds, traders and other investors - face to face meetings

In total, 244 participants were involved in the Round 2 demand assessment process. Of the 244 participants who were engaged, 39 compliant responses were returned to Jacobs – a response rate of 16%. There is further working being proposed to grow the number of customers to above 40, based on a Round 2 – Part 2 proposal currently being considered by the HIPCo Project Manager.

Results – Raw demand data

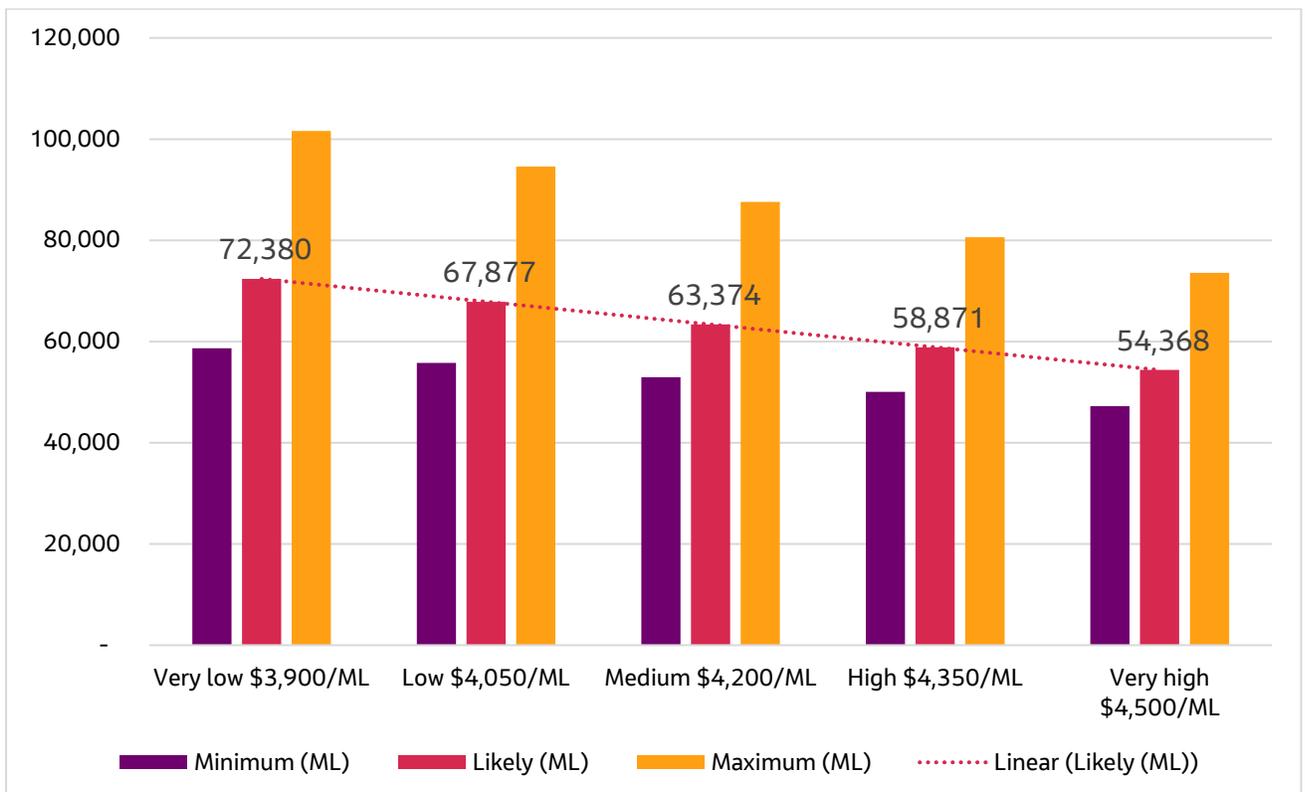
Jacobs received 39 compliant Round 2 Lol forms in comparison to 45 in Round 1. For Medium Priority (MP) water, likely demand was greatest at \$1,400/ML (1 13,200 ML). Demand for MP water reduced to 6 1,459 at \$2,000/ML as follows.

Figure 1.1: Medium Priority demand at various price points – Raw data (ML)



For High Priority water demand was greatest at \$3,900 per ML (72,380 ML). Demand reduced to 54,368 ML at the very high price of \$4,500 per ML.

Figure 1.2: High Priority demand at various price points – Raw data (ML)



Results – Risk adjusted

Consistent with the Round1 EOI process, there is a strong likelihood that not all the expressed demand as part of round 2 will progress to a binding water purchase in round 3 (post-DBC). Recognising this reduction of demand, the EOI form included a question on a respondent’s likelihood of an investment. The following section outlines the risk adjusted demand. Full information on how this was derived is outlined in the report’s body below.

Table 1.1: Risk adjusted demand at low price

Low price	Minimum (ML)	Likely (ML)	Maximum (ML)
MP at low price \$1,400/ML	48,000	76,000	102,000
HPA at low price \$3,900/ML	18,000	22,000	30,000
Total at low price	66,000	98,000	132,000

Figure 1.3: Risk adjusted demand at low prices – nominal volumes (ML)

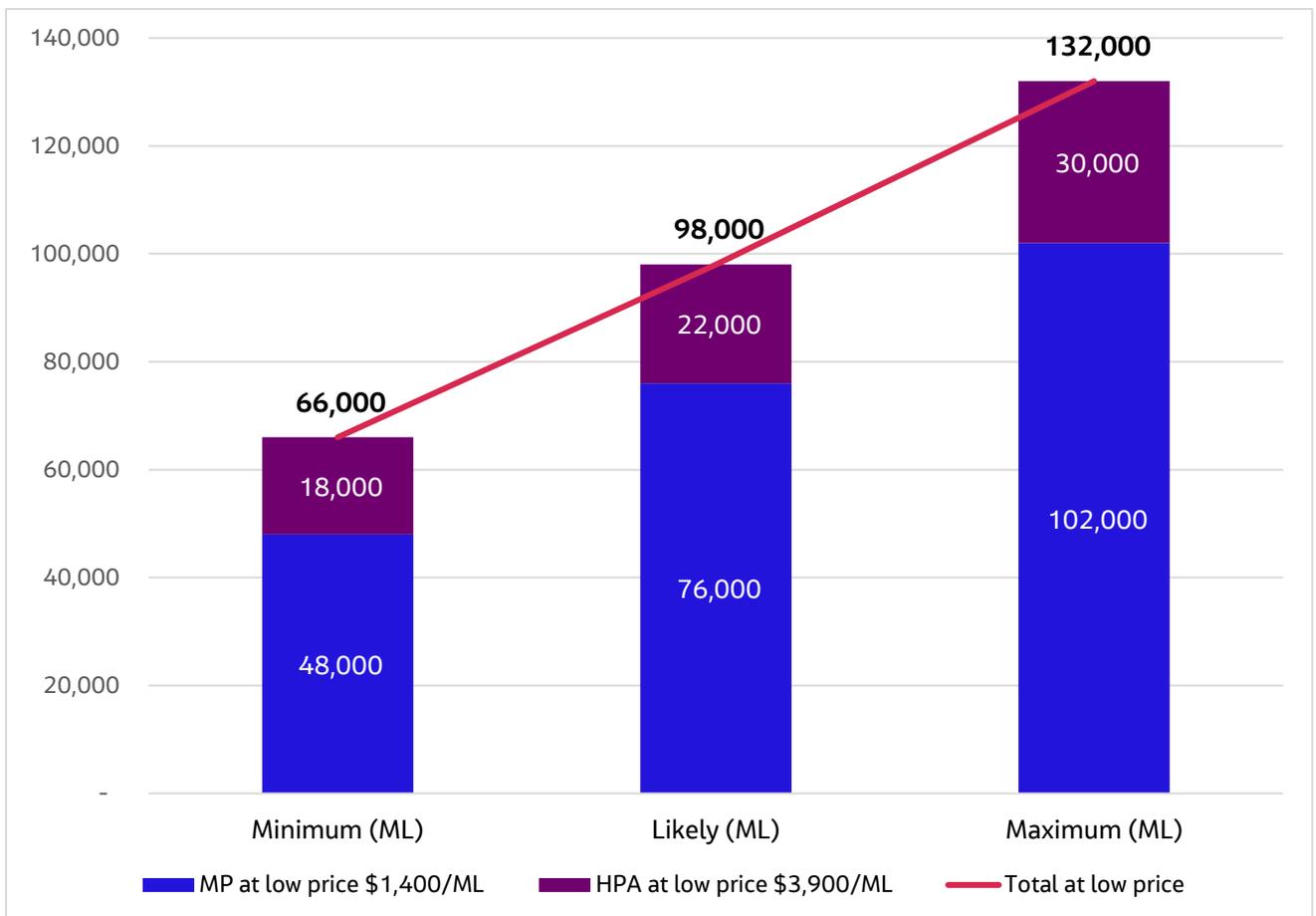
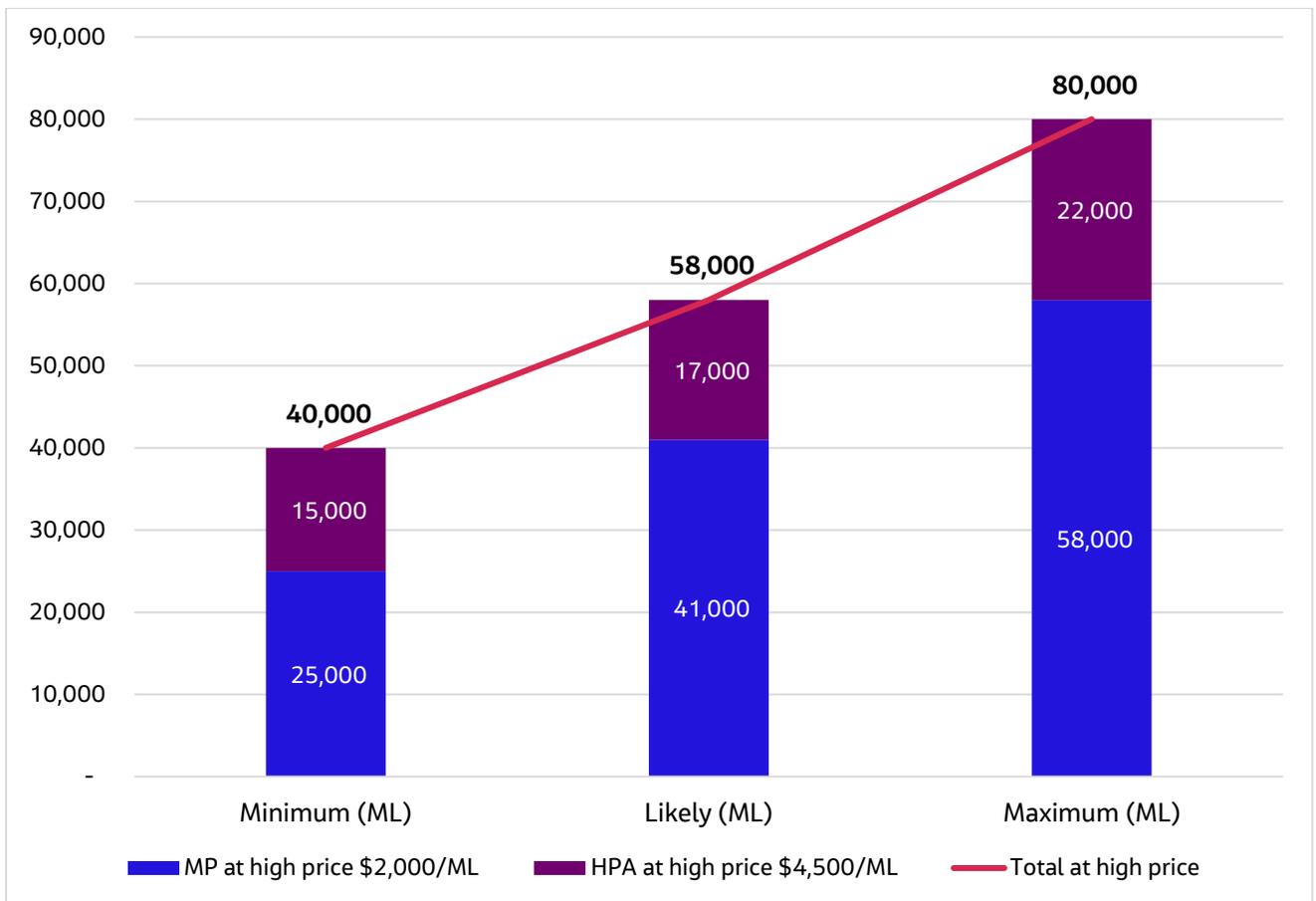


