Queensland Competition Authority

# Review of RAB-based irrigation prices from 1 July 2027

## Consultation paper

March 2026

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# 1 Introduction

## 1.1 Background

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]

This interim review is a targeted assessment of the businesses' proposed approaches to deriving irrigation prices under the RAB approach. As a comprehensive review of irrigation prices was only recently completed, this review focuses on the practical considerations of transitioning from the existing renewals annuity approach to a RAB approach, including the treatment of renewals expenditure and related implementation and transition matters.

We will recommend RAB-based prices for 2027–28 to 2028–29. These prices will be considered by the Queensland Government (the government) alongside prices derived under the annuity approach. In accordance with the direction, the prices in this review are to be based on allowable costs that are consistent with our positions from the irrigation price review for 2025–26 to 2028–29 (the 2025 review), adjusted to reflect the use of the RAB approach for recovering renewals expenditure.

Sunwater and Seqwater have submitted proposals, informed by their engagement with customers and stakeholders.[2] This paper identifies the matters on which we are seeking stakeholder comment to assist stakeholders in preparing submissions on the proposals and on issues relevant to transitioning to a RAB approach.

## 1.2 This consultation paper

The purpose of this paper is to:

- identify the key issues on which we are seeking stakeholder views
- provide context to support stakeholders to make informed submissions on the businesses' proposals, which we request by 30 March 2026.

[1] The direction is available on our website.
[2] The businesses' proposals are available on our website.

# 2 Overview of the approaches

## 2.1 How each approach recovers renewals costs

The renewals annuity and RAB approaches are different ways of funding the refurbishment and replacement of the assets used to provide irrigation services. While both approaches ensure that renewals expenditure is recovered over time, they differ in how costs are forecast, how and when costs are recovered and how price targets evolve over time.

### Timing of cost recovery

The primary difference between these approaches is the timing of cost recovery:

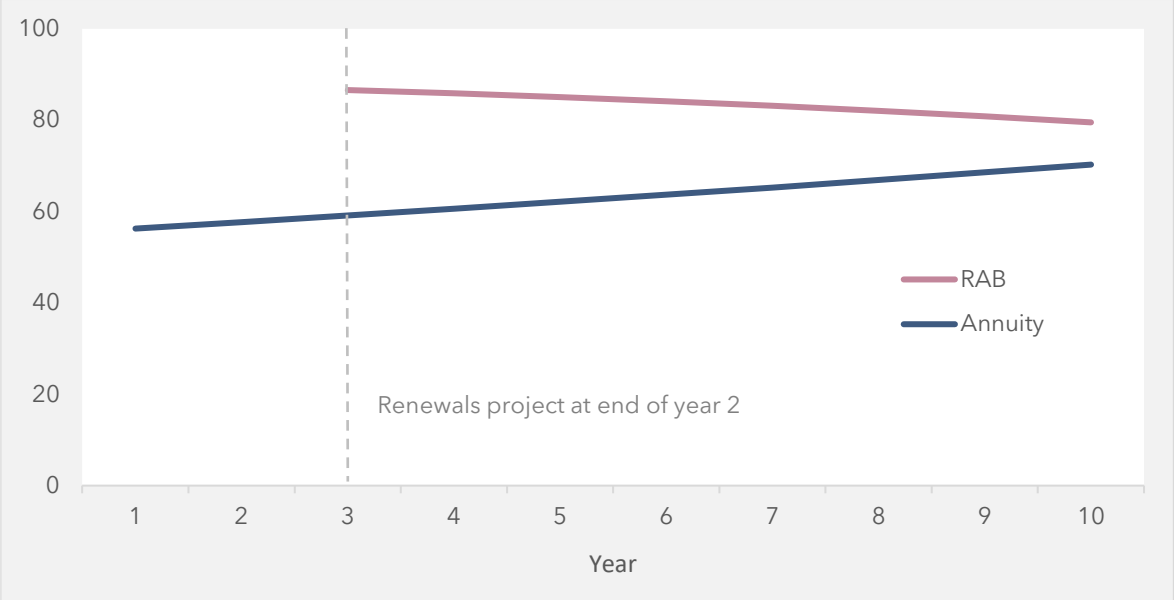
- The renewals annuity approach begins to recover the cost of a renewals project when it enters the rolling 30-year planning period, with the cost smoothed over this period.
- The RAB approach begins to recover the cost of a renewals project only after it occurs, smoothing recovery over the useful life of the individual renewal project.

Under the renewals annuity approach, customers generally begin contributing to renewals earlier. Those earlier contributions are adjusted using the WACC applied to the annuity balance to recognise the time value of money and compensate customers for paying in advance.

