Queensland Competition Authority

Review of RAB-based irrigation prices 2027–29

Stakeholder workshops
Seqwater schemes

March 2026

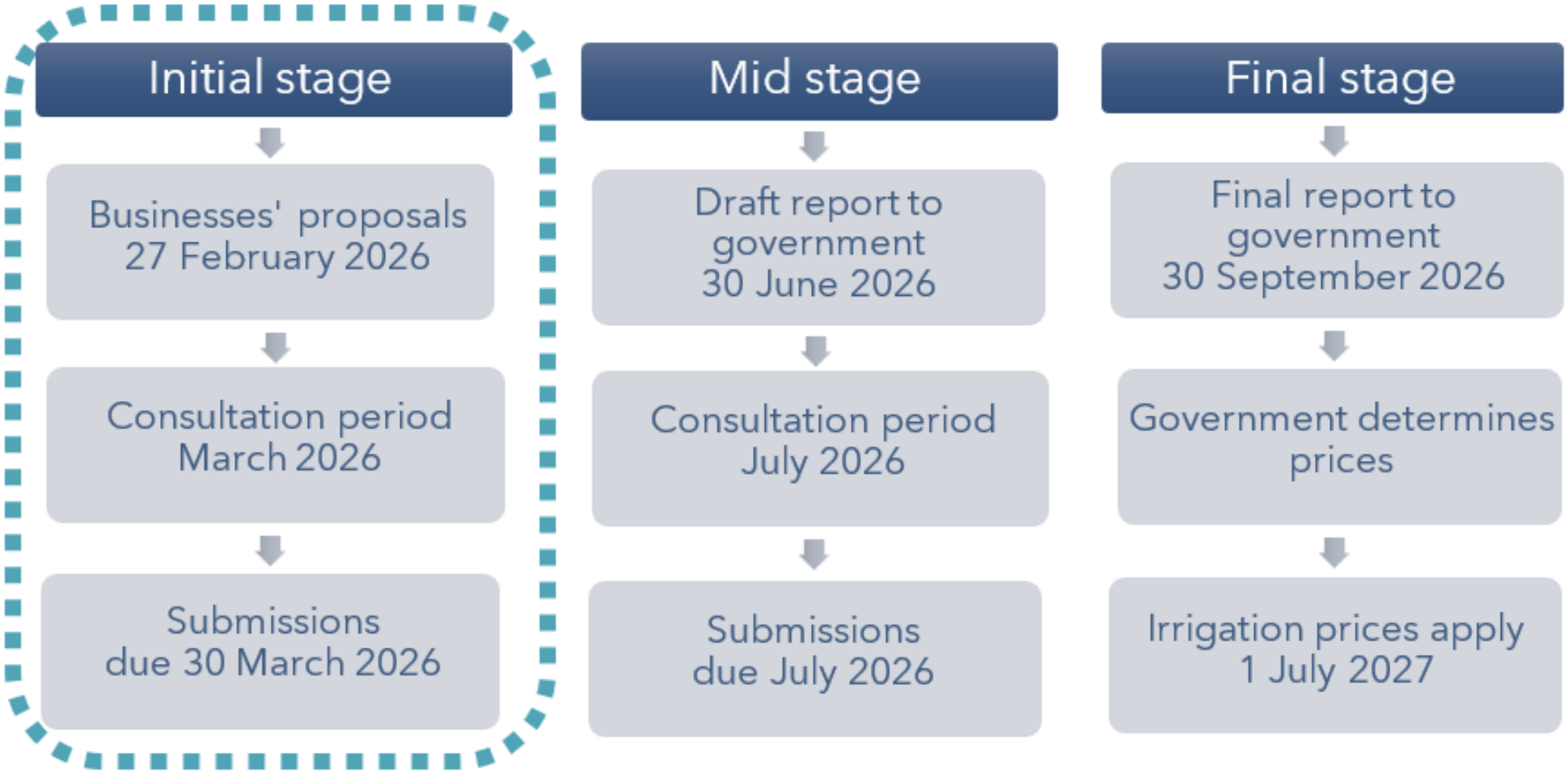
Purpose of this workshop

At today's session, we want to:

- explain our proposed review process, the RAB and renewals annuity approaches, and discuss key issues for the review
- understand which issues are most important to stakeholders
- provide an opportunity for stakeholders to ask questions and share their views.

