sunwater

Review of RAB-based irrigation prices from 1 July 2027

Sunwater response

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1. Preamble

This document is Sunwater's formal submission to the Queensland Competition Authority (QCA) supporting the review QCA has been directed to undertake ahead of the Queensland Government setting irrigation prices to apply to eligible irrigators from 1 July 2027.

1.1. Irrigation pricing review

The 2025 Irrigation Pricing Review recommended irrigation prices for the period 1 July 2025 to 30 June 2029. Following its conclusion, the Government set prices for two years from 1 July 2025 to enable QCA to conduct a review into the Regulated Asset Base (RAB) method of recovering renewals expenditure.

On 30 October 2025, the Government directed QCA to investigate and report on appropriate RAB-based prices for each of Sunwater's current irrigation tariff groups in 2027–28 and 2028–29[1]. This advice will be considered before the Government sets prices to apply to eligible irrigators from 1 July 2027.[2]

1.2. Purpose of submission

Sunwater's submission has been prepared with reference to QCA's *Review of RAB-based irrigation prices from 1 July 2027 – guidance paper*. It includes two sets of proposed prices (at tariff group level) for 2027–28 and 2028–29 – one set using a RAB-based approach and the other using the annuity-based approach. Both target and customer prices have been calculated in accordance with the requirements set out in the Direction Notice.

1.3. Structure of submission

Sunwater's submission caters for a diverse readership by including:

- a plain English executive summary that explains the key points set out in this submission document
- an explanation of the review's context, including Sunwater's 2025 irrigation pricing review proposal
- an explanation of Sunwater's approach to addressing transitional issues
- a discussion on Sunwater's engagement for this proposal, including a summary of activities undertaken, feedback received and the extent to which this feedback has influenced its proposal
- an explanation of Sunwater's proposed revenue requirement and a description of its methodology for setting prices under the RAB and annuity approaches
- a discussion on proposed target and customer prices under the RAB approach and the associated impact on customers, both in the current price path period and over the long term
- a glossary to help with terms and acronyms used
- summaries that show relevant inputs and outputs at service contract level.

1.4. Basis of costs and prices

All costs and prices in this document are presented in nominal terms unless otherwise stated.

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[1] A copy of the Ministerial Direction notice is included in Appendix 1.
[2] Seqwater and Sunwater irrigation pricing | Business Queensland.

2. Executive summary

This document presents Sunwater's proposal to QCA's investigation into RAB-based irrigation prices.

It is supplemented by service contract level summaries that set out target and customer prices at tariff group level. These have been calculated for each of Sunwater's 26 price-regulated service contracts under both the annuity and RAB approaches.

Sunwater's proposal seeks to address the matters contained within QCA's guidance paper by:

- seeking to achieve positive customer outcomes in relation to key transitional decisions
- appropriately categorising renewal expenditure
- appropriately dealing with closing annuity balances and initial opening RAB balances
- calculating two sets of RAB-based prices – representing short and long-term repayment periods for opening RAB balances – for consideration by QCA and Government.

Sunwater believes irrigation customers will benefit from the adoption of a RAB-based approach to recovery of renewal expenditure through:

- *greater confidence in the forecasting and review process* via a more targeted focus that does not have to consider the highly uncertain long-term forecasts currently required from years five through to 33.
- *a more transparent relationship between costs and prices. In terms of renewals, the change means prices will reflect known costs (projects that have already been completed) and forecasts that are aligned to the four-year pricing period.*
- *a consistently more equitable approach to recovery of renewals expenditure from customers* via the elimination of almost all of the forecasting risk inherent in the annuity approach, and which requires a single asset to be reforecast up to nine times before it is renewed – *effectively reducing up to 512 potential cost recovery profiles down to 2.*
- *lower fixed charges (Part A and Part C) in the near term.* This transitional change leaves more money in irrigators' pockets for longer.

2.1. Balanced customer and Sunwater outcomes

In proposing the period for depreciating an initial RAB balance, QCA's guidance paper notes that Sunwater should balance its commercial interests with customer preferences for stability in target prices.

Customer preferences

Sunwater provided multiple opportunities and channels for irrigation customers to engage with the RAB review and understand how they might influence its proposal, including online information sessions, face-to-face presentations, visualisations, videos and online tools. A targeted engagement approach was adopted to leverage the strong foundations of the 2025 Irrigation Pricing Review and focus on increasing customer understanding of the nature and context of this review.

Between mid-November and mid-December 2025, Sunwater engaged via:

- seven scheme-based customer advisory committee forums
- one non-Sunwater led customer committee meeting
- four all-customer online forums
- targeted engagement with members of Sunwater's peak body Consultative Committee and the Queensland Farmers' Federation (QFF).

Throughout this period and continuing into January and February 2026, Sunwater:

- built on past materials to support customer understanding of the relative merits of the RAB and annuity approaches. A dedicated project microsite featured various materials including a video explaining the differences between the two approaches using a real-life recent example (in direct response to feedback). Irrigation customers were regularly advised about updates to the microsite.
- explored the short and long-term impact on price targets and customer prices under both approaches using different timeframes for the return or recovery of annuity closing balances.
- captured feedback and adapted engagement material and activities, leading to simpler messages, more accessible channels e.g. video and the rescheduling of the customer feedback survey from December 2025 to February 2026.

During this time, Sunwater developed a transparent cost-to-price tool with an accompanying video and commissioned an independent perspective of the relative merits of the RAB and annuity approaches for customers to consider; both the tool and report were shared before the survey was conducted.

The irrigation customer invoice calculator on the website was also amended based on feedback from customers seeking additional detail in relation to underlying inputs and assumptions.

Consistent with QCA's guidance paper, Sunwater sought to understand the outcomes customers might prefer in any transition between methodologies, noting that the only material change the methodology delivers is in the time profile of cost recovery through prices.

It is noted that surveys of Sunwater's customers typically receive response rates between 5 and ten percent. Sunwater's biannual customer survey receives responses from between five and 10 per cent of all customers (not just irrigators). The survey delivered as part of the 2025 Irrigation Pricing Review garnered a response rate of nine per cent of Sunwater's irrigation customers.

In late February 2026, Sunwater asked customers via online survey what term they would prefer to return positive closing annuity balances or to recover negative annuity balances.

Would you prefer to pay back negative balances over:

(a) a shorter period of time – meaning higher repayments but less interest paid overall

(b) a longer period of time – meaning lower repayments but more interest paid overall

Would you prefer to receive your positive balances rebate over:

(a) a shorter period of time (meaning your total bill will be lowered for a short period of time, for example four years)

(b) a longer period of time (meaning your total bill will be lowered by less but for a longer period of time, for example eight years)

Key insights from the survey were:

- 12 out of the 20 responses received from irrigators in service contracts with a negative closing annuity balance supported a longer period for the return of the negative balance. The remaining 8 responses supported a shorter term.
- 7 out of the 11 responses received from irrigators in service contracts with a positive closing annuity balance supported a shorter period for the return of positive balances. The remaining 4 responses supported the return of the positive balances over a longer term.

Sunwater also asked QFF to consider these questions, noting their position as a peak body representing many different irrigator groups. QFF responded that members would need to consult with their respective Boards to form a shareable position. Formal positions were not shared with Sunwater prior to the finalisation of this proposal.

Commercial considerations

There is a timing shift of pricing-based recovery of costs associated with any transition to a RAB approach and Sunwater has considered its commercial interests from the perspective of its ongoing financial sustainability. Sunwater focused on a key credit metric of the ratio between earnings before interest, tax, depreciation and amortisation (EBITDA) and interest. This is a measure of Sunwater's ability to finance its activities over time.

Sunwater analysed both 25- and 50-year terms for the recovery of negative annuity balances and four- and eight-year terms for the return of positive annuity balances. This is consistent with the material developed for customer engagement and reflects our view that 25 years is not an unreasonable period as it reflects the weighted average of the past 10 years of renewals expenditure (QCA Draft Report 2024), while 50 years is a reasonable upper limit that is closer to the expected life of a scheme (inclusive of longer lived assets like dams and weirs). Sunwater's analysis shows:

- the combination of a 50-year recovery period and a four-year rebate period has the greatest impact on Sunwater's cash flows, but is not considered to result in unacceptable risk to its EBITDA to interest ratio
- this risk is further diminished where shorter recovery periods are adopted.

Taking into account customer feedback and the financial sustainability analysis it has undertaken, Sunwater has published two sets of RAB-based prices with a preference for a reasonable final position to be found between these two extremes.

A note on the return of positive annuity balances

Four irrigation service contracts – Dawson Valley, Mareeba-Dimbulah Distribution and Burdekin-Haughton Bulk and Distribution – are forecast to have a positive closing annuity balance in 2026-27. Rather than embedding the return of these positive balances in prices (as Sunwater proposed at the 2025 Irrigation Pricing Review), Sunwater proposes to return funds to customers in the form of a bill rebate. This approach avoids distorting future RAB-based target and customer prices. Sunwater's proposed rebate includes the return of funds over time with appropriate weighted average cost of capital (WACC) interest adjustments to ensure that customers are compensated for the time value of money.

The two options for the return of funds – namely, four and eight years – were chosen to obtain feedback on whether customers preferred to receive a rebate over a shorter or longer time period. A four-year period was chosen as the lower option to reflect feedback received in the early stages of the 2025 Irrigation Pricing Review i.e. irrigators would generally prefer to receive monies owed more promptly, noting the potential to "miss out" on the benefit should they sell entitlements.

2.2. Calculating target prices

The price calculation process adopted by Sunwater is consistent with that used in the 2025 Irrigation Pricing Review and the terms of the Direction Notice.

2.2.1. Appropriate categorisation of expenditure and opening RAB balances

Sunwater has addressed QCA guidance on the appropriate capitalisation of renewals expenditure via a full review of its capitalisation procedure, supported by accounting and regulatory firm KPMG. Wherever possible, Sunwater has sought to adopt aligned

accounting and regulatory approaches, and a copy of its Draft Revised Capitalisation Procedure is provided in Appendix 2.

Sunwater will adopt this new policy regardless of the outcome of the RAB Review and will work through the necessary process changes to ensure that renewal expenditure is consistently classified according to the revised procedure by 1 July 2027.

It should also be noted that Sunwater's proposed interim capitalisation approach for the 2027–28 and 2028–29 years exposes its customers to little, if any, transitional pricing risks because:

- approximately 97-98 per cent of annual renewal expenditure has been classified as capital expenditure. This approach, when combined with QCA's ex-post review of renewals expenditure at the next irrigation pricing review, means the risk of misclassification is borne by Sunwater as it has no automatic avenue for the future recovery of misclassified opex.
- Sunwater's interim approach is expected to be consistent with the revised capitalisation procedure.
- Sunwater expects that the full and careful application of its revised capitalisation procedure will eliminate any residual projects classified as opex which otherwise have the potential to cause temporary target price increases.

