

Review of RAB- based irrigation prices from 1 July 2027

Guidance paper

November 2025



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1 About the review

1.1 Purpose

We have been directed to investigate and report on appropriate prices for the irrigation services provided by Sunwater and Seqwater (the businesses), derived using the regulatory asset base (RAB) approach. The review is being conducted under a direction notice (direction) issued by the Minister for Finance, Trade, Employment and Training (the Minister) under section 10(g) of the *Queensland Competition Authority Act 1997* (the QCA Act).¹

We recently completed a review of the businesses' irrigation pricing practices and recommended irrigation prices to apply for the four-year period from 1 July 2025 to 30 June 2029.² As in previous reviews, the prices we recommended reflected the application of the annuity approach to determine an allowance for renewals expenditure.

After considering our recommendations, the Queensland Government (the government) decided to set prices from 1 July 2025 to 30 June 2027 that reflected our recommendations, but with a 15% discount for eligible customers.³ Prices were set for two years so that we would have time to conduct this review and provide advice to the government on appropriate RAB-based prices. The advice will be considered before the government determines prices to apply from 1 July 2027.⁴

This paper explains our planned approach to the review, including how we will engage with stakeholders and key review dates. It also sets out our expectations for the businesses' proposals and the information we require for our assessment. While this guidance is intended to support transparency and consistency, it does not bind our approach or limit how we may respond to the matters raised in proposals.

1.2 Annuity and RAB approaches to recovering renewals expenditure

The renewals annuity and RAB approaches are different ways of funding the refurbishment and replacement of the assets used to provide irrigation services. The key difference between these approaches is the timing of cost recovery – the annuity approach smooths recovery over the fixed planning period, while the RAB approach aligns recovery with the life of the asset.

In the 2020 review, we recommended that the businesses work with their customers and the government to develop a proposal to transition to a RAB approach for our consideration by mid-2021.⁵ However, the government rejected that recommendation, citing the need to further examine the potential issues associated with moving to a RAB approach. The recommendation was referred to the relevant minister for consideration of options, scope of work, timelines and financial implications.⁶

¹ The direction is available on our [website](#).

² Information about that review is available on our [website](#).

³ Queensland Government, *Gazette*, vol. 399, no. 33, 13 June 2025, pp. 266–270.

⁴ Queensland Government, *Seqwater and Sunwater irrigation pricing*, Business Queensland website, accessed 31 October 2025.

⁵ QCA, *Rural irrigation price review 2020–24, Part B: Sunwater*, final report, January 2020, p. 83; QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, January 2020, p. 25.

⁶ Queensland Government, *Gazette: Extraordinary*, vol. 384, no. 5, 5 May 2020, pp. 27–29.

The Treasurer's letter accompanying the March 2023 referral for the review of irrigation prices for 2025-26 to 2028-29 (the 2025 review) noted the Minister for Water advised that work on these issues was complex and ongoing. The letter said further analysis was required to ensure there would be no adverse consequences for customers or the businesses. While the RAB approach was acknowledged to have merit, it was also noted that RAB-based proposals from the businesses and decisions from the government were not expected to be available for the 2025 review.⁷

For the 2025 review:

- Seqwater proposed continuing with the annuity approach, citing the benefits of certainty and predictability, and noting that customers had not raised any concerns or expressed interest in changing approaches⁸
- Sunwater proposed moving to a RAB approach at the start of the new price path period.⁹

Our assessment of Sunwater's proposed RAB approach found that it was not sufficiently robust or well-developed to support an immediate transition.¹⁰ While we supported an appropriately designed RAB approach, we said that for it to be acceptable at the next price review, Sunwater must first demonstrate that it has:

- conducted an independent comprehensive review of renewals expenditure to appropriately classify expenditure as operating expenditure (opex) or capital expenditure (capex)
- developed an implementation plan to put a process in place to systematically classify expenditure as part of business-as-usual processes
- comprehensively assessed its approach to managing transitional impacts, in consultation with customers.