Discussions will not be treated as formal submissions. However, we will publish a summary of the issues raised at each workshop.

Review timeline



Scope of this review

- The QCA has been asked to report on:
  - the relative merits of the regulatory asset base (RAB) and annuity approaches
  - appropriate RAB-based and annuity-based prices for 2027-28 and 2028-29
  - the results of a comparison between annuity- and RAB-based prices.
- For Seqwater:
  - RAB-based prices will be calculated using the **2025 review inputs and methods** (except for applying the RAB).
  - annuity-based prices will be the same as in our 2025 review report.
- The Queensland Government will consider the QCA's report when setting irrigation prices for 2027-28 and 2028-29.

Burning issues or questions?

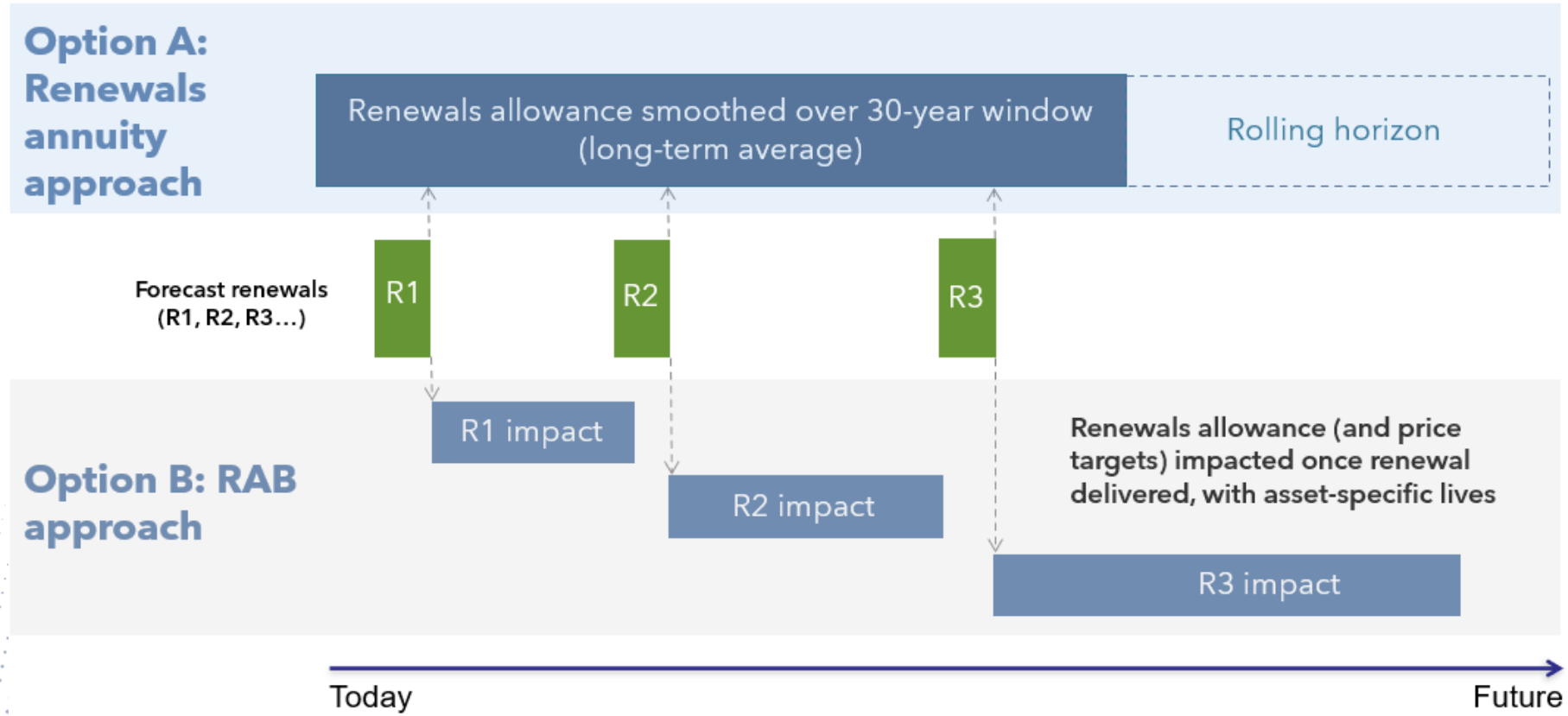
Are there any key issues or questions you would like us to cover?