Table 1.2: Risk adjusted demand at high price

High price	Minimum (ML)	Likely (ML)	Maximum (ML)
MP at high price \$2,000/ML	25,000	41,000	58,000
HPA at high price \$4,500/ML	15,000	17,000	22,000
Total at high price	40,000	58,000	80,000

This compares with likely supply of about 60GL of nominal water product volumes. The lower price is preferred.

Figure 1.4: Risk Adjusted Demand at high prices - Nominal Volumes (ML)



Demand for land (ha)

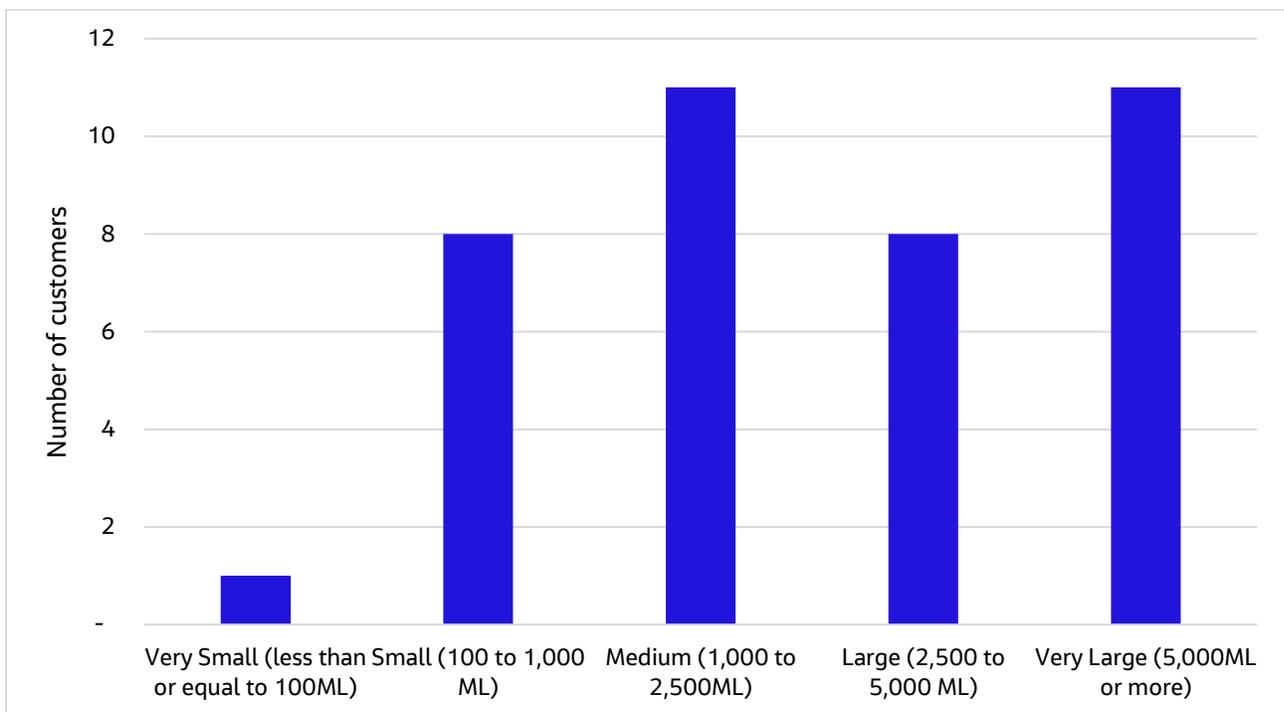
The following table summarises the combined risk-adjusted demand for land for annual cropping and perennial or permanent high value cropping (e.g. citrus, mangoes and avocados particularly).

Table 1.3: Round 2 risk adjusted demand for land – combined medium and high priority agriculture (rounded)

Item	Minimum (ha)	Likely (ha)	Maximum (ha)
Annual Crop	4,500	9,900	12,900
Perennial Crops	600	1,400	1,500
Total	5,100	11,300	14,400

Another critical input to developing a design and capital cost for the project, as part of the DBC, is the volume of water per customer. Although this data is indicative only, it provides a sense of the distribution of very small to very large customers.

Figure 1.5: Number of customers by size of Lol (ML) – likely medium priority and high priority ag – risk-adjusted



There is a reasonably normal and high concentration of total demand among large customers as was the case in Round 1. This is unsurprising as it is effectively a mathematical inevitability, experienced in irrigation schemes nationally.

2. Methodology

Drawing on past experiences, Jacobs worked with HIPCo to develop a methodology for the land and water demand assessments required to advance the Hughenden Irrigation Project. The demand assessment process for the DBC is consistent with the Queensland Government’s 2020 guidance on assessing demand for water.

2.1 Three phases of demand

Typically for bulk water infrastructure projects of this nature there are three parts to the demand assessment:

- 1) Round 1: Expression of Interest (EOI) (non-binding), completed in Jan – April 2021
- 2) Round 2: Letter of Intent (LoI) (non-binding), as part of the DBC – which is the topic of this report
- 3) Round 3: Water sales (binding), which would occur post-DBC assuming this project proceeds.

2.2 Setting a price

To assess demand, an LoI form must set out the price/s for water and the product characteristics.

Two water products with a low and high price were developed:

- Medium priority (MP), with a targeted monthly reliability of between 77% and 82%
- High priority agriculture (HPA), with a targeted monthly reliability of at least 95%.

Proposed capital contributions by customers / investors for the water products are based on three factors:

- The project preliminary estimated capital cost
- Level of government funding for capital cost
- water values in other schemes.

The range of capital prices for MP and HPA water is outlined below.

Table 2.1: Medium priority (MP) prices

Medium priority	Low (\$/ML)	High (\$/ML)
Capital charge – once-off upfront (\$/ML)	1,400	2,000
Fixed annual charge (\$/ML)	96	96
Variable water use charge (\$/ML)	14	28
Total annual charge (ongoing) (\$/ML)	110	124

Table 2.2: High priority (HP) prices

High priority ag	Low (\$/ML)	High (\$/ML)
Capital charge – once-off upfront (\$/ML)	3,900	4,500
Fixed annual charge (\$/ML)	164	164
Variable water use charge (\$/ML)	14	28
Total annual charge (ongoing) (\$/ML)	178	192

2.3 Documentation for Round 2 EOI

Building on the Round 1 process, a letter of intent form is provided to prospective customers. For this project these were provided after a series of workshops that were held in the local region.