Given the need for further work and customer consultation by both businesses, we decided to continue applying the annuity approach to reach our price recommendations.¹¹

1.3 Our approach

This interim review will be a targeted assessment of the businesses' proposed approaches to deriving irrigation prices under the RAB approach. As a comprehensive review of irrigation prices was recently completed, this review will focus on the practical considerations of transitioning to a RAB approach.

We will recommend RAB-based prices, which will be considered by the government alongside prices derived under the annuity approach.¹²

1.4 Review timeframes

Our review will begin once the businesses submit their proposals, which are due by 27 February 2026.

⁷ C Dick (Treasurer and Minister for Trade and Investment), [covering letter to the referral notice to the QCA](#), 10 March 2023.

⁸ Seqwater, [Submission to the QCA's 2025-29 Irrigation Price Investigation](#), November 2023, p. 41.

⁹ Sunwater, [Irrigation pricing proposal: 1 July 2025 to 30 June 2029](#), November 2023, pp. 51, 83.

¹⁰ QCA, [Rural irrigation price review 2025-29: Sunwater](#), final report, January 2025, p. 98.

¹¹ QCA, [Rural irrigation price review 2025-29: Seqwater](#), final report, January 2025, p. 41; QCA, [Rural irrigation price review 2025-29: Sunwater](#), final report, January 2025, p. 98.

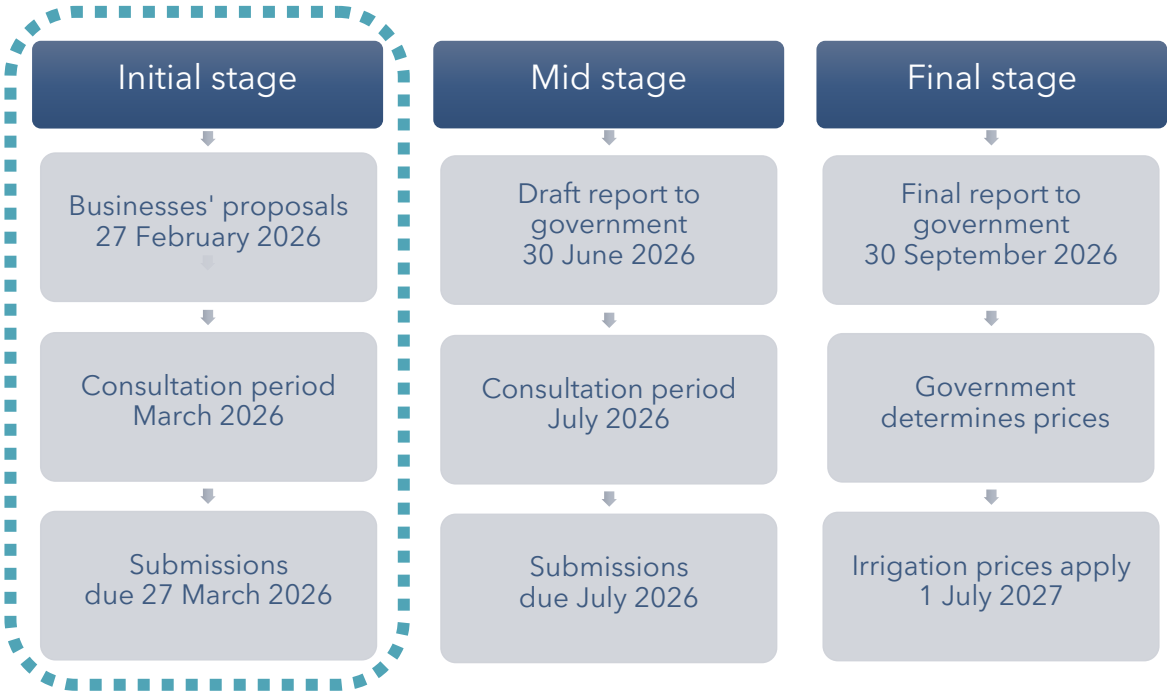
¹² Annuity prices are the prices we recommended in the 2025 review, except that for Sunwater they should be recalculated to exclude certain costs, in accordance with the direction.