Sunwater proposes to set initial opening RAB balances in a manner consistent with its 2025 Irrigation Pricing Review proposal. This approach formed a central part of Sunwater's engagement with customers across both reviews and was considered to reasonable by QCA[3]. Under the proposed approach, the initial opening RAB balances at 1 July 2027 are set to:

- the value of the annuity closing balance for 22 service contracts with a negative annuity closing balance at 30 June 2027
- zero for the four service contracts with a positive annuity closing balance.

2.2.2. Allowable costs

Allowable costs (expenditure) are the foundation of the irrigation price setting process and are typically defined by the Government via the referral (or direction) notice ahead of any irrigation pricing review.

For this review, the Direction Notice defines the total allowable costs for the current price path period as those set out in QCA's January 2025 Final Report (for 2027–28 and 2028–29), adjusted for the following:

- Removing the annual step change in operating expenditure relating to the Customer and Stakeholder Project (CASPr), as set out in Table 13 of the QCA January 2025 Final Report
- For RAB-based prices – An adjustment for any under- or over-recovery of costs in 2025-26 and 2026-27 resulting from the difference in present value terms between QCA's unit costs and the corresponding price targets.

[3] QCA 2024, Draft Report, Rural irrigation price review 2025-29: Sunwater, June, p. 90.

2.3. Proposed prices

Sunwater has calculated target and customer prices for existing irrigation tariff groups in its 26 price-regulated service contracts for:

- annuity-based recovery of renewals expenditure
- RAB-based recovery of renewals expenditure under two depreciation options:
  - a 25-year term for depreciation of the initial opening RAB balance
  - a 50-year term for depreciation of the initial opening RAB balance.

The return of positive closing annuity balances to customers has not been included in target and customer prices. Sunwater proposes to rebate these amounts to customers. For transparency, Sunwater has unitised the rebate amounts under four and eight years for relevant price regulated service contracts. Inclusion of the rebate in its assessment of customer bill impacts has been clearly identified.

A full suite of prices under both approaches is included in the appended service contract summaries.

The following section describes the impact of the proposed shift in renewals funding methodology for the 2027–28 financial year on prices and irrigator bills. Under QCA's pricing methodology, the change in target prices from 2027–28 to 2028–29 is set to QCA's level of expected inflation. This allows Sunwater to focus solely on the change in target prices from the 2026-27 to 2027–28 financial year in assessing target price impacts for this review.

Long-term impacts of the adoption of the RAB approach were central to Sunwater's engagement materials for this proposal and were included in the online customer calculator.

2.3.1. RAB-based target prices

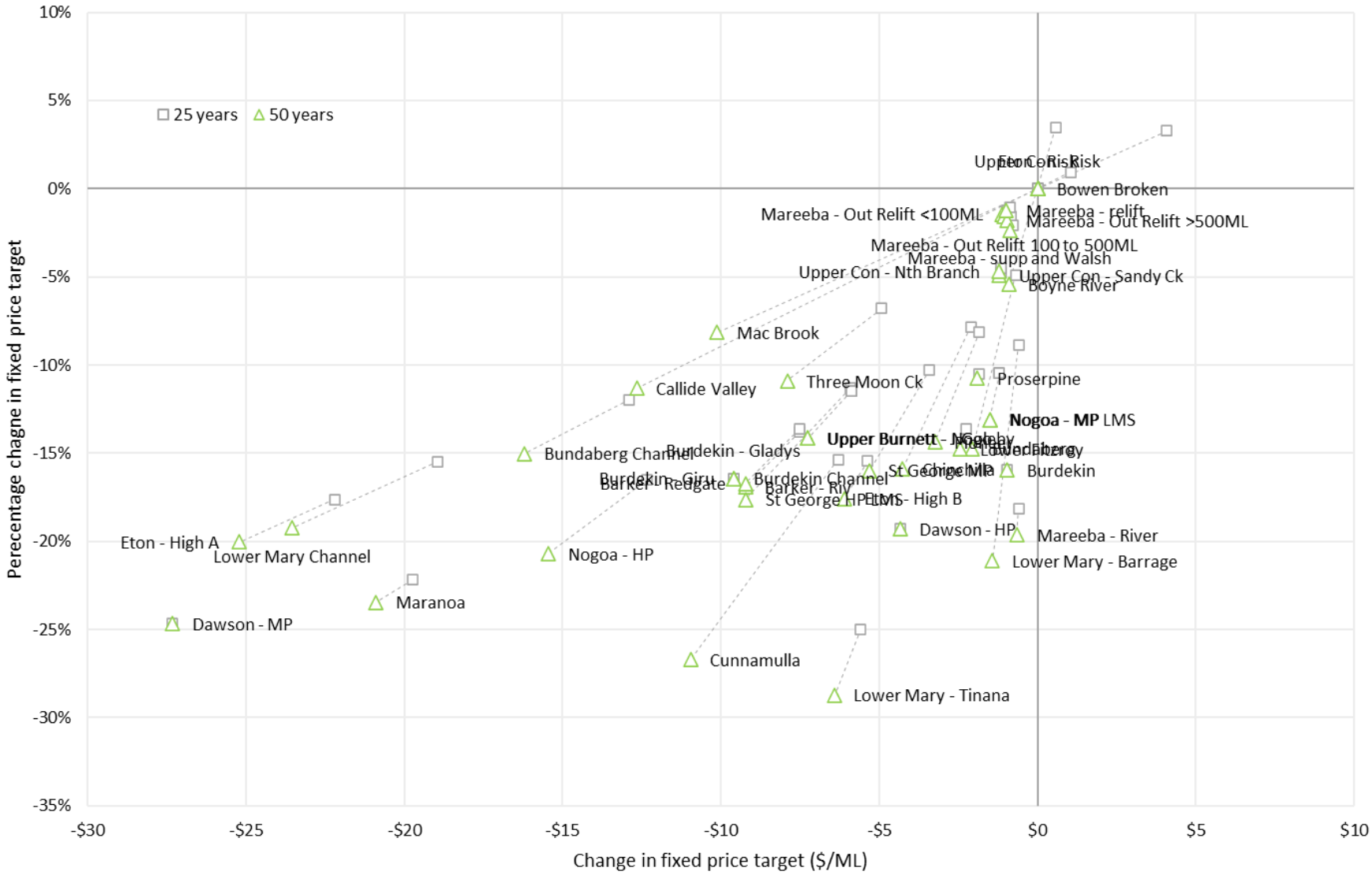
The RAB approach will result in target prices (for fixed Part A and Part C charges) that are materially lower for most tariff groups in 2027–28 than they would be under the annuity approach. This is particularly the case where the initial opening RAB balance is depreciated over a 50-year period.

Figure 1 shows the impact of the shift to a RAB approach on target (fixed) prices in 2027–28 in percentage (%) and dollar terms ($/ML) using depreciation periods of both 25 and 50 years.

Key insights from this figure are:

- Fixed **target prices** in 2027–28 are lower in **ALL** tariff groups under the RAB approach when the initial RAB opening balance is depreciated over 50 years.
  - The largest reductions occur in the Lower Mary – Tinana and Teddington (–29%), Cunnamulla (–26%), Dawson Valley High Priority (–25%) and Maranoa River (–23%) tariff groups.
  - The smallest reductions occur in Upper Condamine – North Branch Risk A (–0.4%), Bowen Broken (–0.4%), Mareeba-Dimbulah – Relift (– 1%) and Mareeba–Dimbulah – Outside Relift tariff groups.
- Fixed target prices in 2027–28 are lower in all tariff groups under the RAB approach when the initial RAB opening balance is depreciated over 25 years, except for Boyne River (+3%), Macintyre Brook (+3%) and Callide Valley (+1%) where the fixed target price will be modestly higher.

Figure 1 –Fixed price target (2027–28) –RAB and annuity difference for 25- and 50-year scenarios



2.3.2. Customer price and bill impacts

While the adoption of the proposed RAB approach does not impact variable target prices (Part B and Part D), the application of the Government's pricing principles can result in increases to customer prices, inclusive of both fixed and variable charges. This can occur where a reduction in fixed customer charges creates headroom under these principles to allow an increase in variable customer charge towards target levels.

The key focus of Sunwater's customer bill impact analysis under the RAB approach is on tariff groups that are at (or close to) target levels. This is because the customer bill impact for tariff groups that require more than two years to transition to target levels is driven by the application of the Government's pricing principles, rather than the potential adoption of the RAB approach.

To show customer bill impacts under the RAB approach for different sized customers, Sunwater has considered a range of customer sizes:

- **a small irrigation customer** at 25th percentile entitlement holdings
- **a typical (median) irrigation customer** at 50th percentile entitlement holdings
- **a large irrigation customer** at 75th percentile entitlement holdings.

For each group, Sunwater has assumed annual usage corresponding to the 20–year historical average, consistent with the approach taken to the setting of variable charge prices.