These workshops gave an update on the new work that had been done and provided the water prices and product characteristics for this stage.

The form is like the expression of interest document and contained five pages that was easy to fill out. It asked for customers to provide:

- a) minimum, likely, and maximum volumes of demand at different prices for the two water products
- b) Information on current operations
- c) the likelihood that a participant will invest in the project (driving the risk adjusted demand)
- d) willingness to participate in future demand assessment rounds
- e) intended use for new water (if it eventuates)
- f) water use per ML, farmgate revenue and farmgate costs for those intended uses / enterprises

The documents were refined to encourage honest participation, outline the process, clearly set out the prices and product characteristics and clarify that individual / commercial data will be confidential.

Customers were informed that the summary of demand will be reported in aggregate for each price point and customer category. The intention was for individual data not to be identifiable from the reported summaries.

3. Engagement with the community and potential customers

3.1 Round 2 - Timelines

The round 2 process progress during the following months:

- Jacobs and HIPCo developed the plan and documents in April 2021
- Email to customer data base to announce Round 2 on 16 April 2021
- **Phase 1 - Community meetings and workshops took place on 28-29 April 2021**
- **Phase 2 - Horticultural businesses in Queensland took place in May**
- **Phase 3 - Water and land funds, traders and other investors took place in May and early June**
- Potential customers had approximately 5 weeks to complete and submit the LOIs
- Round 2 EOIs were due by 21 May 2021 however, LOIs were accepted and entered in the database for some time after.

This report reflects the results of data entry up to and including 25 June 2021.

3.2 Participation

Jacobs and HIPCo facilitated two public meetings in Hughenden to kick off the round 2 process. These meetings provided an update on the work that has been done since round 1 and the revised water products and prices that have been developed for this next stage. Potential customers and the community were invited. Local media and local networks were used to distribute the information, and the meetings were well attended.

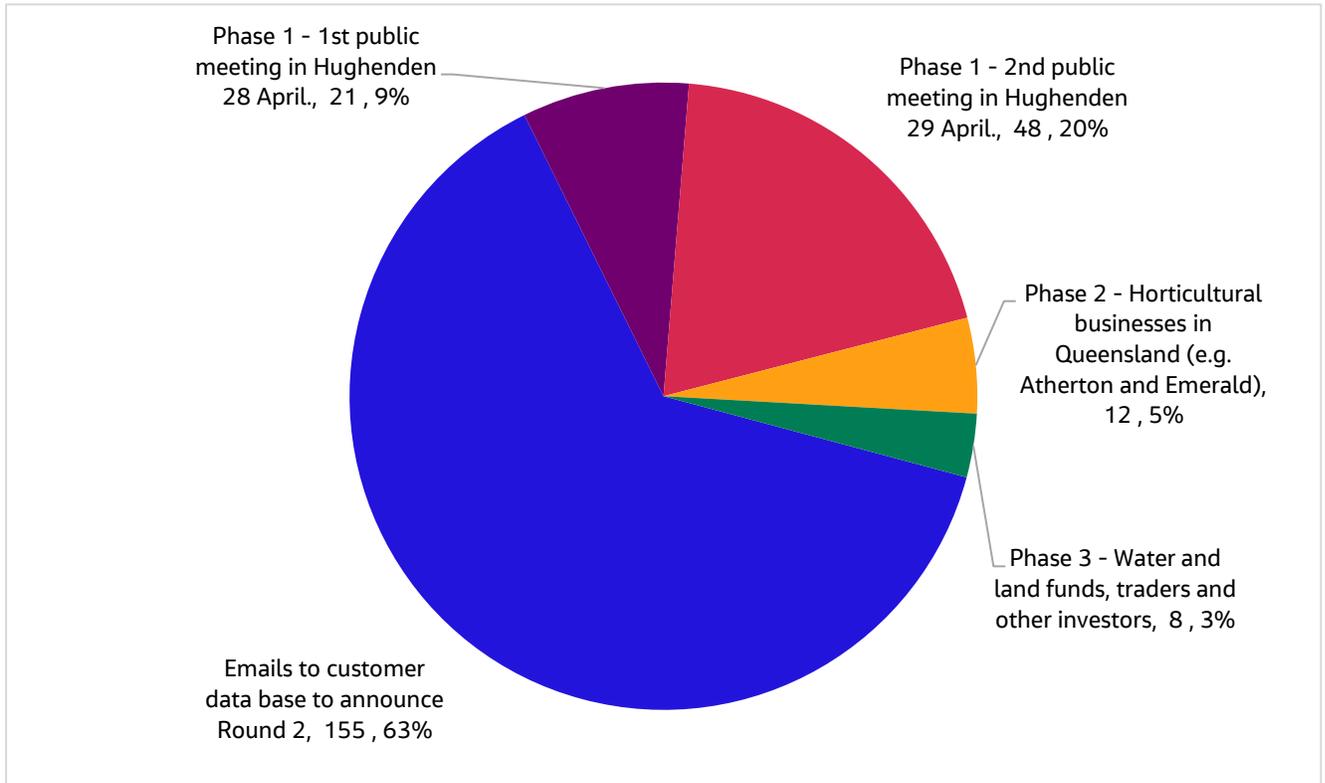
Phases two and three were conducted throughout May and June 2021 and included face to face meetings and presentations to key Horticultural business in Queensland and sophisticated investors and funds.

The following are the customer statistics for participation in Round 2. Jacobs reached out to 244 participants as part of the Round 2 process.

Table 3.1: Participation numbers

Round 2 - Stakeholder Participation	No. of participants
Emails to customer data base to announce Round 2	155
Phase 1 - 1st public meeting in Hughenden 28 April	21
Phase 1 - 2nd public meeting in Hughenden 29 April	48
Phase 2 - Horticultural businesses in Queensland (e.g. Atherton and Emerald)	12
Phase 3 - Water and land funds, traders and other investors	8
Total	244

Figure 3.1: Participation numbers



4. Demand for new water

The following are the results of the Round 2 EOI process.

4.1 Participation

Jacobs reached out to 244 participants as part of the Round 2 process. Of the 244 participants, 39 customers have completed letters of Intent as part of Round 2. A response rate of 16%. There are still several stakeholders who are uncertain but not ruled out at this stage.

As part of the Round 2 process we have also identified and interviewed 13 new customers.

Table 4.1: Customer summary

Round 2 Customer Summary - Update	No. of customers	Portion of Round 2 Prospective Customers
Completed Letters of Intent received as part of Round 2	39	67%
Customer has committed to submitting recently for Round 2 (but has not yet sent form)	-	0%
Uncertain but not ruled out: Contacted three + times / No decision / No response - Unlikely	8	14%
Total	47	81%
Round 1 customers who have withdrawn from Round 2	11	19%
Actively engaged with during Round 2	58	100%

4.2 Round 2 water prices

The following table outlines the proposed upfront capital contributions used in the Round 2 process.

Table 4.2: Round 2 upfront capital cost (\$/ML)

Scenario	Medium Priority	High Priority
Low Price	1,400	2,000
High Price	3,900	4,500

4.3 Demand for water - raw

In response to those prices, the demand for new water from this project, resulting from the Round 2 demand assessment process is as follows.

The following table outlines the demand for water at the low-price scenario.

Table 4.3: Demand for water at low price

Low price	Minimum (ML)	Likely (ML)	Maximum (ML)
MP	70,655	113,200	157,850
HPA	25,812	31,847	44,707
Total at low price	96,467	145,047	202,557

The following table outlines the demand for water at the high-price scenario.

Table 4.4: Demand for water at high price

High price	Minimum (ML)	Likely (ML)	Maximum (ML)
MP	37,327	61,459	89,259
HPA	20,772	23,922	32,382
Total at high price	58,099	85,381	121,641

4.3.1 Demand for land

A medium priority water product is suited to annual cropping, such as sorghum, Rhodes grass hay, barley, wheat and mungbeans.

A HPA water product will be suited to perennial and permanent high value cropping annual cropping, such as avocados, lemons, mandarins, mangoes, and nuts.

The following table outlines the demand for land.

Table 4.5: Round 2 demand for land – combined medium and high priority agriculture

Item	Minimum (ha)	Likely (ha)	Maximum (ha)
Annual cropping and other uses for MP	11,139	15,463	22,771
Perennial cropping and other uses for HPA	2,195	2,726	4,280
Total	13,334	18,189	27,051

4.4 Demand for water – risk adjusted

The Hughenden Irrigation Project has had strong investor support through both phases of Demand Assessment. Most of the success can be attributed to the detailed engagement of potential customers and the detailed information provided regarding the water products and their associated costs.