Stakeholders are invited to make initial submissions on the businesses' proposals or any other issues relevant to our review by 27 March 2026. Information about how to make a submission is provided at the start of this report.

There will be a further opportunity to provide feedback following the release of our draft report in early July 2026.

We will also consider holding workshops, depending on the issues raised by stakeholders and the level of interest.

Figure 1: Review timeframes



To stay informed about our review, stakeholders can regularly visit our [website](#) or [subscribe](#) to receive email updates.

For more information, please use the [contact form](#) on our website or call us on 07 3222 0555.

2 Stakeholder consultation

We expect the businesses to develop proposals that are informed by meaningful engagement with their customers. Our consultation process will formally begin once the businesses have submitted their proposals.

2.1 Customer engagement by the businesses

In our guidelines for pricing proposals for the 2025 review, we outlined principles that we expect the businesses to follow when engaging with their customers, broadly related to the structure, scope, timing and impact of engagement.¹³

In the context of this review, it is particularly important that the businesses structure their engagement to obtain informed feedback on the RAB-based pricing proposals. Engagement should focus on clearly explaining the proposed change to a RAB approach (including the potential short- and longer-term implications of the transition) and seeking input on how to manage transitional impacts.

In explaining the proposed change, the businesses should provide customers with information that helps them understand the motivation for the transition, including the relative merits of the RAB and renewals annuity approaches, in both the short and longer term.

Given the compressed timeframes for this interim review, the businesses should adopt a targeted engagement approach. This may include focusing on key customer representative bodies, using existing forums, and leveraging previous engagement insights. Businesses should document how customer input has influenced their proposal and identify areas for further engagement ahead of the next full price review.

2.2 Pre-lodgement support for the businesses

We are available to provide informal advice and support to the businesses as they develop their proposals and consult with customers. This may include flagging potential concerns with customer engagement activities and providing feedback where proposed methods or approaches (e.g. the business's engagement strategy or capitalisation approach) appear to be significantly inconsistent with the expectations in these guidelines.

We are also available to demonstrate the QCA's preferred approach to technical aspects of allowable cost calculation under a RAB approach, such as mid-year discounting, tax losses or price smoothing (see below).

During the pre-lodgement phase, we may also meet with other stakeholders, such as customer representative groups, to informally discuss aspects of our proposed review process.

¹³ QCA, [Rural irrigation price review 2025–29](#), guidelines for pricing proposals, March 2023, p. 8.

2.3 Our engagement with stakeholders

Effective stakeholder engagement is an important part of our review and helps ensure our recommendations are well-informed. Anyone that may be impacted by our recommendations, or has an interest in our review, is invited to participate.

The most effective way for stakeholders to share their views and provide feedback is by making a written submission. Submissions can be brief or detailed, and we welcome collaboration between stakeholders to provide a joint submission.

Stakeholder engagement will occur in two phases:

- In phase one, we will invite submissions on the businesses' proposals to inform our draft recommendations.
- In phase two, we will invite submissions on our draft report, which we will consider before finalising our recommendations.

We may publish consultation papers if there will be a benefit in obtaining stakeholder comments on specific issues, or if there is a need to provide stakeholders with additional information.

Depending on the issues raised and the level of stakeholder interest, we may also hold online or in-person workshops. Additionally, we may meet with customer representative groups during the review.

3 Proposed allowable costs and prices

Proposals should clearly set out the calculation of total allowable costs and how these costs are allocated to each scheme. For each current tariff group, proposals should include a price target that recovers allowable costs and irrigation prices that transition to the price target.

3.1 Total allowable costs

Proposals should include total allowable costs under both the annuity and RAB approaches, reflecting the prudent and efficient costs of the business over the price path period.