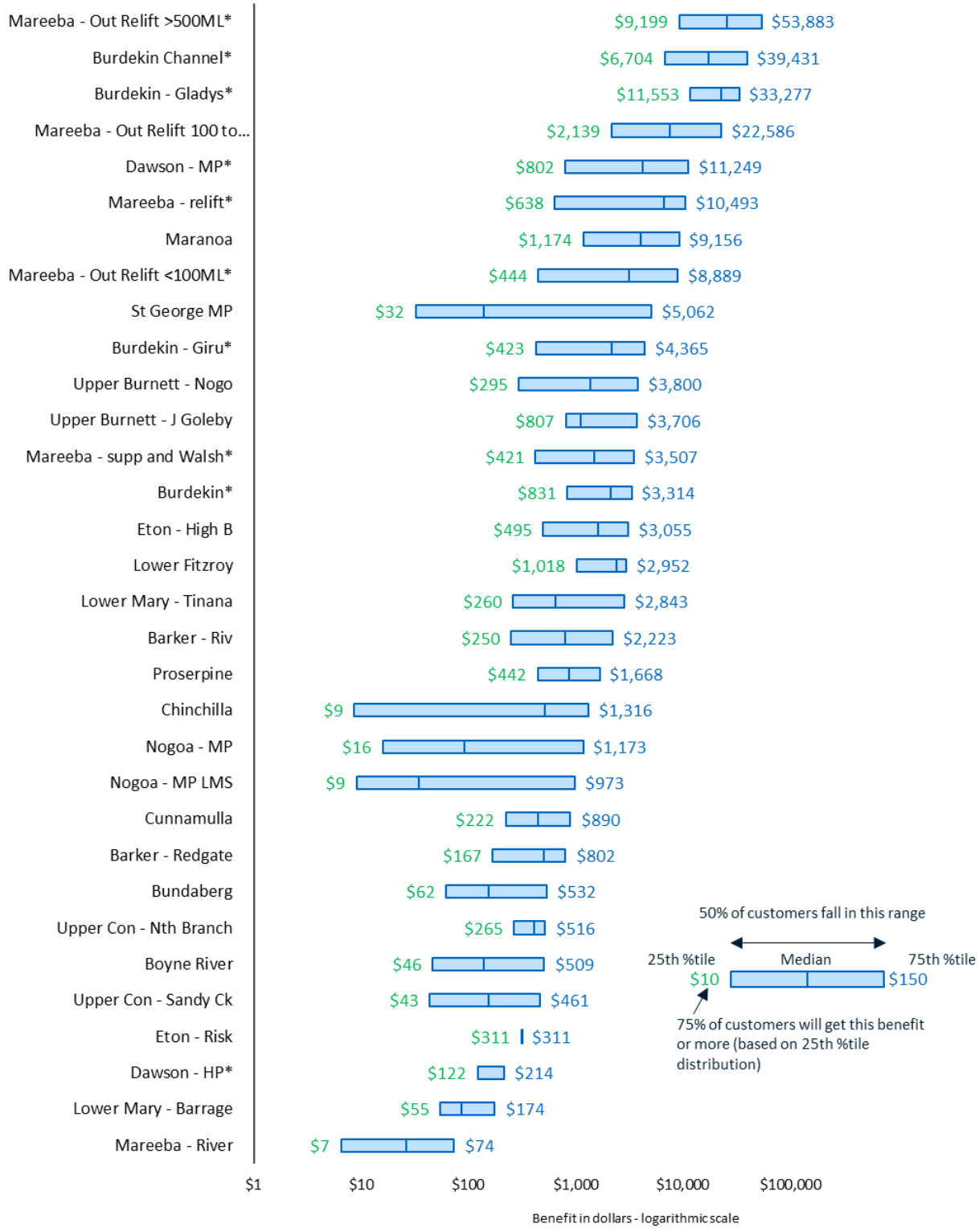
Figure 2 shows the amount that customers save under the RAB approach in the current price path period for tariff groups that will reach target level within 2027–28 or 2028–29. This analysis assumes a 50-year depreciation period and is inclusive of the positive balance rebate using a four-year return period.

The customer bill savings shown in Figure 2 are at the tariff group level, which is relevant to note for the Mareeba–Dimbulah – Outside Relift tariff groups, where customers using more than 100 ML belong to more than one tariff group. As a result, the bill savings under the RAB approach for these customers are the combined savings across all the tariff groups that they belong to.

In interpreting this figure, it is important to note:

- 75 per cent of irrigators will receive a benefit that is larger than the value shown in green (representing 25th percentile entitlement holdings)
- 25 per cent of irrigators will receive a benefit that is larger than the value shown in blue (representing 75th percentile entitlement holdings).

Figure 2 – Indicative savings (RAB 50-yr depreciation, net of rebates) for tariffs reaching target in period



Note:

figure excludes tariff groups with only one irrigation customer and tariff groups expected to require more than two years to complete transition to target levels

* denotes tariff groups receiving a rebate for return of positive annuity closing balance over a four-year period.

3. Background and context

This section sets out the scope of this review and provides some relevant context from the 2025 Irrigation Pricing Review.

3.1. Review scope and timing

On 25 October 2025, the Government directed[4] QCA to investigate and report on appropriate RAB-based prices for each of Sunwater and Seqwater's current irrigation tariff groups in 2027–28 and 2028–29. Section C of the Ministerial Direction Notice directs QCA to investigate and report on:

- QCA's assessment of the relative merits of the RAB-based and annuity-based pricing approaches
- appropriate RAB-based prices and annuity-based prices for 2027–28 and 2028–29
- a comparison between recommended RAB-based prices and annuity–based prices for 2027–28 and 2028–29, as well as between the corresponding price targets over this price path period.

The Direction Notice requires that both RAB- and annuity-based prices in 2027–28 and 2028–29 are calculated from the allowable costs reflected in QCA's January 2025 Final Report, with the following adjustments:

- removal of the annual step change in operating expenditure relating to CASPr, as reported in Table 13 of QCA's January 2025 Final Report
- *for RAB-based prices* – an adjustment for any under- or over-recovery of costs in 2025–26 and 2026–27 resulting from the difference between QCA's unit costs and the corresponding price targets.

Sunwater must submit its proposal to QCA by 27 February 2026 as the initial stage of this review.

3.2. Irrigation Pricing Review 2025 – Sunwater's first RAB-based pricing proposal

The 2025 Irrigation Pricing Review recommending irrigation prices for the 2025-26 to 2028–29 period was initiated by the Government via a Ministerial Referral Notice issued in March 2023.

Sunwater subsequently lodged its pricing proposal with QCA on 30 November 2023, which was based on a proposal to shift to a RAB–based pricing approach.

After fulfilling its consultation obligations, QCA published its Final Report on 7 February 2025, setting out recommendations on irrigation prices for the 2025–29 price path period. QCA's recommended prices for the 2025–2029 period were based on the annuity approach to the recovery of renewals expenditure.

QCA's 2025 Final Report findings form the basis for its RAB Review guidance notes on transitioning to a RAB-based approach to price setting.

[4] Direction Notice is shown in Appendix 1 and available at qca.org.au/wp-content/uploads/2025/11/direction-notice.pdf

4. Addressing RAB transition matters

Section 4 of QCA's guidance paper sets out several matters for consideration ahead of any transition to a RAB approach. These issues are consistent with QCA's findings in its January 2025 Final Report. It suggests Sunwater should:

- outline its approach to classifying renewals expenditure as capital or operating expenditures
- confirm its approach to the setting of initial RAB opening balances
- address transitional impacts associated with the period over which any positive RAB opening balances are recovered. The financial and pricing impacts of the transition should be considered over a minimum 10-year forecast period.

This section addresses each of these in turn.

4.1. Capitalisation of renewal expenditures

Relevant to the capitalisation of renewals expenditure, the QCA guidance paper states that Sunwater's proposal should include:

- an explanation of how Sunwater's capitalisation policy results in an appropriate classification of expenditure for regulatory purposes under a RAB approach, including how its approach addresses areas for improvement identified in the 2025-29 irrigation pricing 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.

The guidance paper also notes:

"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."[5]

4.1.1. Revised capitalisation procedure – long term approach to capitalisation

A wholesale review of significant accounting or regulatory policies/procedures is a complex exercise.

At the time of the *Irrigation Pricing Review 2025*, Sunwater was comfortable with its accounting treatment of capitalisation and considered a full review of this policy (and implementation activities) *before* the adoption of a RAB approach to price setting was not a prudent use of time or resources.

As part of ongoing business improvement activities since that time, Sunwater has reviewed several financial and accounting policies, including its policies and procedures relating to impairment and capitalisation. This work has resulted in Sunwater initiating a full review of its capitalisation procedure, supported by accounting and regulatory firm KPMG. KPMG coordinated a holistic review of the capitalisation procedure with consideration given to QCA feedback contained in its 2025 Final Report, as well as accounting and regulatory principles and precedent.

As a result of this review, Sunwater has developed, and plans to adopt and implement, a revised capitalisation procedure that wherever possible aligns accounting and regulatory approaches.

A copy of Sunwater's revised capitalisation procedure and implementation plan is included in Appendix 2 of this proposal.

[5] QCA 2025, Review of RAB-based irrigation prices from 1 July 2027, Guidance paper, p. 9.

Importantly Sunwater intends to implement its revised procedure regardless of the outcome of this RAB review. As part of its work supporting Sunwater, KPMG prepared an implementation plan for changes to the capitalisation procedure. Sunwater intends to work through these changes over the next 12-15 months with a view to ensuring that expenditure can be consistently classified according to the revised procedure by 1 July 2027.

Once implemented, Sunwater is confident its revised capitalisation procedure will see renewals expenditure appropriately classified between capital and expense (from both accounting and regulatory perspectives). Should a RAB approach be adopted, this procedure will form the foundation of Sunwater's renewals proposal for the expected 2029 irrigation pricing review.

4.1.2. RAB review capitalisation approach

Both the RAB and the annuity approaches aim to lessen the impact of lumpy or uneven expenditure on customer prices.

For the purpose of the RAB review, and reflecting the compressed timeframes of the review outlined in QCA's guidance, Sunwater has adopted the same approach it took in response to QCA's Draft Report findings at the Irrigation Pricing Review 2025.

Under this approach, Sunwater used a keyword search designed to identify renewal activities that should be classified as capex. Keywords were selected from conversations with experienced planners and asset managers responsible for the expenditure recovered by the annuity.

The key steps involved in this approach were:

- 1 – Identify renewals expenditures that contain the key capex words: program, purchase, install, upgrade, rfrb, refurbish, refurb, new, NDT, replace
    - This step resulted in 98 per cent (2027–28) and 99 per cent (2028–29) of individual renewal expenditures being initially identified as capex
- 2 – Calculate the annual project value associated with each individual renewal transaction
- 3 – Further refine the estimate of capex renewal expenditures derived under step 1 by removing renewals expenditures that were initially classified as capex, but should be expensed because:
    - they have a project value of under $10,000
    - they have a project value of over $10,000 but their project ID includes the following opex keywords: maintenance, minor works, repair, study, options, decommission, design, inspection, investigate, valuation, clean, inspect, test, condition, review, survey, gate, produce and retired.

  This final step results in the final capitalisation rate dropping marginally to 96 per cent in 2027–28 and 98 per cent in 2028–29.

In its 2025 Final Report, QCA published concerns raised by its consultant AtkinsRéalis that the order of the keyword search produced different outcomes depending on the order of the word search.

- This observation reflects that some project IDs contain both opex and capex keywords.
- This effect was most pronounced in the minor works program where the nature of project descriptors could lead to alternative classifications if some keywords were reversed.

- While Sunwater acknowledges this effect, it does not automatically follow that the final outcome is unreasonable – indeed, AtkinsRéalis came to the same conclusion, stating that for:
  "activities above the capitalisation threshold and, which have both capex and expense keywords, it does not appear unreasonable [to us] that they be treated as capex rather than expensed." [6]

The final step in the process was a review by relevant subject matter experts of the outcome of the desktop analysis. This review provided comfort that the nature of the activities proposed to be capitalised are consistent with peers and would likely be confirmed by the revised capitalisation procedure (once finalised).