Under the RAB approach, customers generally begin contributing later, once renewals are delivered and in service. The business finances renewals upfront and is compensated for this through the WACC applied to the RAB (return on capital), along with depreciation over the project's useful life.

For illustrative purposes, Figure 1 shows how a single renewals project can impact the renewals allowance under each approach.[3] The annuity approach produces a smooth, gradually increasing profile, while the RAB approach begins to recover the cost once the project is delivered, followed by a gradual decline as the asset depreciates over its useful life.

**Figure 1: Illustrative comparison of renewals allowance under each approach ($, nominal)**




[3] Appendix A shows the calculations for this example, which assumes a single renewals project costing $500 at the end of the year 2, with an 8-year useful life, straight-line depreciation, and a 10-year planning period for the renewals annuity.

In this example, the annual RAB-based renewals allowance is higher because the cost is recovered over an 8-year useful life, while the annuity spreads the same cost over a 10-year planning period. For projects with longer useful lives, the annual RAB-based allowance may be similar to, or lower than, the annual annuity-based amount.

During the transition to a RAB, the renewals allowance may increase as new renewals are added without immediate offsets from the depreciated renewals they replace. As the RAB matures and earlier renewals begin to depreciate and drop out, these effects increasingly offset each other and the recovery profile becomes more stable.

The impact on price targets will depend on how much of a scheme's allowable costs are made up by the renewals allowance. This initial impact can be managed by adjusting the depreciation period of the initial RAB to help smooth price targets during the transition (see section 3.5).

### Renewals within allowable costs

Under the annuity approach, renewals are recovered through a single smoothed renewals allowance. Under the RAB approach, renewals contribute to both operating and capital components of allowable costs, with the operating component fully recovered in the year it is incurred and the capital component rolled into the RAB and recovered over the life of the renewal. The renewals allowance under both approaches will then feed into the calculation of the tax allowance.

### Tax treatment

The tax allowance is calculated by applying a 30% tax rate (adjusted for dividend imputation) to taxable income. Taxable income is derived as total revenue (including the renewals allowance) less deductible expenses[4] (including opex, renewals expenditure and annuity interest).

Since both opex and renewals expenditure are fully deductible for tax purposes under both approaches, differences in the tax allowance over time will mainly arise from differences in the profile of renewals cost recovery, rather than differences in deductible expenses.

Both businesses have accumulated tax losses (driven largely by historical negative annuity balances) that will be carried forward to 30 June 2027. Under the RAB approach, these losses may be sufficient to offset taxable income over this price path period, potentially resulting in no tax allowance.

## 2.2 Relative merits of each approach

Both approaches are designed to recover the prudent and efficient costs of renewing assets over time. However, they differ in their incentives for efficient investment, cost-reflectivity of pricing, the degree of price target stability they provide, and how transparent the resulting price targets are.

Table 1 summarises our previous views of the relative merits of each approach.

[4] Under current tax rules for irrigation water providers (Income Tax Assessment Act 1997, subdivision 40-F), all capex is immediately deductible in the year in it is incurred, meaning that both opex and renewals expenditure are fully expensed for tax purposes in the year they are incurred.

**Table 1: Comparison of RAB and renewals annuity approaches**

| Factor | Renewals annuity approach | RAB approach |
|---|---|---|
| Incentives for efficient investment | Since renewals costs are recovered through an aggregated long-term allowance, there is a weaker link between the timing and efficiency of individual projects and the revenue a business receives. | There is a stronger and more immediate link between project delivery and revenue, as expenditure is only added to the RAB once incurred and approved. This strengthens incentives for efficient investment. |
| Timing and cost-reflectivity | Renewals costs are recovered once projects enter the rolling 30-year planning period, with costs substantially recovered over this period rather than over the useful lives of individual renewals projects. | Renewals costs are recovered only after it is delivered, then recovers those costs over the project's useful life, aligning cost recovery more closely with when the renewal is in service. |
| Efficient risk allocation | The business bears less financing risk as revenue from price targets is provided on a more upfront basis and is less directly linked to the delivery of specific projects. However, customers will generally bear more of the risks associated with forecast uncertainty, since adjustments for delayed or abandoned projects occur only gradually through future price targets. | The business bears greater financing risk, as it must fund expenditure upfront and recover costs only once the project is delivered. It also bears the risk that any imprudent or inefficient expenditure will be excluded from the RAB. |
| Price target stability | Changes in scope, cost or timing of large future renewals project can impact price target stability between price path periods. | During the transition to a RAB, schemes with low opening RABs may experience upward price target pressure as new renewals are added. Once the RAB matures, price targets generally become more stable and predictable. |
| Transparency, accountability and simplicity | Long-standing and familiar to customers, but provides limited visibility of how near-term renewals impact on price targets since costs are smoothed into a long-term annuity. | More complex and less familiar initially, but provides transparency by directly linking project delivery with cost recovery, improving accountability for investment decisions. |

Source: QCA, *Rural irrigation price review 2025–29: Sunwater*, final report, January 2025, pp. 89–93.