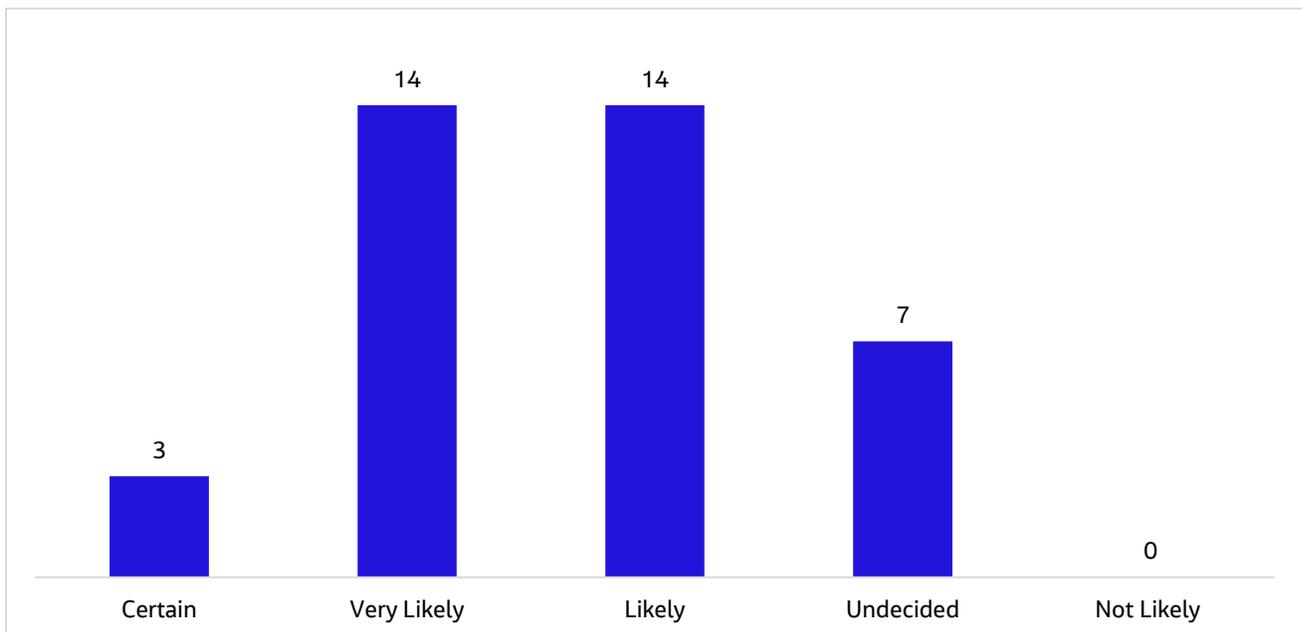
Consistent with the Round1 EOI process, there is a strong likelihood that not all the expressed demand as part of round2 will progress to a binding water purchase in round 3 (post-DBC). Recognising this reduction of demand, the EOI form included a question on a respondent’s likelihood of an investment. Options to choose from were:

- Very likely
- Likely
- Undecided
- Not likely
- Not interested.

17 respondents noted on their form that they were either certain (3) or very likely (14) to purchase their nominated water volume. 14 respondents were likely to purchase water and 7 were undecided. 1 customer did not provide a response.

The following figure outlines these responses.

Figure 4.1: Respondent’s likelihood of investment in the Hughenden Irrigation Project



We have used each respondent’s likelihood of investment in the project to develop a risk-adjusted round 2 demand assessment. Each likelihood response was provided a score from 0 (not likely) to 5 (certain).

This risk-adjusted approach is outlined in the table below.

Table 4.6: Round 2 demand for water – likelihood and risk-adjusted demand framework

Likelihood	Certain	Very Likely	Likely	Undecided	Not Likely
Score	5	4	3	2	1
Response converted to percentage	5/5	4/5	3/5	2/5	1/5
Risk adjustment applied to demand for land (ha) and water (ML)	100%	80%	60%	40%	20%

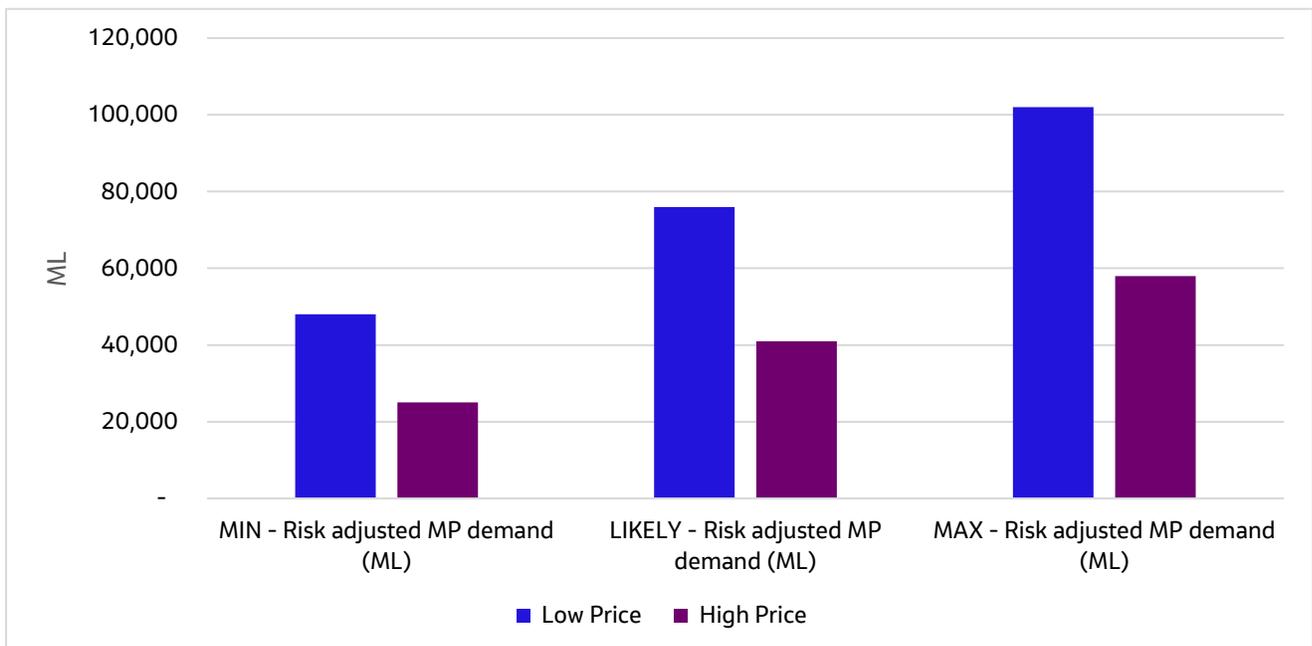
4.4.1 Risk adjusted demand by product

The following table outlines the risk adjusted demand for medium priority water at the different price points.

Table 4.7: Round 2 demand for water -Medium Priority -risk adjusted

Price scenario	Minimum (ML)	Likely (ML)	Maximum (ML)
Low Price	48,000	76,000	102,000
High Price	25,000	41,000	58,000

Figure 4.2: Round 2 demand for water -Medium Priority -risk adjusted

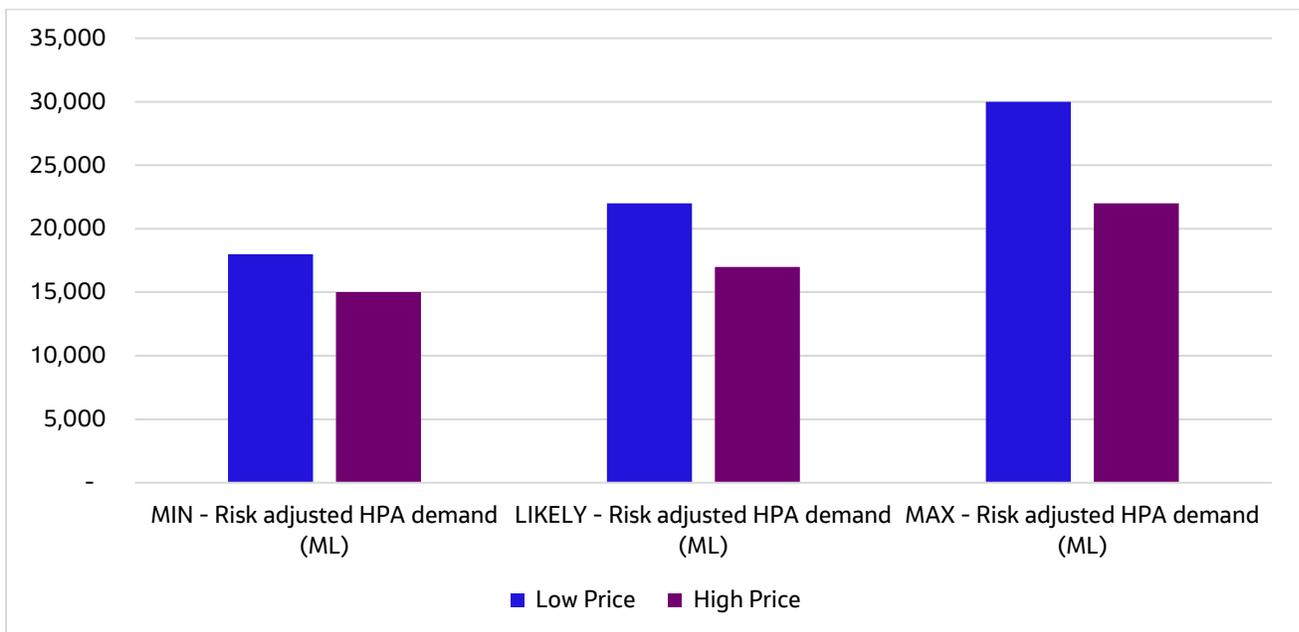


The following table outlines the risk adjusted demand for high priority agriculture water at the different price points.

Table 4.8: Round 2 demand for water -High priority agriculture -risk adjusted

Price scenario	Minimum (ML)	Likely (ML)	Maximum (ML)
Low Price	18,000	22,000	30,000
High Price	15,000	17,000	22,000

Figure 4.3: Round 2 demand for water – High priority agriculture -risk adjusted



4.4.2 Risk adjusted demand by price

The following section outlines the round 2 demand by price.