The work that Sunwater has completed with KPMG in developing a revised Draft Capitalisation Procedure further confirms its expectation that the outcome of this desktop exercise will be reflected in future capitalisation under the new procedure.

Sunwater's proposed capitalisation policy results in around 96-98 per cent of annual renewals expenditure being capitalised under the RAB approach for 2027–28 and 2028–29, as shown in **Table 1**.

Table 1 - Proposed capitalisation of forecast renewal expenditures under RAB approach

Cost component	Unit	2027–28	2028–29
Total – QCA forecast renewal expenditure	$m	32.85	21.83
Opex (step change)	$m	1.25	0.50
Proposed capex component	$m	31.60	21.32
Percentage capitalised	**%**	**96**	**98**

Extension of revised capitalisation approach beyond the price path period

In its 2025 Final Report, QCA also noted that Sunwater's analysis was not extended beyond the price path period. It argued this made it difficult to extend Sunwater's assessment of the pricing impacts of applying the new guideline over the longer term.

Sunwater has addressed this matter by extending the approach outlined above to the full 33-year forecast that underpinned annuity-based prices at the 2025 Irrigation Pricing Review. This extension was important to allow Sunwater to show comparable RAB- and annuity-based prices over multiple price path periods as part of its customer engagement.

Misclassification risk

A final practical consideration of any transition is the misclassification risk that arises from the use of this interim approach. Sunwater assesses that it bears the risk given the interim approach capitalises nearly all renewals expenditure. A future "re-classification" from capex to opex would likely result in foregone revenue to Sunwater, rather than over-recovery of costs. This is because Sunwater is not able, under the current regulatory framework, to recoup an under-recovery of opex in 2027–28 and 2028–29 if the application of the revised capitalisation procedure materially increases the portion of renewals activity classified as opex.

[6] AtkinsRéalis, Sunwater supplementary report, January 2025, p. 63.

Sunwater notes that this risk exists only for a short period of time – four years at the time of its prior submission and two years under the RAB review. Sunwater's consideration of misclassification risk is outlined in **Table 2**.

Table 2 – Risks associated with interim capitalisation approach to forecast renewal expenditure

Issues	Risk and who bears it	Mitigation	Likelihood risk materialises
• Expenditure forecast as opex is classified as capex when work is completed	• Customers – if unmitigated, customers would pay twice for the same piece of work	• Ex-post review process at irrigation pricing review 2029 • Classification of greater than 96 per cent of renewals expenditure as capex	• Very low given the amount of renewals expenditure that Sunwater is proposing be classified as opex
• Expenditure forecast as capex is classified as opex when work is completed	• Sunwater – if unmitigated, Sunwater would only recover a portion of the expenditure as there is no ex-post adjustment to opex	• Ex-post review process at Irrigation Pricing Review 2029 • Internal (Sunwater) knowledge of activities that are included in the annuity provides confidence that the classification approach taken is reasonable	• Low – based on Sunwater's understanding of work historically included in the renewals annuity, Sunwater expects very little expenditure classified as capex will be reclassified as opex

Sunwater acknowledges that its next full irrigation pricing proposal will need to demonstrate appropriate capitalisation of actuals for 2027–28 and 2028–29 and in its forecasts for the subsequent four years (at minimum).

4.2. Setting the initial RAB

QCA's guidance paper states that Sunwater's proposal should include a description of, and rationale for, the initial opening RAB balance for each service contract from 1 July 2027.

Sunwater's proposed treatment of the positive and negative closing annuity balances in 2026–27 under the RAB approach is as follows:

- for positive closing annuity balances, the initial RAB balance is set at $0
- for negative closing annuity balances, the initial RAB balance is set at the value of the closing annuity balance.

The rationale for this approach is that positive balances represent funds recovered from customers before the relevant work has been undertaken, while negative balances represent work performed by Sunwater before recovery of that cost from customers.

Engagement during the 2025 Irrigation Pricing Review did not suggest any support for Sunwater to retain positive balances to offset future expenditure.

This approach is consistent with that taken in Sunwater's proposal to the 2025 Irrigation Pricing Review and was central to its engagement with customers throughout this review. Sunwater did not receive any feedback from customers suggesting issues with this approach, or proposed alternatives.

Sunwater notes that QCA has already stated that it considers this approach to be reasonable.[7]

[7] QCA 2025, Review of RAB-based irrigation prices from 1 July 2027, Guidance paper, p. 9.

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 lifecycle of the asset base. In proposing the time period for depreciating the initial opening RAB balance, QCA's guidance paper suggests Sunwater should balance its commercial interests against the preferences of customers for stability in target prices.

4.3.1. Returning positive annuity balances

Sunwater proposes to return the positive closing annuity balance to customers in the form of a bill rebate, rather than through a negative revenue building block that builds the rebate into RAB-based target prices. This approach avoids distorting future RAB-based target and customer prices and is a change to Sunwater's 2025 Irrigation Pricing Review proposal.

Under this approach, the service contracts that have a positive closing annuity balance in 2026–27 will have a zero opening RAB balance in 2027–28.

Table 3 – Service contracts with a positive closing annuity balance in 2026–27

Irrigation service contract	Units	Closing balance	Initial RAB balance
Burdekin–Haughton – Bulk	$m	3.96	$0
Burdekin–Haughton – Distribution	$m	2.15	$0
Mareeba Dimbulah – Distribution	$m	13.69	$0
Dawson Valley	$m	3.22	$0
Total	**$m**	**23.02**	

As discussed in **Section 5**, Sunwater consulted customers on two options for the timeframe to return the 2026–27 positive annuity closing balance to customers. The aim of this consultation was to obtain feedback on whether customers preferred to receive this rebate over a shorter time period e.g. one price path or four years, or a longer time period e.g. two price paths or eight years.

Sunwater intends to calculate the bill rebate using a similar methodology to that successfully applied to its electricity cost pass-through rebates.

4.3.2. Recovering negative annuity balances

There are 22 irrigation service contracts with a negative closing annuity balance in 2026–27, as shown in **Table 4**.

As discussed in **Section 5**, Sunwater has modelled and engaged with customers on two options for the timeframe for recovering the negative annuity closing balance in 2026–27 from customers. This approach was adopted to provide decision makers with the flexibility to appropriately consider trade-offs between customer and Sunwater outcomes.

Table 4 – Service contracts with a negative closing annuity balance in 2026–27

Irrigation service contract	Annuity balance 30 June 2027	RAB balance 1 July 2027
Callide Valley – Bulk	-29.99	29.99
Macintyre Brook – Bulk	-20.53	20.53
Bundaberg – Bulk	-20.32	20.32
Boyne River – Bulk	-16.17	16.17
Nogoa Mackenzie – Bulk	-10.21	10.21
Bundaberg – Distribution	-9.25	9.25
Pioneer River – Bulk	-8.99	8.99
St George – Bulk	-8.47	8.47
Bowen Broken – Bulk	-4.93	4.93
Barker Barambah – Bulk	-3.89	3.89
Three Moon – Bulk	-3.65	3.65
Upper Burnett – Bulk	-2.99	2.99
Eton – Bulk	-2.78	2.78
Lower Mary – Distribution	-2.50	2.50
Lower Mary – Bulk	-2.48	2.48
Chinchilla Weir – Bulk	-1.84	1.84
Mareeba–Dimbulah – Bulk	-1.31	1.31
Upper Condamine – Bulk	-0.59	0.59
Cunnamulla Weir – Bulk	-0.53	0.53
Lower Fitzroy – Bulk	-0.29	0.29
Proserpine River – Bulk	-0.28	0.28
Maranoa – Bulk	-0.04	0.04

4.3.3. Commercial considerations

QCA's guidance paper makes it clear that Sunwater should develop its position on proposed timeframes for the recovery or return of annuity balances for each scheme by balancing its commercial interests e.g. maintaining short-term cash flows with the interests of customers, particularly price target stability. This is particularly important given 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 lifecycle of the asset base.

The guidance paper also notes that Sunwater should consider both short-term (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 decreases 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. QCA considers that the appropriate depreciation and return timeframes may differ between schemes.[8]

Balancing these customer outcomes with Sunwater's commercial outcomes requires an understanding of how commercial outcomes are to be assessed. QCA's guidance paper does not outline how Sunwater might address this.

[8] QCA 2025, Review of RAB–based irrigation prices from 1 July 2027, Guidance paper, p. 10.

Having sought clarity, Sunwater examined how other economic regulators assess the implications of their price reviews for the commercial interests of the regulated entity.

In general terms economic regulators tend to look to financial sustainability for this purpose. For example, the Independent Pricing and Regulatory Tribunal (IPART) in New South Wales conducts a financing test during price reviews to allow instances where there may be financial sustainability issues to be identified. Short-term financing issues may arise, for example, due to a mismatch between revenues and costs caused by building block model assumptions (which affect the timing of revenues) being out of sync with management/ownership decisions (which affect the timing of costs).[9]

The IPART financing test is similar to the approach taken by other economic regulators,[10] and is based on three financial ratios:

- funds from operations (FFO) interest cover (calculated as FFO plus interest expense divided by interest expense) – This is a coverage ratio and measures a utility's ability to service its debt.
- FFO over net debt (calculated as FFO divided by debt) – This is a more dynamic measure of leverage than debt gearing and a useful indicator of a utility's ability to generate cash flows.
- debt gearing /regulatory asset base (calculated as debt divided by the regulatory value of fixed assets plus working capital) – This is a leverage ratio and measures a utility's ability to repay its debt.

Credit agencies commonly look for these metrics (or similar) as part of their rating assessments. They help identify any potential financing issues by comparing the likely credit ratings to a benchmark credit rating adopted for regulatory purposes.

In Sunwater's case, metrics involving a RAB element are problematic due to the current use of an annuity building block and the absence of RAB associated with historical capital expenditure – a feature common to most other regulated utilities.

To support its assessment of appropriate terms for recovery of opening RAB balances, Sunwater has analysed the impact of a shift to RAB-based pricing on a key credit metric of the ratio between EBITDA and interest. This is a form of FFO over net debt and is considered a measure of Sunwater's ability to finance its activities over time.

The analysis Sunwater conducted considered both 25- and 50-year terms for recovering negative annuity balances and four- and eight-year terms for the return of positive annuity balances. This is consistent with the material developed for customer engagement and reflects Sunwater's view that 25 years is not unreasonable based on the weighted average of the past 10 years of renewals expenditure (QCA Draft Report 2024), while 50 years is a reasonable upper limit that is closer to the expected life of a scheme (inclusive of longer lived assets like dams and weirs). Sunwater's analysis shows:

- the combination of a 50-year recovery period and a four-year rebate period has the greatest impact on Sunwater's cashflows but is not considered to result in unacceptable risk to its EBITDA to interest ratio
- this risk is further diminished where shorter recovery periods are adopted.