3.1.1 Annuity approach

As required by the direction, annuity-based allowable costs should reflect our position on total allowable costs in the final report of the 2025 review. For Sunwater, these costs should be adjusted to exclude the step change component related to information and communication technology costs from the opex allowance for 2027-28 and 2028-29.

3.1.2 RAB approach

Total allowable costs under the RAB approach comprise:

- a RAB-based opex allowance
- a RAB-based capital allowance
- tax – an allowance for tax as part of total costs, which is consistent with our post-tax nominal approach to the weighted average cost of capital (WACC).

To determine total allowable costs, we will add the above components and deduct revenue offsets that were included in the final report of the 2025 review.

An adjustment to the allowances should also be made to account for differences between the unit costs and the smoothed price targets for 2025-26 and 2026-27. This is necessary because the 2025 review set price targets to recover costs over a four-year period (2025-26 to 2028-29), while ensuring price targets increased only by inflation. In contrast, this review resets the price targets for the final two years (2027-28 and 2028-29). Without adjustment, this could result in an under- or over-recovery of costs across the full four-year period, due to the mismatch between unit costs and smoothed price targets in the first two years.

Costs should be allocated to each scheme in line with the inputs and approach we adopted in the 2025 review.

RAB-based opex allowance

The direction requires the opex allowance to be consistent with our position from the 2025 review, with adjustments for the appropriate classification of opex under a RAB approach (see section 4.1).

This effectively requires all renewals opex to be treated as a step change to the 2025 review baseline allowance. However, in future reviews we would expect that only that component of renewals opex that fits our step change criteria will be treated as a step change.

RAB-based capital allowance

We use a nominal modelling framework to derive the RAB-based capital allowance. Under this framework, inflation is incorporated in calculating both the return on capital (using the nominal WACC) and the return of capital (through the annual indexation of the RAB). Proposals should explain the components of the RAB-based capital allowance, comprising:

- **return on capital** – this is calculated by applying the nominal WACC to the opening RAB for each year of the price path period, and by including an additional part-year return for capex recognised part-way through the year
- **inflation adjustment** – the RAB is indexed annually for inflation. Since the nominal WACC applied to calculate the return on capital also includes inflation, the capital allowance is reduced by the inflationary gain in the RAB to avoid double counting
- **return of capital (depreciation)** – depreciation is deducted from the RAB. We generally calculate depreciation by applying the straight-line method and adopting the remaining useful lives. Separately, an allowance for depreciation is provided as part of the allowable costs. This allowance means the water business can recover the cost of prudent and efficient capex over the useful life of the assets.

Our timing assumptions for cash flows are outlined in Box 1.

Box 1: Timing assumptions for cash flows

We generally calculate building block costs at the mid-point of each year as an approximation of the time value of revenues accrued throughout the year.

For capital-related allowances, this requires converting the initially derived end-of-year values to mid-year values by discounting by the nominal post-tax WACC for six months. The post-tax WACC is the appropriate discount rate so that the mid-year amounts are equivalent in present value terms to the end-of-year amounts.

Proposals should use a forecast inflation rate of 2.87%¹⁴ and adopt the WACC in the 2025 review final report, in calculating the capital allowance.

Proposals should include an initial RAB for each scheme (see section 4.2) and capex in each year of the price path period. For multi-year projects, we generally recognise capex in the RAB from the year in which a project is commissioned (i.e. on an as-commissioned basis), as it is from this point in time that capex starts delivering a service.

Initial RABs for each scheme should be rolled forward each year through to the end of the price path period. The roll-forward should occur each year by making the following adjustments to each year's opening balance:

- adding prudent and efficient capex
- adding forecast inflation

¹⁴ Consistent with the geometric mean of forecast inflation, over the four-year price path period, used in the 2025 review final report.

- subtracting return of capital (depreciation).