Consultation paper – March 2026

- We are seeking stakeholder views on:
  - how effective the businesses' customer engagement has been
  - the relative merits of the annuity and RAB approaches
  - practical considerations when transitioning to a RAB approach, including:
    - appropriate expense categorisation
    - establishing initial RABs
    - managing transition impacts.
- To support stakeholder feedback, the paper also includes an overview of cost recovery under both approaches and a summary of our previous views.

How each approach recovers renewals – timing & period

- **Annuity:** costs recovered once they are within 30-year planning period (over this period).
- **RAB:** costs recovered once project is delivered (over its useful life).



How each approach recovers renewals – example inputs

- Simple example:
  - Single renewals project costing $500 at end of year 2
  - 8-year useful life
  - 10-year planning period for renewals annuity
  - 2.5% inflation and 7% WACC.
- The next two slides show how these inputs flow through each method (annuity vs RAB)

Example calculation (renewals annuity approach)

Table 1: Renewals allowance under the annuity approach ($, nominal)

Year	1	2	3	4	5	6	7	8	9	10
Opening balance	–	56.3	(382.1)	(349.8)	(313.6)	(273.5)	(229.0)	(179.7)	(125.4)	(65.7)
Renewals	–	(500.0)	–	–	–	–	–	–	–	–
Annuity revenue	56.3	57.7	59.1	60.6	62.1	63.7	65.3	66.9	68.6	70.3
Interest	–	3.9	(26.7)	(24.5)	(22.0)	(19.1)	(16.0)	(12.6)	(8.8)	(4.6)
Closing balance	56.3	(382.1)	(349.8)	(313.6)	(273.5)	(229.0)	(179.7)	(125.4)	(65.7)	–
Renewals allowance	**56.3**	**57.7**	**59.1**	**60.6**	**62.1**	**63.7**	**65.3**	**66.9**	**68.6**	**70.3**

Inputs (example):

$500 at end of yr 2

8-year life

10-year period

2.5% inflation

7% WACC

Example calculation (RAB approach)

Table 2: Renewals allowance under the RAB approach ($, nominal)

Year	1	2	3	4	5	6	7	8	9	10
RAB roll-forward										
Opening RAB	–	–	500.0	448.4	394.0	336.5	276.0	212.1	145.0	74.3
Capex	–	500.0	–	–	–	–	–	–	–	–
Inflation adjustment	–	–	12.5	11.2	9.8	8.4	6.9	5.3	3.6	1.9
Depreciation	–	–	(64.1)	(65.7)	(67.3)	(69.0)	(70.7)	(72.5)	(74.3)	(76.2)
Closing RAB	–	500.0	448.4	394.0	336.5	276.0	212.1	145.0	74.3	–
Allowable costs										
Return on capital	–	–	35.0	31.4	27.6	23.6	19.3	14.8	10.1	5.2
Inflation adjustment	–	–	(12.5)	(11.2)	(9.8)	(8.4)	(6.9)	(5.3)	(3.6)	(1.9)
Depreciation	–	–	64.1	65.7	67.3	69.0	70.7	72.5	74.3	76.2
Renewals allowance	**–**	**–**	**86.6**	**85.8**	**85.0**	**84.1**	**83.1**	**82.0**	**80.8**	**79.5**

Inputs (example):