[9] IPART, Review of our financeability test, Final Report, November 2018.

[10] Financeability guideline | Australian Energy Regulator (AER)

5. Engagement

This section explains how Sunwater has met QCA's expectation that proposals are informed by meaningful engagement with customers and their representatives.

QCA's guidance paper states Sunwater's engagement should focus on clearly explaining the proposed change to a RAB approach and seeking input on how to manage transitional impacts.

In explaining the proposed change, QCA expects Sunwater to provide customers with information that helps them understand the motivation for the transition, including the relative merits of the two approaches in both the short and longer term. The guidance paper notes Sunwater should adopt a targeted engagement approach given the compressed timeframes for this interim review. This may include focusing on key customer representative bodies, using existing forums and/or leveraging previous engagement insights. It also states that Sunwater's proposal should include a description and explanation of its engagement with relevant customer representative groups including details of engagement activities, feedback received and how this input has influenced its proposal.

5.1. Insights from previous engagement

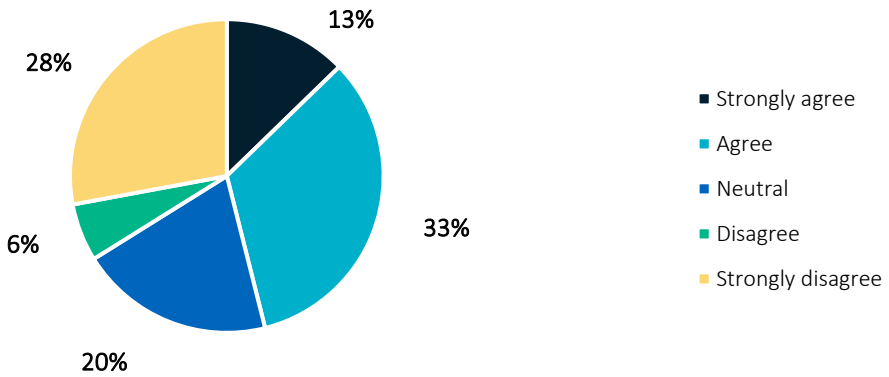
QCA's guidance paper encourages Sunwater to leverage previous engagement insights for its proposal.

Sunwater undertook significant customer engagement on its proposed RAB approach during the development of its pricing proposal for the QCA 2025 Irrigation Pricing Review. This engagement included multiple channels including face-to-face scheme forums, meetings of a peak body forum (Consultative Committee) and online forums. A dedicated project microsite and comparative invoice calculator were launched to assist customers in their understanding of the relative impact of the RAB and annuity methodologies on invoices using real inputs i.e. real allocation and usage data.

Most customers were either broadly supportive of, or agnostic to, the change from the annuity approach to the RAB approach, as evident from customer preferences reflected through voting on an independent platform (GoVote), which Sunwater used to capture de-identified, quantified customer feedback. The RAB methodology received a positive sentiment of 46 per cent, with 20 per cent neutral and 34 per cent unsupportive, as shown in the figure below.

Submissions received by QCA during the 2025 Irrigation Pricing Review generally came from schemes with a low level of support for the change. QCA stated in its Draft Report that it did not consider any of the issues raised to be material under an appropriately designed RAB approach.[11]

Figure 3 – Customer voting responses on RAB approach – November 2023 Sunwater proposal



[11] QCA 2024, Rural irrigation price review 2025–29: Sunwater, June, p. 95.

5.2. Engagement approach

Sunwater's deep understanding of its customers directly influenced the development of its engagement activities for this RAB review. Sunwater engages with customers and representative groups on a range of topics each year and a key feature of its approach to this review was to leverage pre-existing forums, supplemented by whole-of-customer-base communication.

5.2.1. Engagement approach and justification

To successfully implement this engagement program within review timeframes, Sunwater needed to adopt a targeted approach that leveraged established channels and the strong foundations laid in the previous QCA 2025 Irrigation Pricing Review. Sunwater developed a stakeholder engagement plan to guide its activities, which aimed to ensure:

- adequate discussion of the relative merits of the RAB approach by describing the key features of both approaches
- exploration of different timeframes for the return and recovery of the annuity closing balances on the short- and long-term impact on price targets and customer prices
- opportunities for customers to influence Sunwater's proposal, including providing feedback on their preferred timeframe for the return and recovery of annuity closing balances.

The plan aligned with Sunwater's overarching Stakeholder Engagement Policy and principles of engagement as set out in **Table 5** below.

Table 5 – Sunwater's principles of engagement

Principle	Description
Proactive	• We are proactive and visible in managing Sunwater's corporate footprint. • We engage early and maintain contract with our stakeholders, even during periods of limited activity.
Open and transparent	• Our engagement is based on what can be achieved and opportunities to improve outcomes. Open communication means our stakeholders can provide informed comment. Transparency means we accurately evaluate and report on our activities.
The big picture	• We engage with stakeholders in a way that considers the social environment in which we operate. We work towards understanding the interconnection between our communities and our activities.
Two-way communication	• We listen to all our stakeholders and validate their ideas and look for ways to collaborate to find solutions.
Responsive	• We continually track our stakeholders' needs and expectations and ensure their insights inform our actions. All of our contact has purpose, and we act on the feedback we receive and deliver on the commitments we make.

5.2.2. What topics did Sunwater engage with customers on?

Sunwater engaged customers and their representatives on:

- an explanation of the key features of the annuity and RAB approaches and a description of their relative merits
- potential price impact under a short (25-year) and long (50-year) depreciation period for the initial RAB opening balance
- the return of positive annuity balances to customers via a bill rebate over four- and eight-year periods

- proposed target prices and customer prices under both approaches in the current price path period and the associated customer bill impact over this period
- indicative target prices and customer prices under both approaches over the long term.

5.2.3. How did Sunwater engage with customers?

Within the timeframe provided, Sunwater focused its efforts on providing updated web content and advising customers as new tools and materials were available, while using already scheduled Customer Advisory Committee meetings and a customer-led forum in the Mareeba scheme to reach customer representatives, as shown in Table 6. This provided a variety of ways for irrigation customers to learn about the proposed RAB approach and engage with Sunwater on key issues. The schemes represented through these forums accounted for approximately 75 per cent of Sunwater's total irrigation customers, with combined water allocation entitlements of approximately 86 per cent of Sunwater's total irrigation entitlements.

Table 6 – Forums used to present material to scheme-specific customer representatives

Scheme	Date held	# of customer reps
Sunwater-led forums (Customer Advisory Committees)		
Bundaberg	13 November 2025	8
Callide Valley	18 November 2025	2
Dawson Valley	19 November 2025	5
Barker Barambah	20 November 2025	6
Lower Mary River	21 November 2025	7
Nogoa Mackenzie	25 November 2025	5
Burdekin-Haughton	4 December 2025	12
Customer-led forums		
Tinaroo Water Committee	28 November 2025	6

As well as these meetings, Sunwater held four online forums to which all customers were invited (via direct SMS and email). Sessions were held on several dates and times to maximise the opportunity for customers to attend:

- 24 November 2025 at 5:00pm
- 25 November 2025 at 10:00am
- 26 November 2025 at 5:00pm
- 28 November 2025 at 10:00am.

Forty-three customers attended across the four forums.

Irrigation customer bill invoice calculator

To help customers understand how the RAB approach might impact pricing and inform their responses to Sunwater's survey, an Irrigation Customer Invoice Calculator was uploaded to the project microsite, made relevant to specific tariff groups in irrigation service contracts.

Sunwater developed this calculator to effectively share a relevant view of irrigation customer invoices and water prices under the existing annuity approach and the proposed RAB approach, with scenarios for different timeframes for returning and recovering closing annuity balances.

Using the calculator (which is still online), a customer could enter their entitlement holding and expected usage and see their annual bill under both the RAB- and annuity-based approach over multiple price paths. This was important for customers to understand the expected pricing impact of moving to a RAB-based approach.

The key information shown in the calculator is:

- the bill impact in the final two years of the current price path period and the price change expected in the first year of future price path periods to 2053–54 under the following scenarios:
    - For customers in a scheme with a negative closing annuity balance, a comparison of the annual bill outcome for a customer under both approaches based on 25-year and 50-year depreciation periods for the initial opening RAB balance
    - For customers in a scheme with a positive closing annuity balance, a comparison of the annual bill outcome for a customer under the RAB approach based on the return of this positive rebate over a four- and eight-year timeframe
- a heat map of price transition to cost reflective levels under both approaches over a long-term forecasting horizon to 2053–54. This heat map shows when customer prices under each approach are in transition versus when they reach target (cost reflective) levels across eight future price path periods to 2053–54.

Cost-to-price calculator

In response to customer feedback that they wanted to better understand Sunwater's approach to converting the allowable costs into RAB–based prices, another calculator was developed in early 2026 that clearly shows the calculations underlying the RAB price-setting approach. Sunwater provided customers with this tool via the project microsite (RAB Irrigation Price Review – Cost-to-price calculator – Sunwater).

This tool was designed to make it easier for customers to understand how target prices are calculated under the proposed RAB approach by providing:

- a visual overview of the steps in Sunwater's pricing process
- tables showing the building block components underlying the annual revenue requirement over the next 30 years, projected capital expenditure and the related weighted asset life
- a transparent explanation of Sunwater's approach to calculating the return on capital[12] and the return of capital (depreciation) under the RAB approach in 2027–28.

The use of the tool was supported by an explanatory video, and irrigation customers were alerted to these new materials via SMS and email.

[12] Note – return on capital is consistent with the Queensland Government's lower bound pricing policy.

Customer survey

In February 2026, Sunwater surveyed irrigation customers on timeframe options for closing annuity balances to be recovered/returned if a RAB approach is adopted.

To make a fair comparison, the prices under the annuity approach are based on the same 30-year forecast renewal expenditure as used to calculate prices under the RAB approach. It is important to note this means the annuity used in the comparison against the RAB differs from the QCA annuity approach as currently applied to prices, where the annuity contribution is CPI-indexed and calculated annually on a rolling 30-year annuity period.

Fact sheets: RAB Irrigation Price Review

Videos: Regulated Asset Base (RAB) – Sunwater

RAB Irrigation Price Review – Cost-to-price calculator – Sunwater

Independent consultancy report

Sunwater engaged Synergies Economic Consulting to prepare an independent report on the relative merits of both approaches. This report considered the theoretical basis of each approach, the nature and scale of any practical limitations or flaws that might arise, and how these flaws do (or might) impact customer prices.