Tax allowance

Our general approach is to include an explicit allowance for tax that reflects the tax liabilities of a benchmark efficient firm operating in the private sector.

In the 2020 and 2025 reviews, we accepted the businesses' proposals to not include a tax allowance. We considered that a tax allowance of zero was appropriate due to accumulating negative annuity balances (and therefore tax losses) over the price path period from 1 July 2020 to 30 June 2025. The tax allowance in this review should take into account these accumulated tax losses from 1 July 2020 to 30 June 2027.

The tax allowance would generally be calculated for the benchmark entity (i.e. comprising all regulated schemes), then allocated to schemes based on an appropriate allocator.

3.2 Price targets and prices

In accordance with the requirements in the direction, the approach to deriving the proposed price targets and prices should be consistent with our approach in the 2025 review.¹⁵

Proposals should:

- explain how allowable costs at the scheme level are converted into price targets
- include prices for each tariff group that are derived by applying the pricing principles.

The proposal should also compare the annual changes in proposed RAB-based and annuity-based prices, and the annual changes in the corresponding price targets, over the price path period. The assessment of long-term price target impacts is discussed in Chapter 4.

3.3 Supporting documentation

Proposals should include:

- for each scheme over the price path period:
 - total allowable costs
 - total RAB, rolled forward from 1 July 2027 to 30 June 2029
 - a description of, and rationale for, the proposed depreciation method and asset lives
 - the proposed return on and of capital and inflation adjustment
 - a tax allowance
- for each current tariff group over the price path period:
 - proposed price targets and prices (under both the annuity and RAB approaches)
 - annual changes in proposed prices, based on the total price per megalitre of water access entitlement, using the assumed scheme usage percentages in the 2025 review
 - a comparison of the annual changes in proposed prices and annuity prices
 - a comparison of the annual changes in the corresponding price targets

The businesses should provide all relevant supporting information, data and calculations, including a revenue and pricing model that derives allowable costs, price targets and prices.

¹⁵ This includes applying the annual inflation rate of 2.87% from the 2025 review.

4 Proposed transition to RAB approach

The businesses should consider the practical implications of adopting and transitioning to a RAB approach. This includes working to ensure that expenditure is appropriately categorised, and transitional impacts are assessed with input from customers.

4.1 Appropriate categorisation of expenditure

In the 2020 review, we said that transitioning to a RAB approach would require the businesses to undertake a comprehensive review of their renewals expenditure to ensure appropriate categorisation of costs as either opex or capex under the RAB framework.¹⁶ This expectation was reiterated in the 2025 review, which identified several areas for improvement in Sunwater's proposed capitalisation approach for regulatory pricing.¹⁷

To address these concerns, we expected Sunwater to conduct an independent, comprehensive review of its renewals expenditure prior to the next full price review, to support the appropriate classification of costs under a RAB framework.

Given the compressed timeframes for this interim review, we only expect Sunwater to provide a preliminary capitalisation guideline that meaningfully responds to the areas for improvement identified in the 2025 review. Where only a preliminary guideline is provided, we would expect a more detailed review in advance of the next full price review. Sunwater should also explain how the guideline has been applied to its forecast renewals program.

Seqwater should demonstrate how its existing capitalisation policy, which has been accepted by us in previous bulk water price reviews, has been applied to its forecast renewals program over the price path period. This includes providing a clear explanation of how renewals activities have been classified as either opex or capex under the policy, and the rationale for those classifications.

4.2 Approach to setting initial RAB

The direction requires that the value of the asset base for existing rural irrigation assets (as at 1 July 2000) not be considered when determining allowable costs for the businesses.

In the 2025 review, we considered it reasonable to set the initial RAB using closing annuity balances. These balances reflect whether, since 1 July 2000, the business has recovered less in annuity revenue from a scheme's customers than it spent on renewals (a negative balance), or more (a positive balance). Under this approach, a negative balance is added to the initial RAB for recovery from customers, while a positive balance is returned to customers¹⁸ over an appropriate period.