$500 at end of yr 2

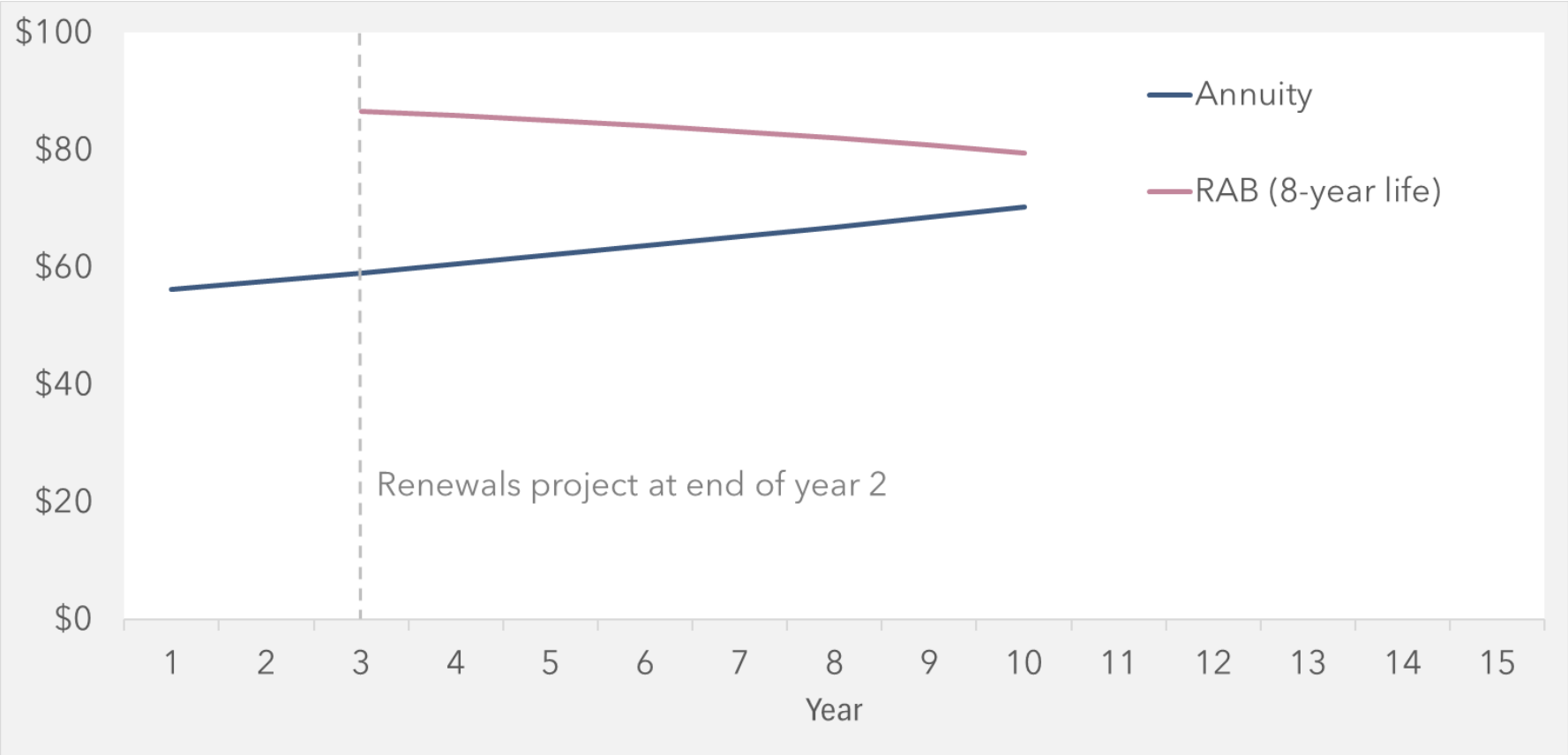
8-year life

10-year period

2.5% inflation

7% WACC

Example calculation (comparison)



Inputs (example):