This report was commissioned at Sunwater's expense in response to irrigator requests for a non-Sunwater perspective on the relative merits of the two methodologies.

A copy of Synergy's report and the terms of reference was shared with customers and is included as Appendix 4.

5.3. How Sunwater has responded to feedback received

Sunwater received a variety of feedback throughout its initial engagement window (November-December 2025). This included feedback provided during or after Customer Advisory Committee meetings and online forums. Sunwater also reached out to QFF representatives for feedback on the nature and manner of engagement.

Feedback received came in broad and, at times, contradictory themes:

- a desire for greater levels of technical detail to accompany slides and the online bill calculator – some irrigators wanted to understand key inputs and assumptions e.g. WACC assumptions, building block contributions and levels of recovery under each methodology
- suggestions that explanatory materials should be focused on simplified visualisations, helping irrigators understand the two methodologies at a high level using easy-to-understand visuals
- desire to better understand how the ex-ante and ex-post review processes work under both a RAB and an annuity approach
- scepticism/mistrust that the proposed change was in irrigators' best interests – in part due to it originating from Sunwater / QCA.
- a desire for independent perspectives.

Above all, feedback highlighted that there remains a diversity of opinion and focus within the irrigator customer group.

In response to customer feedback, Sunwater aimed to promptly provide more information in customers' desired format, including:

- developing two explainer videos to better help irrigators understand and engage with materials being provided – one on explaining the two methodologies, and one supporting the cost to price calculator
- developing a cost to price calculator in response to a desire from customers for improved visibility of key inputs
- deferring the customer survey from early December 2025 to mid-February 2026 to provide more time for Sunwater to prepare desired materials and for customers to consider them
- engaging an economic consultant to prepare an independent perspective on the relative merits of the annuity and RAB methodologies, allowing customers to hear why this change might be worth supporting from someone other than Sunwater.

The slide pack used at online forums was updated during the first week to include early responses to feedback as well as communicate the decision to defer the proposed customer survey to provide time to address the customer request for more detailed information.

5.3.1. Feedback on pricing matters

Sunwater's customer survey took place in the week commencing 16 February 2026. A total of 31 responses were received, representing a response rate of less than 1 per cent.

Sunwater has chosen to simply publish survey results as well as prices under both the short-term and long-term annuity closing balance scenarios.

1. 12 out of the 20 responses received from irrigators in service contracts with a negative closing annuity balance supported a longer period for the return of negative balance. The remaining 8 responses supported a shorter term.
2. 7 out of the 11 responses received from irrigators in service contracts with a positive closing annuity balance supported a shorter period for the return of positive balances. The remaining 4 responses supported the return of the positive balances over a longer term.

Sunwater also sought the views of QFF as the peak representative body in Queensland. Its feedback was that QFF members would need to engage with member boards before determining a position. Sunwater has not pursued this further in the time available, noting that it does not have standing forums for engaging with QFF member organisations, and that member boards have the opportunity to respond directly to the QCA.

6. Allowable costs and revenue requirement

This section addresses allowable costs and the required adjustments, sets out how these costs have been converted to a revenue requirement under both RAB and annuity approaches, and outlines how Sunwater has calculated proposed prices under both approaches.

6.1. Allowable costs

Allowable costs (expenditure) are the foundation of any price setting process. They are typically defined by Government via a referral (or direction) notice ahead of any irrigation pricing review.

The Direction Notice defines the total allowable costs for the current price path period as those set out in QCA's January 2025 Final Report (for 2027–28 and 2028–29) adjusted for:

- removing the annual step change in operating expenditure reported in Table 13 of QCA's January 2025 Final Report (CASPr costs)
- *For RAB-based prices* – an adjustment for any under- or over-recovery of costs in 2025–26 and 2026–27 resulting from the difference between QCA's unit costs and the corresponding price targets.

Sunwater has itemised the removal of the scheme-level annual allowance for CASPr in the scheme summary tables that show revenue requirements under both RAB and annuity methodologies.

Allowable costs can be categorised as those that do not require smoothing (operations, maintenance and support costs) and those that do (renewals costs).

Costs that do not require smoothing are simply translated into a revenue requirement building block on a dollar-for-dollar basis.

Costs that do require smoothing are calculated using either an annuity formula (currently) or appropriate capital returns formula (RAB approach).

Under either approach a tax allowance building block may also need to be calculated using the regulatory profit and loss statement approach.

6.1.1. Customer And Stakeholder Project (CASPr)

Following the conclusion of the QCA 2025-29 Irrigation Pricing Review in January 2025, Sunwater formed the view that CASPr, as scoped, was not going to deliver the necessary water accounting and billing system solution and terminated the project. Sunwater will take lessons from CASPr onboard as it works to identify an alternative for delivering necessary water accounting and billing system functionality.

Given this decision, Sunwater is not proposing to recover costs spent on the project to date and will rebate the CASPr cost allowances currently being recovered through irrigation prices already set by Government for this price path. This is consistent with the Government's Direction Notice.

It is Sunwater's intention to return to customers the CASPr step change costs recovered in 2025–26 and 2026–27 by way of a bill rebate, rather than through an adjustment to future prices. This approach will ensure a more equitable outcome as the rebate amount will more closely align with individual customer's contribution to these costs.

For clarity, QCA's final decision on the allowance for CASPr costs for the 2025–29 price path period took the form of an opex step change of $2.4 million in 2022–23 dollar terms, with around $0.5 million allocated to regulated schemes. Sunwater's proposed adjustment to remove CASPr costs from the revenue requirement for setting prices is -$0.61 million in 2027–28 and -$0.63 million in 2028–29.

6.2. Approach to smoothing adjustment, capital returns and tax allowance

The following sections outline Sunwater's approach to calculating the adjustment made to the revenue requirement under the RAB to account for the differences between unit costs and smoothed price targets under the annuity approach in the first two years of the current price path period.

There is also a brief discussion of Sunwater's approach to the calculation of the taxation allowance as it differs from the approach outlined in QCA's guidance paper.

6.2.1. Revenue adjustment to account for impact of smoothing of costs

The following table provides an understanding of the calculation basis of Sunwater's proposed adjustment to revenue requirement under the RAB approach required to ensure that its proposed RAB–based prices in 2027–28 and 2028–29 recover the correct level of costs across the four years of the current price path period.

Table 7 – Proposed adjustment to revenue requirement under RAB approach

Cost component	Units	2025–26	2026–27	Total
QCA final position – Total – Smoothed revenue requirement – Annuity (excluding CASPr costs)	$m	99.9	102.8	202.7
QCA final position – Total – Unsmoothed revenue requirement – Annuity (excluding CASPr costs)	$m	100.0	102.9	202.9
Difference ($)	$m	0.1	0.1	0.2
CPI-related adjustment*	$m	0.0	0.0	0.0
Difference in 2027–28 dollars	**$m**	**0.1**	**0.1**	**0.2**

Note: * The unrounded CPI related adjustment is $7,565 in 2025-26 and $2,890 in 2026-27

It is important to note that Sunwater has not made an adjustment to ensure the proposed annuity prices (excluding CASPr costs) in 2027–28 and 2028–29 are present value neutral across the four years of the current price path period. This is because the adjustment is likely to be immaterial given that it only arises because of the exclusion of CASPr costs.

6.2.2. Basis of capital returns calculation

Sunwater's proposed approach is to calculate capital returns at the individual service contract level on the following basis:

- The classification of the QCA forecast renewal expenditures in each year as either capex or opex in accordance with Sunwater's proposed capitalisation procedure. The capex component of the QCA forecast renewal expenditures is included in the annual RAB roll-forward, whereas the remaining opex component is included in the revenue requirement in the year this expenditure is incurred.
- An initial opening RAB balance in 2027–28 calculated as follows:
  - Setting the initial RAB opening balance at zero for all irrigation service contracts that have a positive annuity closing balance in 2026–27.

- Setting the initial RAB opening balance equal to the annuity closing balance in 2026–27 for all irrigation service contracts that have a negative annuity closing balance, noting that Sunwater consulted customers on two options for the depreciation period applying to the initial RAB opening balance – a shorter period where the initial RAB opening balance is depreciated over 25 years, and a longer period where the initial RAB opening balance is depreciated over 50 years.

6.2.3. Basis of the tax allowance calculation

Sunwater's proposed approach is to calculate the tax allowance at the individual service contract level. This differs from the QCA guidance paper, which suggests it would calculate the tax allowance for a benchmark efficient entity comprising all regulated service contracts.

Under Sunwater's proposed approach, the tax allowance is based on a standard tax calculation at the individual service contract level. This approach ensures that a tax allowance only applies to schemes that have underlying tax liabilities, as shown in the illustrative example in **Table 8**.

Table 8 – Illustrative example – Proposed tax allowance calculation at individual scheme level

Component		Units	2027–28	2028–29
Income	Revenue requirement (excluding tax allowance)	$'000	2011.89	2177.91
Less taxable expenses	Operating and maintenance expenditure	$'000	-1587.29	-1609.21
	Tax depreciation (existing)	$'000	0.00	0.00
	Tax depreciation (new)	$'000	-2507.82	-157.79
	Interest	$'000	-153.07	-190.39
Less tax losses brought forward		$'000	0.00	-2236.29
Taxable income		$'000	-2236.29	-2015.77
Tax payable		$'000	0.00	0.00

Calculating the tax allowance at a pseudo whole-of-Sunwater level breaks with the user pays/cost reflectivity principles which underpin all other cost elements of the current irrigation pricing framework.

Sunwater's preference is to avoid the situation where an individual service contract incurs a tax allowance in a year that is not justified by their underlying tax liabilities, or the corollary where an individual service contract with underlying tax liabilities is allocated a tax allowance of zero.

6.3. Revenue requirement under annuity approach

QCA's Final Report position on total revenue requirement at a whole-of-Sunwater (price-regulated service contracts) level is shown in **Table 9**. The CASPr opex step change is itemised and removed for transparency.

Table 9 – Annual revenue requirement (unsmoothed) under annuity approach

Cost component	Units	2027–28	2028–29
Dollar-for-dollar building blocks	$m		
Opex allowance (excluding CASPr allowance)	$m	83.45	85.58
CASPr allowance	$m	0.61	0.63
Revenue offset	$m	-1.92	-1.97
Calculated building blocks	$m		
Annuity contribution	$m	25.62	26.24
Tax allowance	$m	0.00	0.00
Total revenue requirement - QCA final position	$m	107.8	110.5
CASPr adjustment	$m	-0.61	-0.63
Total adjusted revenue requirement	$m	**107.1**	**109.8**

6.4. Revenue requirement under RAB approach

This section provides Sunwater's proposed (unsmoothed) annual revenue requirements under the RAB approach at a whole of Sunwater (price-regulated service contracts) level, where the initial opening RAB balance is depreciation over a short period of 25 years and a long period of 50 years. The CASPr step change cost and the proposed smoothing adjustment to ensure present value neutrality over the four-years of the current price path period are itemised for transparency.