Table 4.9: Risk adjusted demand at low price

Low price	Minimum (ML)	Likely (ML)	Maximum (ML)
MP	48,000	76,000	102,000
HPA	18,000	22,000	30,000
Total at low price	66,000	98,000	132,000

Figure 4.4: Risk adjusted demand at low prices – nominal volumes (ML)

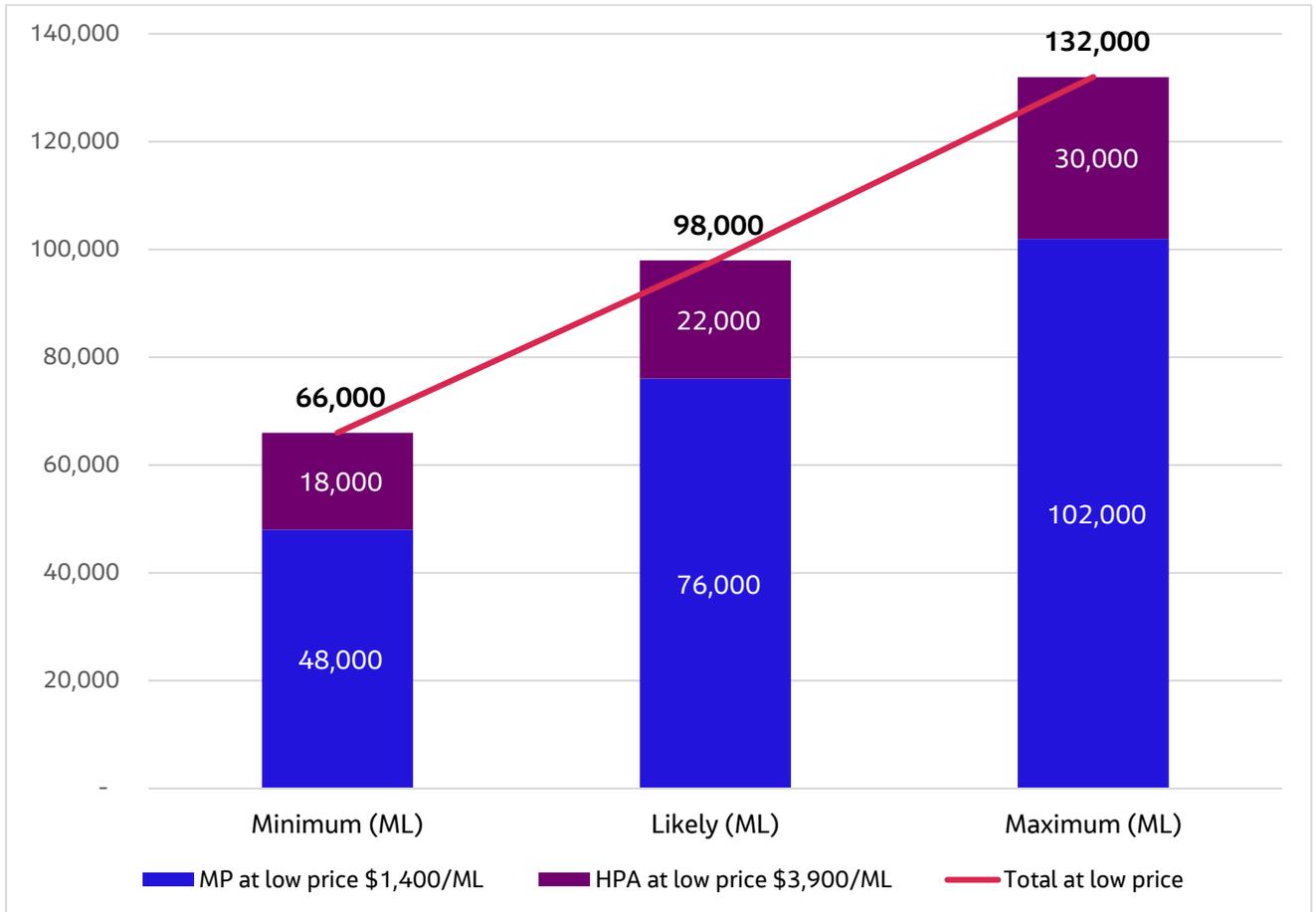
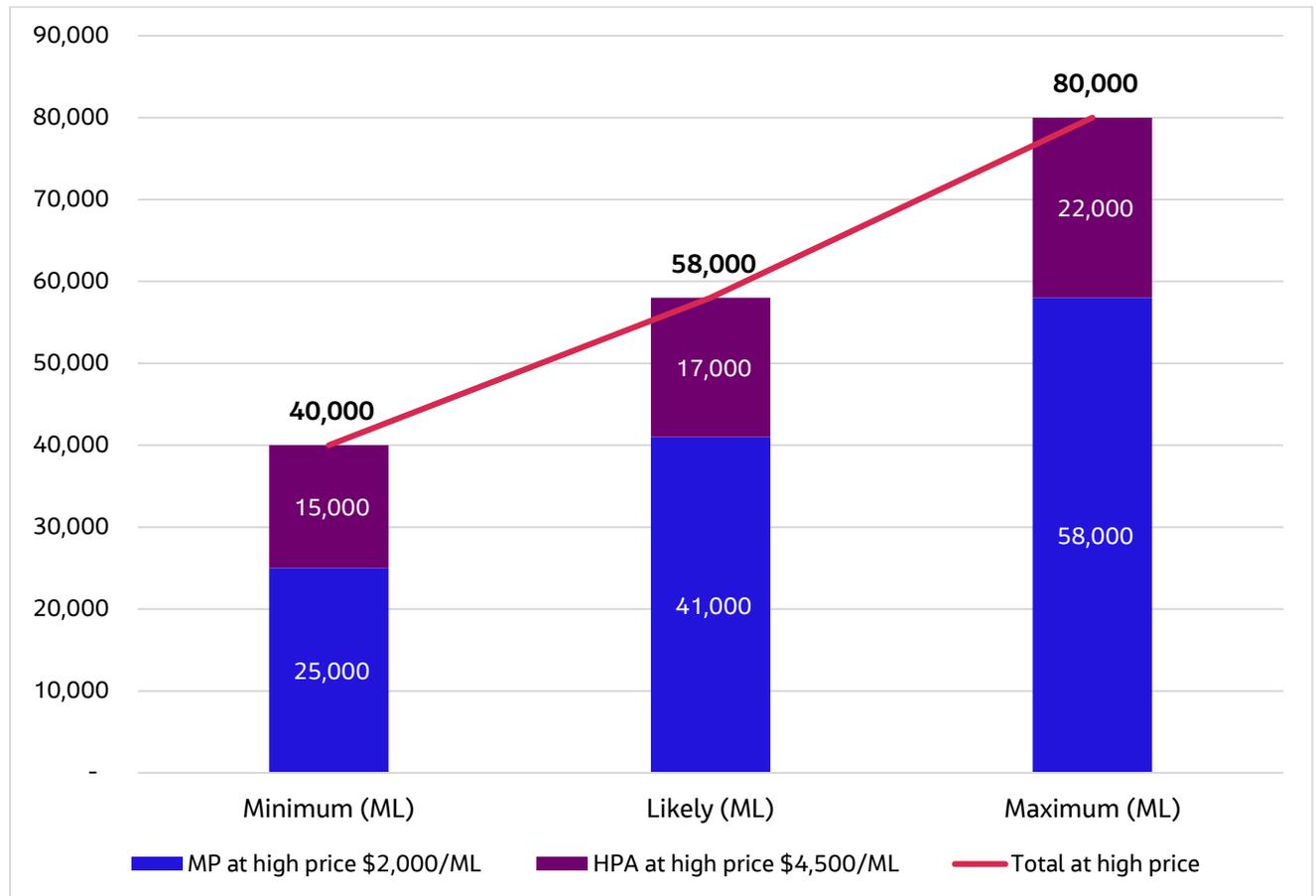


Table 4.10: Risk adjusted demand at high price

High price	Minimum (ML)	Likely (ML)	Maximum (ML)
MP at high price \$2,000/ML	25,000	41,000	58,000
HPA at high price \$4,500/ML	15,000	17,000	22,000
Total at high price	40,000	58,000	80,000

Figure 4.5: Risk Adjusted Demand at High Prices - Nominal Volumes (ML)