# 3 Key issues for consultation

## 3.1 Customer engagement and information provision

In our guidance paper, we said it was particularly important that the businesses structure their engagement to obtain targeted and informed feedback on their RAB-based proposals.[5] Engagement should focus on explaining the potential change to a RAB approach, including the likely short- and longer-term implications of the transition. It should also seek input on options for managing transitional impacts.

### Consultation issues

We seek views on:

- whether the materials provided by the businesses support informed feedback on the potential move to a RAB approach, including clear explanation of the annuity and RAB approaches, the longer-term implications and potential transition options
- whether the proposals clearly explain how stakeholder feedback informed the businesses' positions, and whether any issues have been appropriately deferred for future engagement
- what additional information or analysis would have enabled stakeholders to provide more informed feedback.

## 3.2 Relative merits of the RAB and renewals annuity approaches

Section 2.2 summarises our previous views on the relative merits of the two approaches. These views take into account comments stakeholders provided in submissions in the 2025 review.

### Consultation issues

We seek views on:

- whether the businesses adequately explain, during their engagement and in their proposals, the relative merits of the annuity and RAB approaches
- the relative merits of the annuity and RAB approaches, including any views on how each approach affects the incentives of the businesses to deliver efficient investment and asset management.

[5] QCA, *Review of RAB-based irrigation prices from 1 July 2027*, guidance paper, November 2025.

## 3.3 Appropriate categorisation of expenditure

It is important to appropriately categorise expenditure as either opex or capex under a RAB framework. This categorisation determines whether costs are recovered immediately (as opex) or capitalised into the RAB and recovered over the useful life of the renewals project (as capex). Clear and robust classification of renewals expenditure is therefore essential for ensuring a consistent and transparent transition to a RAB approach.

### Consultation issue

We seek views on the businesses' proposed approach to classifying renewals expenditure under a RAB framework.

## 3.4 Approach to setting the initial RAB

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 than it has 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
- a positive balance is returned to customers over an appropriate period.

### Consultation issue

We seek views on the businesses' proposed methods for establishing the initial RAB.

## 3.5 Managing transitional impacts

The transition to a RAB approach is likely to result in downward pressure on price targets, as the initial RAB is likely to include only a small portion of total renewals expenditure 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 period.

In the guidance paper, we noted that proposals for recovering or returning annuity balances should balance the business's commercial interests (such as maintaining adequate short-term cash flow) with the interests of customers, particularly having price target stability. This assessment should consider both short-term (i.e. transitional) and long-term impacts.

For example, a shorter recovery or return timeframe may result in more immediate price target effects (smaller initial decreases or more immediate relief) but could lead to significant future movements, such as price target drops when the initial RAB depreciation ends, or price target increases once a positive balance is returned. The appropriate depreciation and return timeframes are likely to differ across schemes.

The guidance paper outlined a targeted approach to transitional impact assessment for this interim review, with more detailed analysis expected ahead of the next full price review.

## Consultation issues

We seek views on:

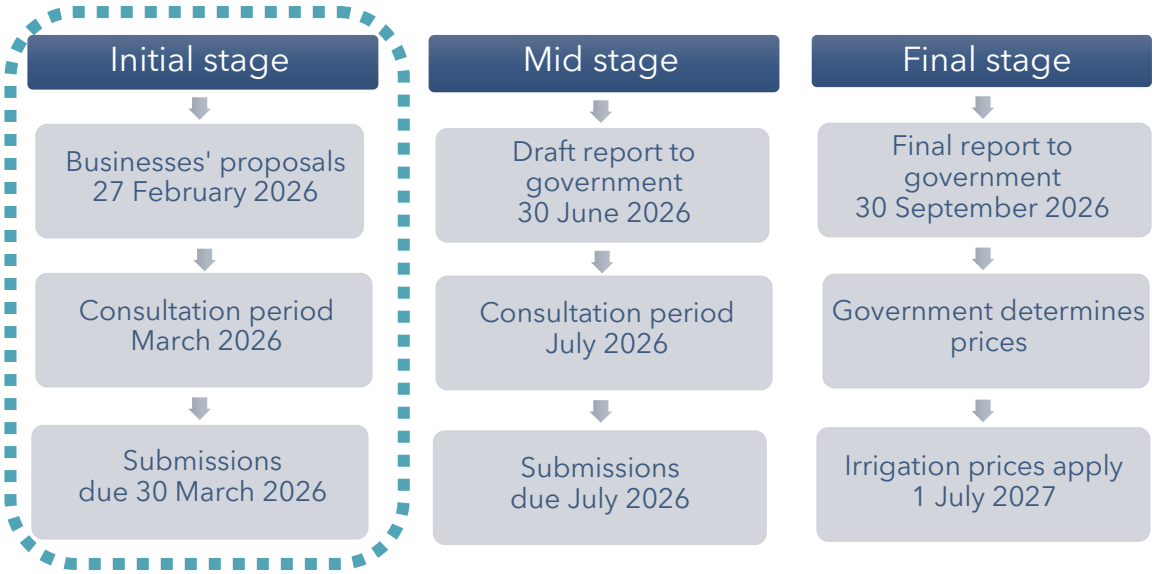
- whether the businesses' engagement and proposals provide sufficient information to understand the likely short- and longer-term implications of the transition to a RAB approach
- the appropriate balance between short-term price target stability and longer-term larger price target increases
- what further analysis should be prioritised ahead of the next full price review.