Table 10 shows Sunwater's proposed (unsmoothed) annual revenue requirements in 2027–28 and 2028 –29 under the RAB approach at a whole of Sunwater (price-regulated service contracts) level, where the initial RAB opening balance is depreciated over 25 years.

Table 10 – Annual revenue requirements – unsmoothed– RAB approach, 25-year depreciation

Cost component	Units	2027–28	2028–29
Dollar-for-dollar building blocks			
Opex allowance (excluding CASPr allowance)	$m	84.70	86.08
CASPr allowance	$m	0.61	0.63
Revenue offset	$m	-1.92	-1.97
Calculated building blocks			
Return on capital[13]	$m	10.82	12.38
Return of capital (depreciation)[14]	$m	2.26	3.34
Tax allowance	$m	0.32	0.33
Total revenue requirement - QCA final position	$m	**96.78**	**100.78**
Less CASPr opex	$m	-0.61	-0.63
Less smoothing adjustment	$m	0.23	0.00
Total adjusted revenue requirement	$m	**96.40**	**100.15**

Table 11 shows Sunwater's proposed (unsmoothed) annual revenue requirements in 2027–28 and 2028– 29 under the RAB approach at a whole-of-Sunwater (price-regulated service contracts) level where the initial RAB opening balance is depreciated over 50 years.

[13] Note – the return on capital is consistent with the Queensland Government's lower bound pricing policy.
[14] Net of indexation.

Table 11 – Annual revenue requirements – unsmoothed– RAB approach, 50-year depreciation

Cost component	Units	2027–28	2028–29
Dollar-for-dollar building blocks			
Opex allowance (excluding CASPr allowance)	$m	84.70	86.08
CASPr allowance	$m	0.61	0.63
Revenue offset	$m	-1.92	-1.97
Calculated building blocks			
Return on capital[15]	$m	10.82	12.58
Return of capital (depreciation)[16]	$m	-0.77	0.15
Tax allowance	$m	0.09	0.05
Total revenue requirement - QCA final position	$m	**93.53**	**97.52**
Less CASPr opex	$m	-0.61	-0.63
Less smoothing adjustment	$m	0.23	0.00
Total adjusted revenue requirement	$m	**93.15**	**96.90**

[15] Note – the return on capital is consistent with the Queensland Government's lower bound pricing policy.
[16] Net of indexation.

7. Proposed target and customer prices

This section addresses the requirements set out in Section 3.2 of QCA's guidance paper by explaining Sunwater's price-setting approach and providing its proposed prices by tariff group under both approaches in 2027–28 and 2028–29. It also outlines how Sunwater has considered the potential short- and long-term financial and pricing impacts of transitioning to a RAB approach.

Proposed customer and target prices under RAB and annuity-based approaches are included in the service contract level summaries provided as a supplement to this report.

7.1. Sunwater's approach to calculating proposed prices for current price path period

Sunwater has derived proposed target and customer prices for each current tariff group in accordance with the approach applied at the QCA 2025–29 Irrigation Pricing Review.

Proposed target prices for the fixed and volumetric components for each current tariff group in 2027–28 and 2028–29 are set to recover the proposed revenue requirement allocated to each group under both approaches.

Customer prices for 2027–28 and 2028–29 under both approaches are set to target prices, except where the pricing principles in the Direction Notice apply:

- The increase in total price (fixed price and volumetric price) must not exceed forecast inflation plus $2.54 per ML[17]
- Fixed and volumetric customer price must not exceed the respective target prices.

Importantly Sunwater has modified the 2026–27 prices (the base year to which pricing principles apply) to exclude CASPr costs.

7.1.1. Price calculation process

The annual revenue requirement (**Section 6**) is converted into proposed prices for each tariff group and irrigation service contract for 2027–28 and 2028–29 as shown in the figure below.[18] As outlined in **Section 5**, Sunwater developed and published customer materials explaining the step-by-step process its pricing model follows to calculate fixed prices for high and medium priority tariff groups as well as variable prices for usage.

Sunwater's approach to smoothing unit costs for each tariff component over the last two years of the current price path period so the price targets increase by forecast inflation in 2028–29 is consistent with the approach used in the 2025-29 irrigation pricing review, which involves:

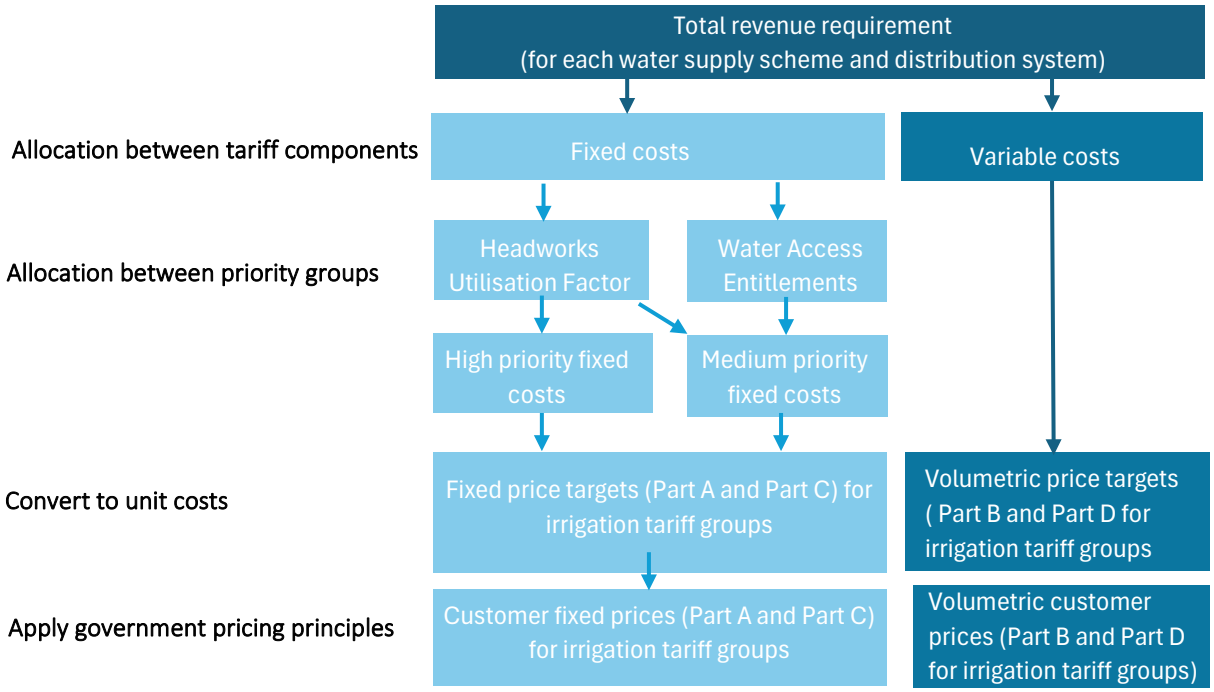
- **Step 1:** Converting the nominal revenue requirement (inclusive of QCA fees) into constant dollar terms
- **Step 2:** Converting the denominator (WAE ML) into present value terms
- **Step 3:** Dividing Step 1 outcome by Step 2 result and multiplying by 1000
- **Step 4:** Compounding the smoothed target prices in 2027–28 by forecast inflation.

As outlined in Section 5, Sunwater prepared a customer engagement tool that allowed customers to see each element of this process for their service contract. A plain language visualisation was also prepared to support customer understanding.

[17] Note that $2.54 per ML is expressed in 2024–25 dollars.

[18] For an explanation of the QCA approach to convert total revenue requirement to price targets for each tariff group, refer to Section 9 of QCA Final report for 2025–29 irrigation price review.

Figure 4 – Overview of Sunwater's proposed price-setting approach



7.2. Proposed target and customer prices in 2027–28 and 2028–29 under both approaches

The impact of moving to a RAB approach on target prices is due to how each approach funds renewal expenditures. Under the annuity approach, the renewal expenditure component of the revenue requirement is represented by the annuity contribution. In contrast, under the RAB approach renewal expenditures are recovered through an annual capital return based on the RAB value and the renewal component of annual operating expenditures, which are expensed in the year they are incurred.

Sunwater's proposed 2027–28 and 2028–29 target and customer prices by tariff group for each bulk water supply scheme and distribution system under both approaches are shown in the scheme summaries attached to this proposal.

7.2.1. Target price comparison under both approaches in the current price path period

The price impact of transitioning to a RAB approach is reflected in the annual target price change in 2027–28 given that the increase in target prices in 2028-29 is limited to forecast inflation under our price smoothing approach.

The proposed target and customer prices at the tariff group level under both approaches are shown in the individual scheme summaries attached to this proposal.

The percentage impact of the shift to a RAB approach on fixed target prices in 2027–28 at the tariff group level is shown for bulk water supply schemes in **Table 12** and for distribution systems in **Table 13**. Sunwater's proposed fixed target prices under the RAB approach are shown for both depreciation options – where the initial RAB opening balance is depreciated over a short period of 25 years and over a long period of 50 years.