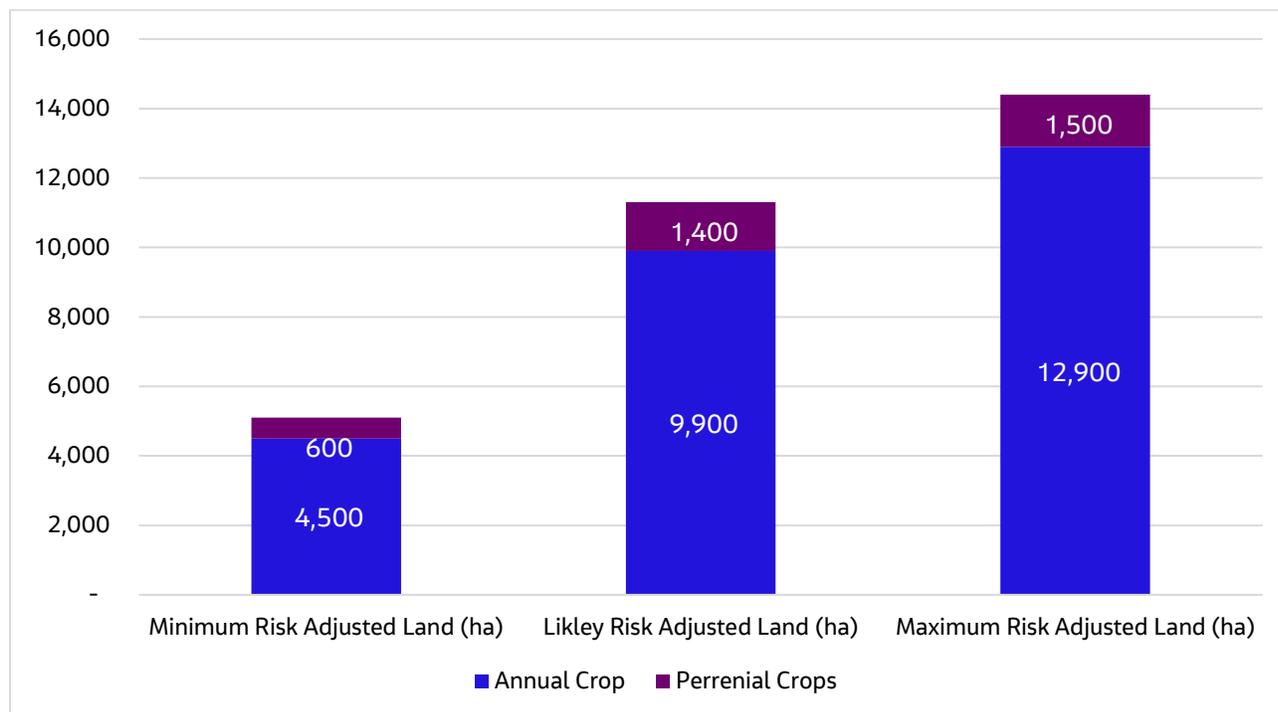
4.4.3 Risk-adjusted demand for land

The following table outlines the combined risk-adjusted demand for land for annual cropping and perennial / permanent high value cropping.

Table 4.11: Round 2 risk adjusted demand for land – combined medium and high priority agriculture (rounded)

Item	Minimum (ha)	Likely (ha)	Maximum (ha)
Annual Crop	4,500	9,900	12,900
Perennial Crops	600	1,400	1,500
Total	5,100	11,300	14,400

Figure 4.6: Round 2 risk adjusted demand for land – combined medium and high priority agriculture (rounded)



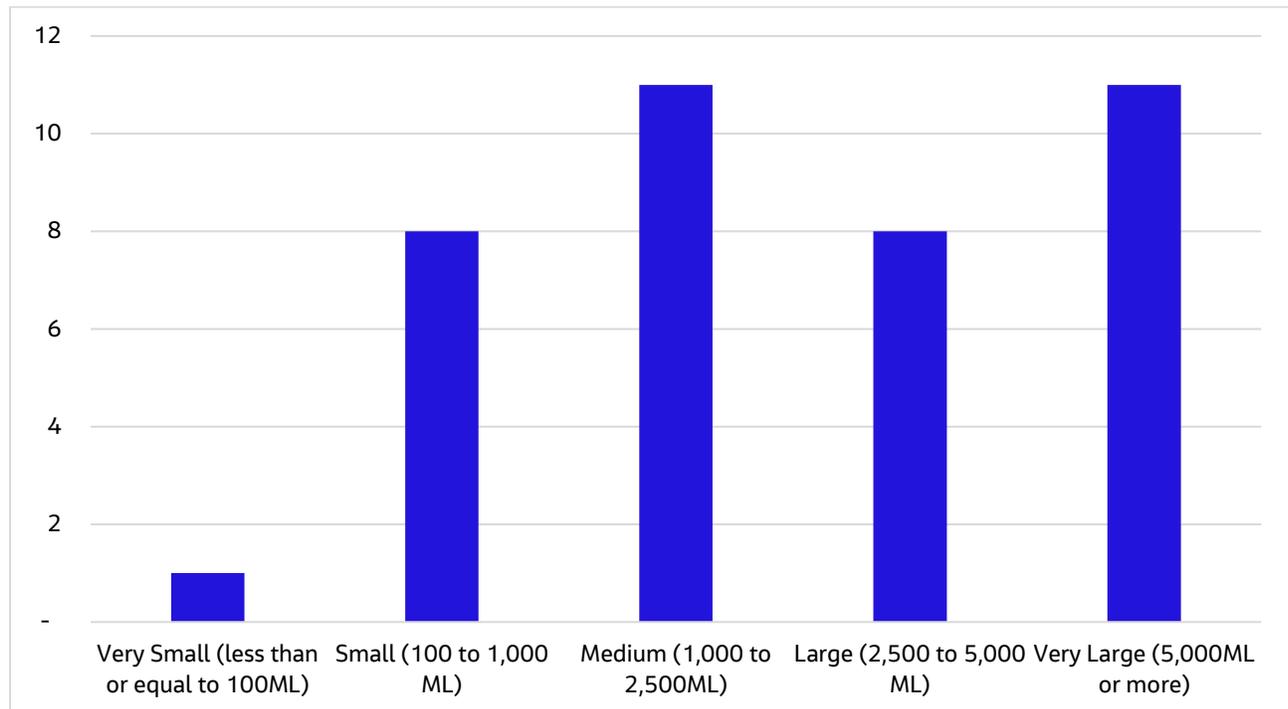
4.4.4 Size of customer demand

Another critical input to developing a design and capital cost for the project, as part of the DBC, is the volume of water per customer. Although this data is indicative only, it provides a sense of the distribution of very small to very large customers. The size of the customers is outlined in the table below.

Table 4.12: Number of customers by size of LOI (ML) – likely medium priority and high priority ag – risk-adjusted

Size of customer (ML)	Round 2 - No of Lols	Portion by no.
Very Small (less than or equal to 100ML)	1	3%
Small (100 to 1,000 ML)	8	21%
Medium (1,000 to 2,500ML)	11	28%
Large (2,500 to 5,000 ML)	8	21%
Very Large (5,000ML or more)	11	28%
Total no. of customers	39	100%

Figure 4.7: Number of customers by size of LOI (ML) – likely medium priority and high priority ag – risk-adjusted



4.5 Round 2 customer characteristics

The following section provides information on the customers who have submitted and LOI in Round 2 including:

- Land ownership and beef production
- Farming activities
- Enterprise type.

4.5.1 Land ownership and beef production

The following table outlines the Land ownership and beef production of people who submitted an EoI.

Table 4.13: Land ownership and beef production of people who submitted an EoI

	Head of cattle	Level of interest relative to Round 1
Round 1 - Beef cattle annual turnoff of participants (no. hd pa)	73,350	100%
Round 2 - Beef cattle annual turnoff of participants (no. hd pa)	93,450	127%

4.5.2 Farming activities

The following table outlines the farming activities of people who submitted Lols in comparison to Round 1.

Table 4.14: Farming activities of people who submitted a response

Farming activities of people who submitted a response	Round 1 Customer Areas (ha)	Round 2 Customer Areas (ha)	Portion of Round 2 areas
Q3: Area dryland annual crops (ha)	1,329	38,600	3%
Q4: Area irrigated annual crops (ha)	76	9,210	1%
Q5: Area dryland trees / perennial crops (ha)	24	5,212	0%
Q6: Area irrigated tree/perennial crops (ha)	17	4,333	0%
Total area (ha)	4,291	57,355	5%
Grazing area	834,844	1,063,615	95%
Total farming and grazing area (ha)	839,135	1,120,970	100%

4.5.3 Enterprise type

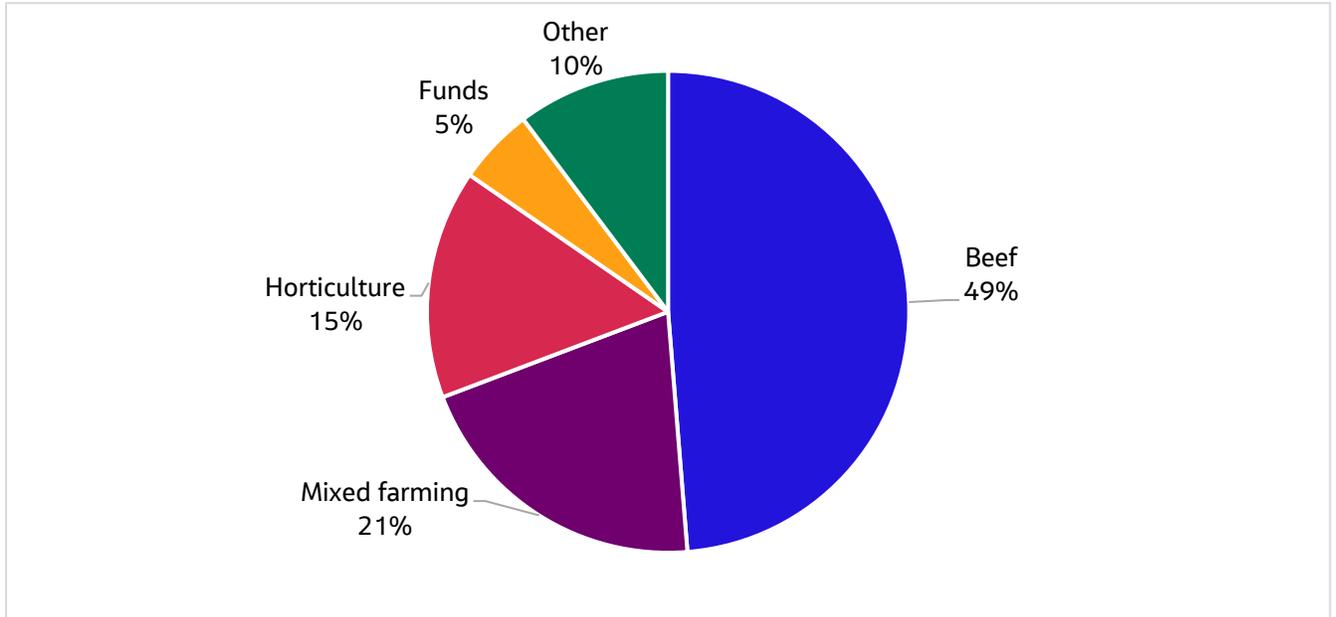
The following section outlines the enterprise type of the customers who submitted round 2 Lols in comparison to round 1.