# 4 Next steps

We published the businesses' RAB-based proposals on 2 March 2026, and have commenced our consultation process, beginning with stakeholder workshops. These will mainly be in the form of online sessions, with in-person sessions in areas where there is sufficient level of interest.

The purpose of the workshops is to understand the issues of importance to customers and other stakeholders, and to provide information to facilitate submissions.

**Figure 1: Review timeframe**




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 September 2026.

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.

# Appendix A: Example calculation

This example shows how a single renewals project is recovered over time under each approach.

We assume a single renewals project costing $500 at the end of year 2, with an 8-year useful life and straight-line depreciation. We also assume a 10-year planning period for the renewals annuity, a WACC of 7% and annual inflation of 2.5%, and a zero opening annuity or RAB balance.

Under the annuity approach, we spread the cost of the project across the 10-year planning period. Table 2 shows how this creates a renewals allowance that increases by inflation each year.

**Table 2: 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** |

Notes: The renewals allowance is derived as an indexed annuity. The interest is calculated by multiplying the WACC by the opening balance.

In this simplified example using a fixed 10-year indexed annuity, the cost is spread evenly across the planning period. In practice, the rolling annual annuity would update each year and be impacted by changes in forecast renewals over time.

Under the RAB approach, the cost is added to the RAB when the project is delivered. Table 3 shows how the cost is then recovered over the project's life, through a return on capital and depreciation.

**Table 3: 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** |

Note: Capex is assumed to occur at the end of the year. Indexation is derived by multiplying the annual inflation by the opening RAB. Return on capital is calculated by multiplying the WACC by the opening RAB. Depreciation is derived as the sum of the opening RAB and indexation, divided by the remaining life. The renewals allowance is adjusted to remove the inflation adjustment applied to the opening RAB.

In this example, the annual RAB-based renewals allowance is higher because the cost is recovered over an 8-year useful life, while the annuity spreads the same cost over a 10-year planning period. For projects with longer useful lives, the annual RAB-based allowance may be similar to, or lower than, the annual annuity-based amount. Once the project is fully depreciated, the RAB-based allowance for this project reduces to zero.

# Submissions

## Closing date for submissions: 30 March 2026

Public involvement is an important element of our decision-making processes. Therefore, we invite submissions from interested parties. We will take account of all submissions received within the stated timeframes. Submissions, comments or inquiries regarding this paper should be directed to:

**Queensland Competition Authority**
GPO Box 2257, Brisbane Q 4001
Tel 07 3222 0555
www.qca.org.au/submissions

## Confidentiality

In the interests of transparency, and to promote informed consultation, we intend to make all submissions publicly available. However, if a person making a submission believes that information in it is confidential, they should claim confidentiality over the relevant information (and state the basis for that claim). We will assess confidentiality claims in accordance with the Queensland Competition Authority Act 1997. Among other things, we will assess if disclosure of the relevant information is likely to damage a person's commercial activities, and we will consider the public interest.

Claims for confidentiality should be clearly noted on the front page of a submission, and relevant sections of the submission marked as confidential. The submission should also be provided in both redacted and unredacted versions. In the redacted version, all information claimed as confidential should be removed or hidden. In the unredacted version, all information should be exposed and visible. These measures will make it easier for us to make the remainder of the document publicly available. A confidentiality claim template is available at **www.qca.org.au/submission-policy.**

The template gives guidance on the type of information that may help us to assess a confidentiality claim. We encourage stakeholders to use this template when making confidentiality claims.

## Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at our Brisbane office or on our website at **www.qca.org.au**. If you experience any difficulty gaining access to documents, please contact us on **07 3222 0555**.