$500 at end of yr 2

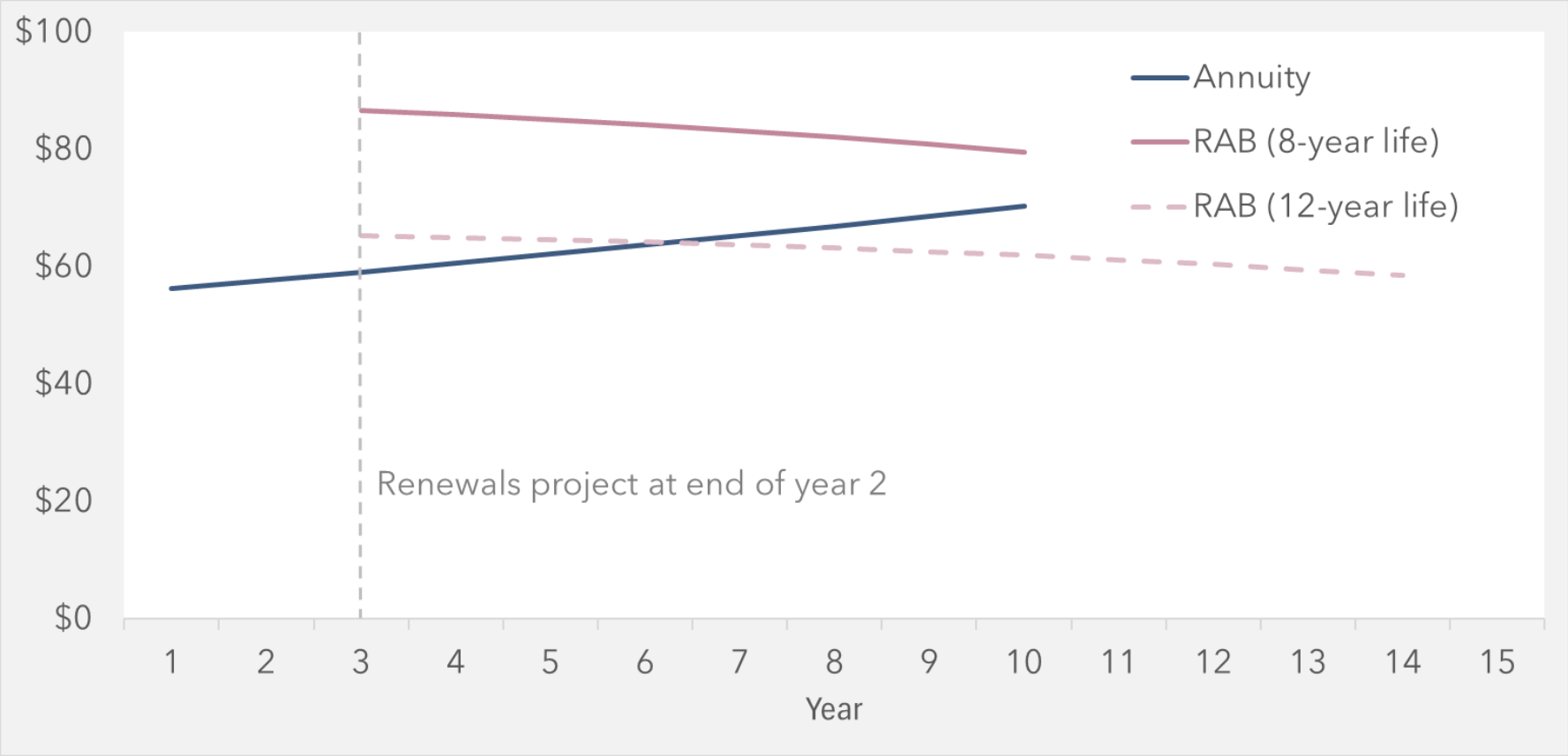
8-year life

10-year period

2.5% inflation

7% WACC

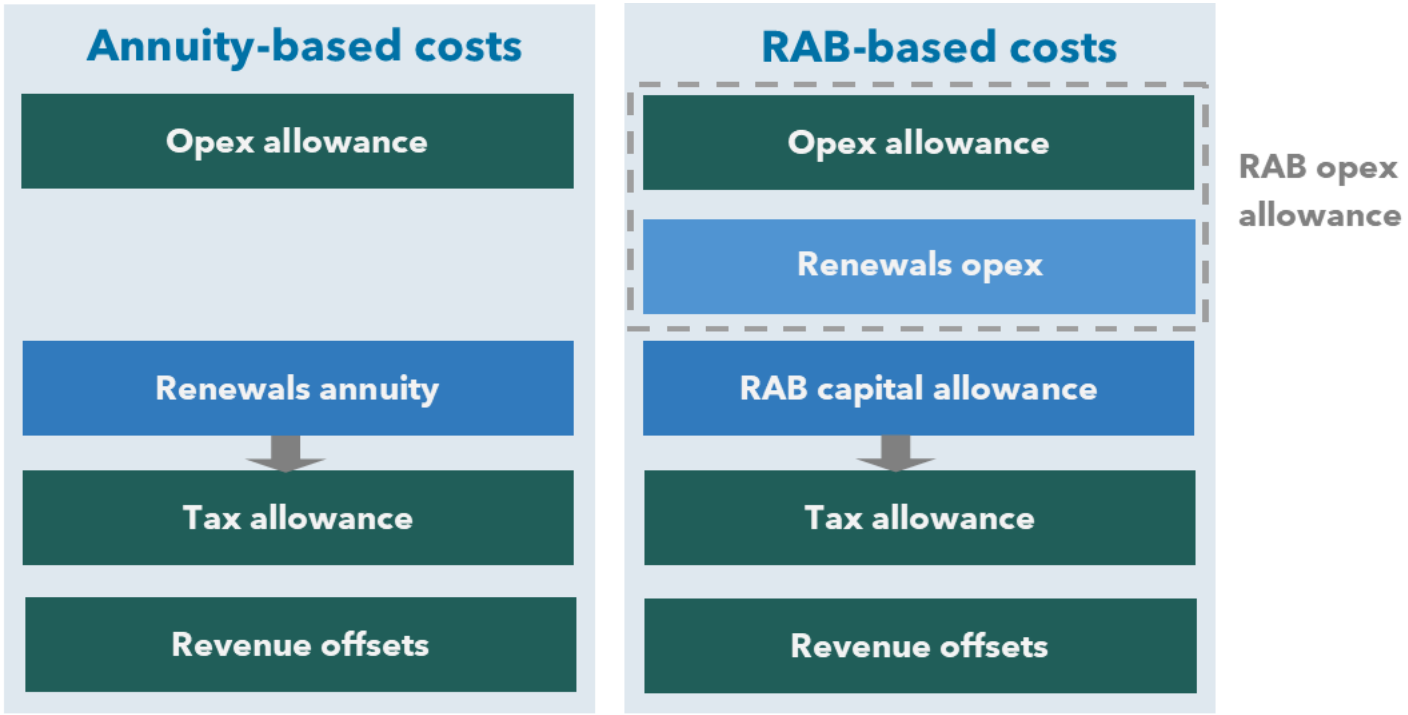
Example calculation (comparison)



Inputs (example):
$500 at end of yr 2
8-yr vs 12-yr life
10-year period
2.5% inflation
7% WACC

For projects with longer useful lives, the RAB may be similar to, or lower than, the annuity amount.

How each approach recovers renewals - allowable costs



- **Annuity:** recovers costs through a single smoothed renewals allowance.
- **RAB:** capex recovered over useful life; opex in year it is incurred.

How each approach recovers renewals - tax

- A tax allowance applies under both annuity and RAB approaches.
- Tax is calculated by applying a tax rate of 30% (adjusted for dividend imputation) to taxable income.
- Taxable income = revenue (total allowable costs) minus tax deductions, which include:
  - operating expenditure (opex)
  - depreciation (with capex deducted in the year incurred)
  - interest (cost of debt applied to 60% of the negative annuity balance or RAB).
- The main tax difference between annuity and RAB approaches relates to the **timing and profile of renewal cost recovery**.