Table 4.15: Enterprise type of people who submitted responses

Enterprise type of people who submitted responses	Round 1 - No of Eols	Portion by no.	Round 2 - No of Lols	Portion by no.
Beef	28	61%	19	49%
Mixed farming	9	20%	8	21%
Horticulture	2	4%	6	15%
Funds	3	7%	2	5%
Other	4	9%	4	10%
Total	46	100%	39	100%

In Round 2 there has been an increase in Horticulture responses by four Horticultural enterprises. Conversely, there has been a decrease in the Beef responses by nine beef enterprises. Beef is still the dominant enterprise use for the new water and remains strongly represented in the scheme. However, more could be done in the proposed Round 2 – Part 2 – De-risking the HIPCo Project in the eyes of investors who withdrew from Round 1.

Figure 4.8: Enterprise type of people who submitted responses



5. Revenue

This section presents the capital cost contribution (revenue) that could be raised from customers. The analysis is presented with supply constrained at 75GL.

5.1 Capital contribution revenue constrained by price of water supply option.

The following revenue analysis presents capital contributions by customers which are supply constrained based on the low, likely and maximum range of water product volumes available for sale. The latest engineering has identified the supply constrained MP equivalent available for sale is 75 GL.

The MP equivalent of 75GL has been adopted as the low, likely and maximum for this analysis.

5.1.1 Supply constrained demand

The following apportionment method has been used to create the supply constrained scenarios.

Table 5.1: water product scenarios – supply constrained

Water product mix scenarios - Supply constrained	HPA Share	MP Share
Very high volumes HPA	60%	40%
High volumes HPA	55%	45%
Medium volumes HPA	50%	50%
Low volumes HPA	45%	55%
Very low volumes HPA	40%	60%

The supply constrained demand used for this analysis is as follows.

Table 5.2: Water product mix scenarios - Supply constrained (Nominal HPA product sold)

Water product mix scenarios - Supply constrained	HPA (ML) - Nominal HPA product sold	MP (ML)	Total (ML)
Very high volumes HPA & Very low volumes MP	19,800	30,000	49,800
High volumes HPA & Low volumes MP	18,150	33,750	51,900
Medium volumes HPA & MP	16,500	37,500	54,000
Low volumes HPA & High volumes MP	14,850	41,250	56,100
Very low volumes HPA & Very high volumes MP	13,200	45,000	58,200

The following table outlines the prices adopted for this analysis. They are aligned with the prices used in the Round 2 demand assessment.

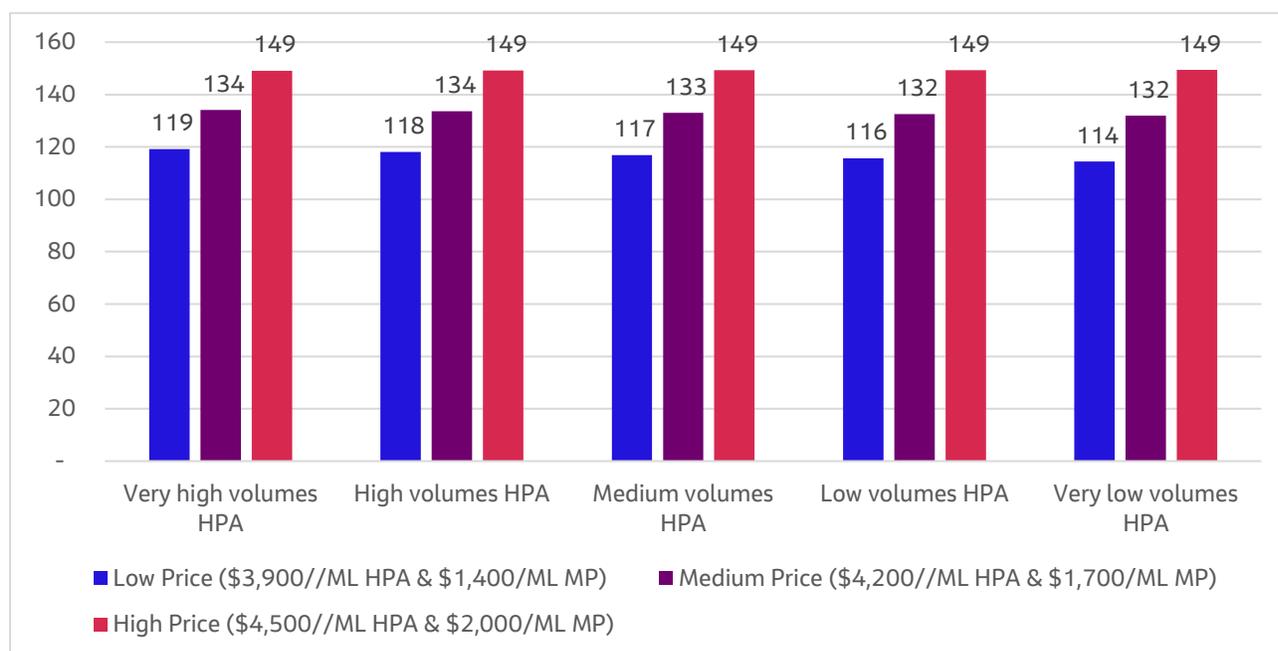
Table 5.3: Prices to calculate revenue from water sales only - Supply constrained

Price scenario	Price (\$/ML)	Price (\$/ML)
Low prices	3,900	1,400
Medium prices	4,200	1,700
High prices	4,500	2,000

5.1.2 Supply constrained revenue at three price points

The following chart shows the supply constrained revenue at the three price points outlined above.

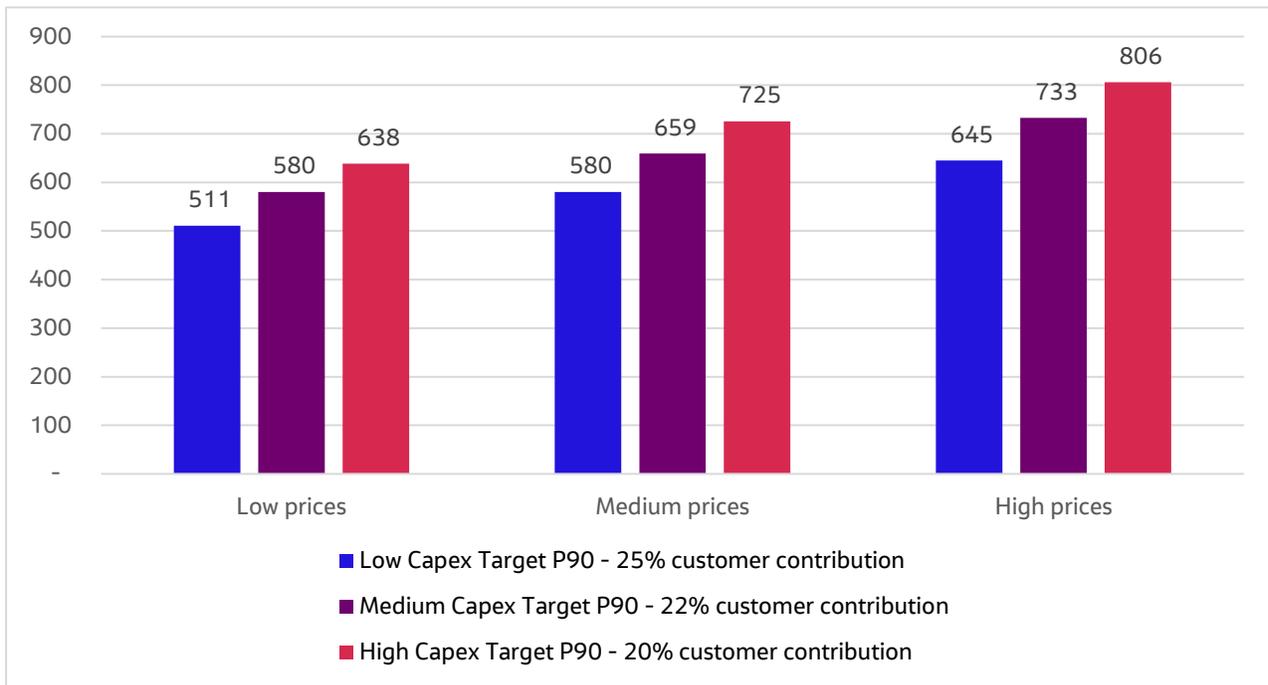
Figure 5.1: Supply constrained customer capital revenue at three price points (\$ millions)



The numbers suggest at the Round 2 price points the revenue from customer capital contributions could be between \$114 million and \$149 million.

Under these contributions the following capital cost targets have been developed.

Figure 5.2: Supply constrained revenue (\$ million) – capital cost target



The following charts outlines the buildup of funding scenarios by price point.