¹⁶ QCA, [Rural irrigation price review 2020-24, Part B: Sunwater](#), final report, January 2020, p. 83; QCA, [Rural irrigation price review 2020-24, Part C: Seqwater](#), final report, January 2020, p. 24.

¹⁷ See QCA, [Rural irrigation price review 2025-29: Sunwater](#), final report, January 2025, pp. 93-94.

¹⁸ Options include returning the positive balance to customers over time by gradually using this balance to reduce allowable costs over a set period or treating this balance as capital contributions and offsetting future capex spend.

Seqwater should also demonstrate that its proposed approach to setting the initial RAB for irrigation pricing is consistent with the existing urban bulk water RAB from our review of Seqwater's bulk water prices for the 2022–26 period.

4.3 Managing transitional impacts

The transition to a RAB approach is likely to result in downward pressure on price targets, as the initial RAB typically only includes a relatively small portion of total refurbishment and replacement costs over the life cycle of the asset base. This impact can be offset by reducing the depreciation period for the initial RAB, which increases capital recovery during the transitional phase.

In proposing timeframes for the recovery or return of annuity balances for each scheme, businesses should balance their commercial interests (e.g. maintaining short-term cash flows) with the interests of customers, particularly price target stability. This assessment should consider both short-term (i.e. transitional) and long-term impacts.

For example, a shorter timeframe may result in smaller initial price decreases or more immediate price relief but could lead to significant changes later – such as price drops when the initial RAB depreciation ends, or price increases once a positive balance is returned. A shorter timeframe may also be appropriate where the annuity balance is relatively small. The appropriate depreciation and return timeframes are likely to differ between schemes.

Given the interim nature of this review, businesses may adopt a targeted approach to assessing transitional impacts, with more detailed analysis expected ahead of the next full price review.

As part of this interim review, we expect businesses to assess transitional impacts over a minimum period of 10 years. This should support an understanding of the long-term financial impacts of moving to a RAB-based approach, the short- and long-term impacts on price targets, and the adequacy of proposed transitional arrangements.

4.4 Supporting documentation

Proposals should include:

- an explanation of how the business's capitalisation policy results in an appropriate classification of expenditure for regulatory purposes under a RAB approach, including, for Sunwater, how its approach addresses areas for improvement identified in the 2025 review
- a description of the proposed approach to updating internal governance, systems or procedures that may be required to support ongoing compliance with the RAB approach
- a description of, and rationale for, the initial RAB for each scheme as at 1 July 2027
- a description and explanation of the short- and long-term potential financial and pricing impacts of transitioning to a RAB approach, including modelling of allowable costs and unit costs over a minimum 10-year forecast period that captures transitional effects and enduring impacts. Include key assumptions and methodologies underlying the proposed RAB approach
- a description and explanation of the business's engagement with relevant customer representative groups regarding transitional pricing impacts, including details of engagement activities, feedback received, and how this input has influenced the proposed approach.

Glossary

2020 review	the QCA's review of irrigation prices charged by Seqwater and Sunwater for the period 1 July 2020 to 30 June 2024, which was completed in January 2020
2025 review	the QCA's review of irrigation prices charged by Seqwater and Sunwater for the period 1 July 2025 to 30 June 2029, which was completed in January 2025
capex	capital expenditure
direction	the direction notice for the QCA to conduct this investigation, which was issued by the Minister for Finance, Trade, Employment and Training in October 2025 under section 10(g) of the QCA Act
March 2023 referral	the referral notice for the QCA to conduct the 2025 review, which was issued in March 2023 under section 23 of the QCA Act
opex	operating expenditure
price path period	the period 1 July 2027 to 30 June 2029
QCA	Queensland Competition Authority
QCA Act	<i>Queensland Competition Authority Act 1997</i>
RAB	regulatory asset base
regulated schemes	the water supply schemes listed in schedule 1 of the March 2023 referral
WACC	weighted average cost of capital