Relative merits of the renewals annuity approach

- **Timing and cost-reflectivity**
  - Recovers costs once projects enter rolling 30-year period, smoothing recovery over this period.
- **Risk allocation**
  - Business bears less financing risk (as revenue received earlier).
  - Customers bear more long-term forecast uncertainty risk (adjustment occurs gradually).
- **Incentives for efficient investment**
  - Revenue is less linked to timing/efficiency of individual projects.
- **Price target stability**
  - Smoother year-to-year outcomes; changes to long-term forecasts can shift price targets between price path periods.
- **Transparency, accountability and simplicity**
  - Simple and familiar to customers.
  - Provides less visibility of how near-term renewals impact on price targets.

Relative merits of the RAB approach

- **Timing and cost-reflectivity**
  - Recovers costs after project delivery, over its useful life – aligning recovery with service provision.
- **Risk allocation**
  - Business bears more financing risk (funds renewals upfront, compensated via return on capital).
  - Customers face less long-term forecast uncertainty risk.
- **Incentives for efficient investment**
  - Revenue more strongly linked to timing/efficiency of each project (inefficient spend excluded).
- **Price target stability**
  - RAB transition can lead to upward price target pressure as new renewals added before offset of depreciated renewals.
- **Transparency, accountability and simplicity**
  - More transparent for near-term renewals (clearer link between project and price target).
  - More complex initially for stakeholders.

Key issues – customer engagement

- Our guidance paper said that the businesses should use a targeted engagement approach, documenting how customer input informed their proposals and identifying areas for further engagement before the next review.
- We seek views on:
  - whether the information provided by the businesses supported informed feedback, including explanations of the annuity and RAB approaches, longer-term implications and transition options
  - whether stakeholder feedback informed the businesses' positions, and whether any issues have been appropriately deferred for the next review
  - what additional information or analysis would have supported more informed feedback.

Key issues – expense categorisation

- Expenses categorisation determines whether costs are recovered immediately (opex) or over the useful life of the renewal (capex).
- Key points from Seqwater's proposal:
  - Seqwater has used a consistent approach to expense categorisation as used in previous QCA reviews of their bulk water business.
  - Under this approach, all renewals expenditure incorporated in the annuity calculation is treated as capex.
  - Seqwater said its accounting & regulatory approaches are aligned.
- We are seeking views on the proposed classification of renewals under a RAB framework.