Figure 5.3: Supply constrained revenue at low price scenario

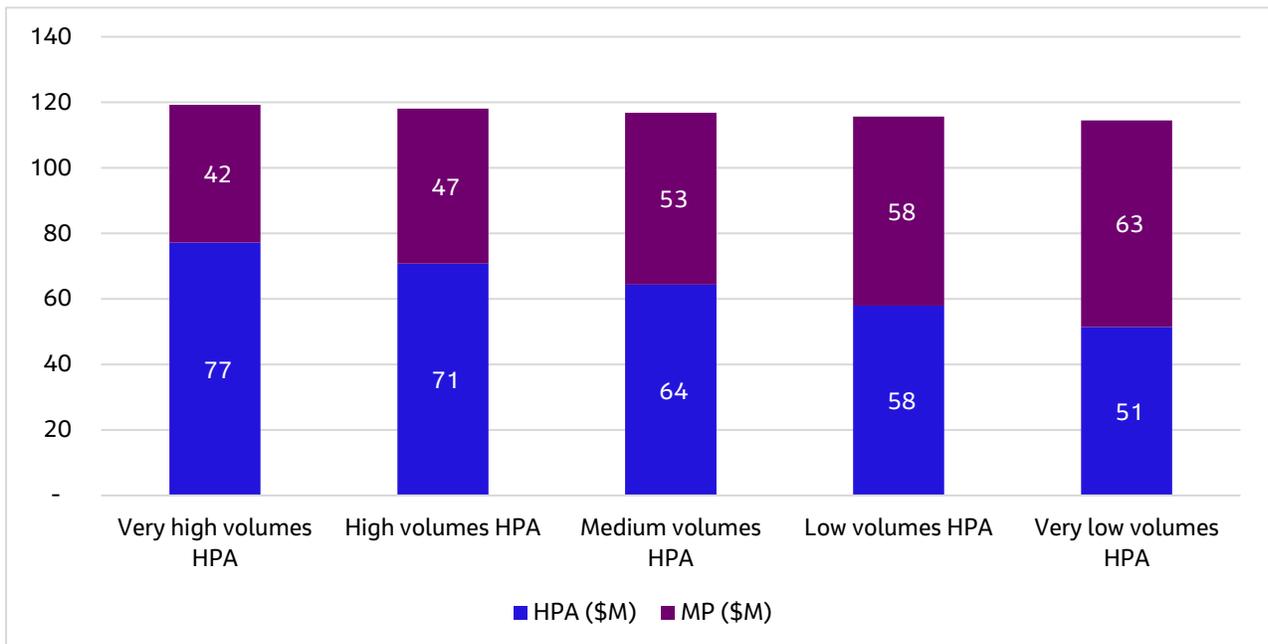


Figure 5.4: Supply constrained revenue at **medium price** scenario

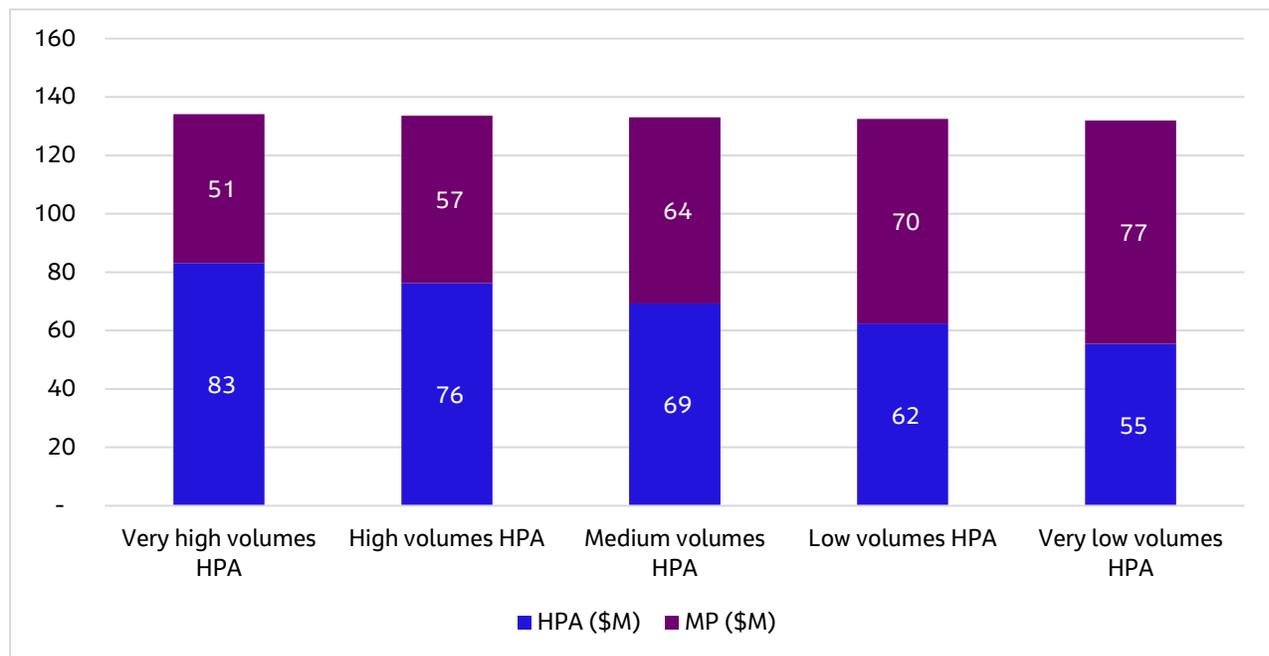
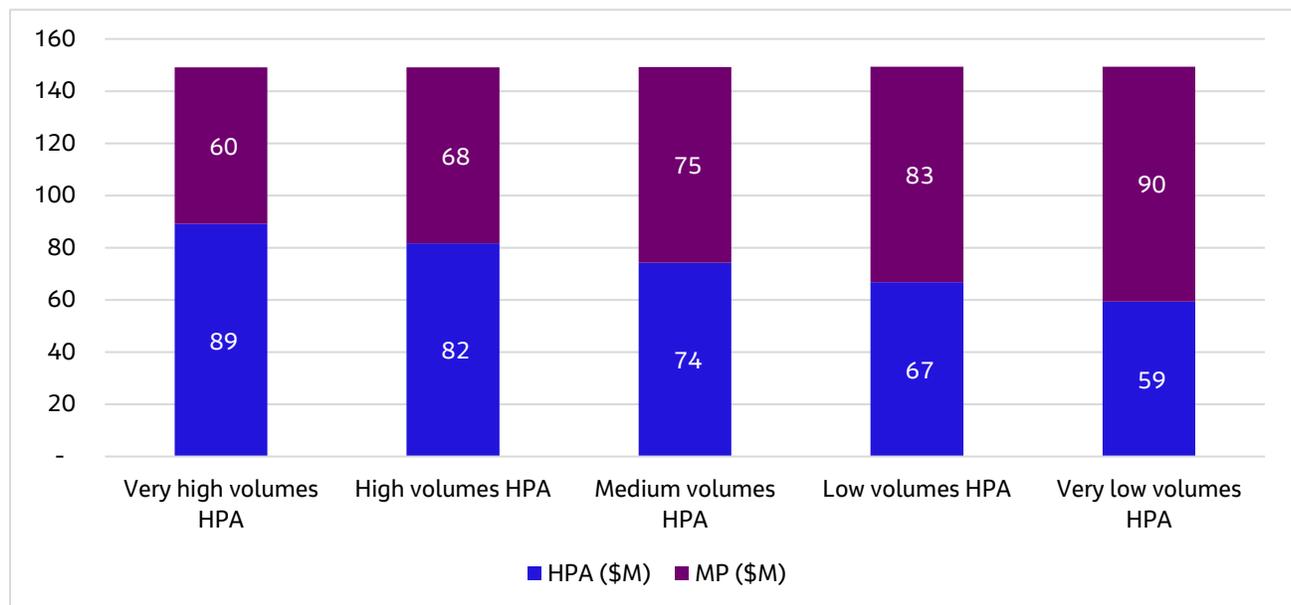


Figure 5.5: Supply constrained revenue at **high price** scenario



The reader would be forgiven for preferring the high price scenario as it raises the most capital from customers. However, this revenue is not risk adjusted. While Round 3 results remain to be seen, Jacobs considers it likely that demand could reduce significantly if the higher price points are selected. Conversely, at low price points, demand is expected to be maintained. These observations are uncertain. Factors will include who owns and operates the dam – as commercial trust and perceived risks will likely inform Round 3 results.

6. Next steps

6.1 Assisting customers who have dropped out of Round 2

There have been approximately 20 customers who have withdrawn from Round 2, whether formally or by simply not participating. Of these, four are considered unrecoverable due to retirement or for other reasons (usually investments have been identified elsewhere or life circumstances have changed).

However, up to sixteen of the known passive or actively withdrawn participants are considered worthy of a further investment of Jacobs time. The proposal being considered by HIPCo could return customer numbers to between 40 and 50. An ideal, but unlikely response would be a total of 55 customers.

As part of the next steps there is an opportunity to assist constructively targeted (wooded) customers to come back on board through the development of key enterprise value models and via one-on-one sessions with the intention of understanding reasons for non-participation, addressing perceived risk and providing commercial education / information (including an Excel) model tailored to each customer's needs.

The method for conducting this work is as follows:

- Investigate and document the reasons
- Set out the circumstances that would bring each customer back on board
- Develop a high-level enterprise calculator for six major crops
- Beef cattle extension model to identify returns to annual crops
- Present findings through a confidential session with each customer
- Provide a revised Letter of Intent
- Pursue responses, enter data and update this report.

If HIPCo approves this \$50,000 (excl. GST) advisory scope, it will also add value by setting a new standard to addressing customer-related risks as part of a commercial demand assessment. This would be documented in the updated Round 2 Final Demand Assessment report and the DBC.

This work may assist in refining our view of the appropriate price point for each water product, informing preparation of Round 3 – Binding Water Sales documents.