Key issues – setting initial RAB

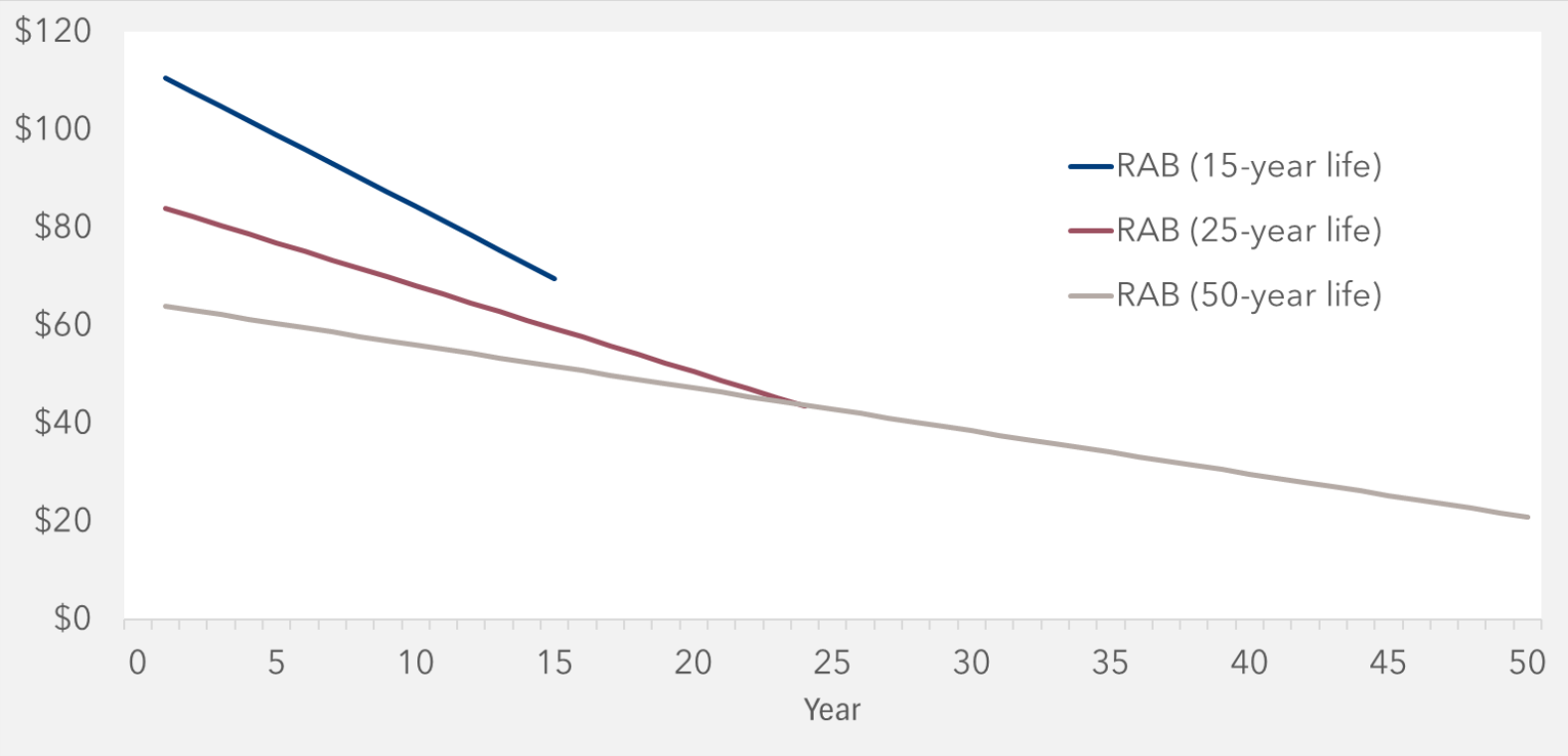
- In the 2025 review, we considered it reasonable to set the initial RAB using closing annuity balances.
- Under this approach:
  - a negative annuity balance is added to the initial RAB
  - a positive balance is returned to customers.
- Seqwater proposes to apply this approach, with separate initial RABs in each scheme for metering and non-metering assets.
- We are seeking views on this method of establishing the initial RAB.

Key issues – managing transitional impacts

- The transition to a RAB approach is likely to put downward pressure on price targets, since:
  - the initial RAB typically includes only a small portion of total renewals over the asset life cycle
  - forecast renewals are only added to the RAB after the project is delivered.
- The length of the recovery/return timeframe for existing annuity balances could be used to manage transitional impacts.
- Key points from Seqwater's proposal:
  - Negative annuity balances recovered over a default 30-year period, with adjustments only where an alternative life materially improves transitional price stability (e.g. Central Lockyer).
  - Positive annuity balances returned over 10 years, modelled as a reduction to allowable costs. However, Seqwater welcomed feedback on other time periods & mechanisms.
- We are seeking views on:
  - the outcomes that matter most to customers in managing transitional impacts
  - what further analysis should be prioritised for the next full price review.

Key issues – managing transitional impacts

- The length of the time period for depreciating the initial RAB could be used to partially offset the downward pressure on price targets.
- For example, this figure shows revenues from an initial RAB of $1000 for different recovery timeframes ($ million, constant)



Making a submission

- Providing written submissions is the most effective way to provide feedback.
- Submissions can be made through our website or by post.
- We welcome joint or collaborative submissions.
- Submissions can be brief comments on specific issues, including comments on some or all of the issues in our consultation paper.
- We publish submissions on our website.

Next steps

- Submissions are due by **30 March 2026**.
- Information about how to make a submission is available on our website: www.qca.org.au/submissions
- All submissions received by the due date will be considered in preparing the draft report.
- We may also meet with customer representative groups in the lead up to the draft report.
- There will also be a further opportunity to provide feedback following the release of our draft report in early July 2026.

Queensland Competition Authority

Questions?

Level 27, 145 Ann Street,
Brisbane Q 4000

GPO Box 2257,
Brisbane Q 4001

T | (07) 3222 0555
W | www.qca.org.au