Table 12 – Proposed 2027–28 fixed target prices (Part A charge only) – Bulk ($/ML)

Bulk irrigation service contract	Tariff group	2027–28 Fixed target price			Percentage change *(RAB vs annuity)*	
		Annuity	RAB approach			
			D50	D25	D50	D25
Barker Barambah	Barker Barambah River	54.51	45.28	46.99	-17%	-14%
	Barker Barambah Redgate Relift	55.17	45.94	47.65	-17%	-14%
Bowen Broken	Bowen Broken Rivers	10.14	10.14	10.14	0%	0%
Boyne River and Tarong	Boyne River and Tarong	16.75	15.84	17.33	-5%	3%
Bundaberg	Bundaberg	13.9	11.85	13.22	-15%	-5%
Burdekin-Haughton[A]	Burdekin-Haughton	5.95	5.00	5.00	-16%	-16%
Callide	Callide Valley	111.84	99.18	112.89	-11%	1%
Chinchilla Weir	Chinchilla Weir	26.88	22.61	24.77	-16%	-8%
Cunnamulla Weir	Cunnamulla	41.02	30.06	34.72	-27%	-15%
Dawson Valley[A]	Dawson Valley River (high priority)	110.75	83.43	83.43	-25%	-25%
	Dawson Valley River (medium priority)	22.45	18.12	18.12	-19%	-19%
Eton	Eton (high B priority)	34.73	28.63	29.36	-18%	-15%
	Eton (high A priority local management supply)	125.85	100.64	103.65	-20%	-18%
Lower Fitzroy	Lower Fitzroy	16.47	14.04	14.23	-15%	-14%
Lower Mary	Lower Mary – Mary Barrage	6.77	5.34	6.17	-21%	-9%
	Lower Mary – Tinana and Teddington	22.32	15.91	16.74	-29%	-25%
Macintyre Brook	Macintyre Brook	124.15	114.03	128.24	-8%	3%
Maranoa	Maranoa River	89.04	68.15	69.29	-23%	-22%
Mareeba-Dimbulah	Mareeba-Dimbulah – Access Charge	818.08	818.08	818.08	0%	0%
	Mareeba-Dimbulah – River Tinaroo/Barron	3.31	2.66	2.71	-20%	-18%
Nogoa Mackenzie	Nogoa Mackenzie (medium priority)	11.45	9.95	10.25	-13%	-10%
	Nogoa Mackenzie (medium priority local management supply)	11.45	9.95	10.25	-13%	-10%
	Nogoa Mackenzie (high priority)	74.64	59.19	62.30	-21%	-17%
Pioneer	Pioneer River	22.55	19.31	20.72	-14%	-8%
Proserpine	Proserpine River	17.66	15.76	15.80	-11%	-11%
St George	St George (medium priority)	33.2	27.89	29.79	-16%	-10%
	St George (high priority local management supply)	52.28	43.06	46.37	-18%	-11%
Three Moon	Three Moon Creek	72.44	64.54	67.52	-11%	-7%
Upper Burnett	Upper Burnett – Regulated section of the Nogo/Burnett River	51.28	44.02	45.39	-14%	-11%

Bulk irrigation service contract	Tariff group	2027–28 Fixed target price			Percentage change *(RAB vs annuity)*	
		Annuity	RAB approach			
			D50	D25	D50	D25
	Upper Burnett – John Goleby Weir	51.28	44.02	45.39	-14%	-11%
Upper Condamine	Upper Condamine – Sandy Creek or Condamine River	24.45	23.25	23.29	-5%	-5%
	Upper Condamine – North Branch	25.64	24.44	24.48	-5%	-5%
	Upper Condamine – Risk A	23.87	23.87	23.87	0%	0%

Note A – Tariff groups in these service contracts will also receive a rebate for the return of positive annuity balances.

Table 13- Proposed 2027–28 fixed target prices (Part C charge only) – Distribution ($/ML,)

Distribution service contract	Tariff group	2027–28 Fixed target price			Percentage change *(RAB vs annuity)*	
		Annuity	RAB approach			
			D50	D25	D50	D25
Bundaberg Channel	Bundaberg Channel	93.95	79.79	81.73	-15%	-13%
Burdekin Channel[A]	Burdekin channel	52.39	43.75	43.75	-16%	-16%
	Burdekin – Giru Groundwater	52.39	43.75	43.75	-16%	-16%
	Burdekin – Gladys Lagoon (other than natural yield)	52.39	43.75	43.75	-16%	-16%
Lower Mary	Lower Mary channel	115.65	93.52	97.30	-19%	-16%
Mareeba-Dimbulah[A]	Mareeba-Dimbulah – outside a relift up to 100 ML	73.22	72.76	72.86	-1%	0%
	Mareeba-Dimbulah – outside a relift 100 ML to 500 ML	64.57	64.16	64.25	-1%	0%
	Mareeba-Dimbulah – outside a relift over 500 ML	50.14	49.82	49.89	-1%	0%
	Mareeba–Dimbulah – river supplemented streams and Walsh River	33.79	33.57	33.62	-1%	-1%
	Mareeba–Dimbulah — relift	75.97	75.63	75.71	0%	0%

Note A – Tariff groups in these service contracts receive a rebate for the return of positive annuity balances.

7.2.2. Proposed customer prices under RAB approach in the current price path period

The impact of Sunwater's proposed RAB approach on the level of customer prices at the tariff group level in the current price path period depends on whether these prices are being transitioned to target (cost reflective) levels in accordance with the Government's pricing principles. The impact under the RAB approach also depends on the magnitude of the initial opening RAB balance. For example, the reduction in RAB-based prices will be larger than otherwise for irrigation service contracts that have a zero initial opening RAB balance, such as in the case of a positive closing annuity balance. The impact of moving to a RAB approach is also lessened for these customers when the return of the positive annuity closing balance is taken into account. It is for these reasons that Sunwater has considered the customer price impact under the RAB approach on the basis of the following three tariff group categories, as shown in **Table 14**.

Table 14 – Categories of customer price impact under RAB approach at tariff group level

Category	Tariff group	Detail
Category 1 *No individual charge is on transition path under either RAB scenario*	1. Bowen Broken Rivers 2. Boyne River and Tarong 3. Bundaberg 4. Burdekin – Gladys Lagoon (other than natural yield) 5. Burdekin-Haughton 6. Burdekin Channel 7. Chinchilla Weir 8. Cunnamulla 9. Dawson Valley– River (medium priority) 10. Eton (high A priority local management supply) 11. Eton (high B priority) 12. Eton risk priority 13. Lower Fitzroy 14. Lower Mary – Mary Barrage 15. Lower Mary – Tinana and Teddington 16. Mareeba-Dimbulah – River Tinaroo/Barron 17. Mareeba-Dimbulah – Outside a relift 100 ML to 500 ML 18. Mareeba-Dimbulah – Outside a relift over 500 ML 19. Mareeba-Dimbulah – Outside a relift up to 100 ML 20. Mareeba-Dimbulah – river supplemented streams and Walsh River 21. Nogoa Mackenzie (medium priority local management supply) 22. Nogoa Mackenzie (medium priority) 23. Pioneer River 24. Proserpine River 25. St George (high priority local management supply) 26. St George (medium priority) 27. Upper Burnett – John Goleby Weir 28. Upper Burnett – Regulated section of Nogo/Burnett River	Target fixed prices for these tariff groups are shown in Table 12 and Table 13. All charges (fixed and variable) are available in the service contract summary.
Category 2 *Tariff group finishes transition i.e. reaches target under at least one RAB scenario*	1. Barker Barambah – River 2. Upper Condamine – Sandy Creek or Condamine River	Target fixed prices are shown in Table 12 for these tariff groups. Customer prices for these tariffs groups are shown in Table 15. All charges (fixed and variable) are available in the service contract summary.

Category	Tariff group	Detail
Category 3 *At least one charge remains on transition under both RAB scenarios*	**Bulk service contracts** 1. Barker Barambah – Redgate Relift 2. Callide Valley 3. Dawson Valley – River (high priority) 4. Macintyre Brook 5. Maranoa River 6. Nogoa Mackenzie (high priority) 7. Three Moon Creek 8. Upper Condamine – North Branch 9. Upper Condamine – North Branch – Risk A **Distribution service contracts** 10. Bundaberg Channel 11. Burdekin – Giru Groundwater 12. Lower Mary Channel 3. Mareeba-Dimbulah – Relift	Target fixed prices for these tariff groups are shown in Table 16. All charges (fixed and variable) are available in the service contract summary.

Sunwater's proposed customer prices by tariff group in 2027–28 and 2028–29 under the RAB approach for tariff group category 2, where customer prices reach target level under at least one RAB depreciation scenario are shown in Table 15.

Table 15 – Customer prices for tariff groups where transition concludes under at least one RAB scenario

Tariff group	Charge	2027–28 price ($/ML)			2028–29 price ($/ML)		
		Annuity	RAB approach		Annuity	RAB approach	
			D50	D25		D50	D25
Barker Barambah – River	Part A	$50.22	$45.28	$46.99	$54.51	$46.58	$48.33
	Part B	$4.95	$9.31	$8.18	$5.09	$9.58	$9.58
Upper Condamine – Sandy Creek or Condamine River	Part A	$24.45	$23.25	$23.29	$25.15	$23.91	$23.95
	Part B	$9.12	$10.32	$10.28	$11.66	$11.66	$11.66

Note – Grey shading in cell indicates price shown is target price.

Sunwater's proposed customer prices by tariff group in 2027–28 and 2028–29 under the RAB approach for tariff group category 3, where at least one customer price remains on transition to target level under both RAB depreciation scenarios are shown separately for bulk and distribution service contracts in the Table 16.

Table 16 – Customer prices for tariff groups with at least one charge below target under both RAB scenarios

Tariff group	Charge	2027–28 Price ($/ML)			2028–29 Price ($/ML)		
		Annuity	RAB approach		Annuity	RAB approach	
			D50	D25		D50	D25
Bulk water							
Barker Barambah – Redgate Relift	Part A	$50.22	$45.94	$47.65	$54.51	$47.26	$49.01
	Part B	$26.84	$31.12	$29.41	$27.61	$34.86	$33.11
Callide Valley	Part A	$41.38	$41.38	$41.38	$45.41	$45.41	$45.41
	Part B	$10.34	$10.34	$10.34	$10.64	$10.64	$10.64
Dawson Valley – River (high priority)	Part A	$70.25	$70.25	$70.25	$75.11	$75.11	$75.11
	Part B	$1.88	$1.88	$1.88	$1.93	$1.93	$1.93
Macintyre Brook	Part A	$77.20	$77.20	$77.20	$82.26	$82.26	$82.26
	Part B	$4.78	$4.78	$4.78	$4.92	$4.92	$4.92
Maranoa River	Part A	$82.61	$68.15	$69.29	$87.83	$70.10	$71.28
	Part B	$77.33	$91.79	$90.65	$79.55	$97.27	$96.09
Nogoa Mackenzie (high priority)	Part A	$53.72	$53.72	$53.72	$58.11	$58.11	$58.11
	Part B	$0.99	$0.99	$0.99	$1.02	$1.02	$1.02
Three Moon Creek	Part A	$48.84	$48.84	$48.84	$53.09	$53.09	$53.09
	Part B	$5.68	$5.68	$5.68	$5.84	$5.84	$5.84
Upper Condamine – North Branch	Part A	$25.64	$24.44	$24.48	$26.38	$25.15	$25.19
	Part B	$21.97	$23.17	$23.13	$25.44	$26.67	$26.63
Upper Condamine – North Branch – Risk A	Part A	$23.38	$23.38	$23.38	$24.56	$24.56	$24.56
	Part B	$22.52	$22.52	$22.52	$25.50	$25.50	$25.50
Distribution							
Bundaberg Channel	Part A	$13.90	$11.85	$13.22	$14.29	$12.19	$13.60
	Part B	$1.57	$1.56	$1.56	$1.61	$1.61	$1.61
	Part C	$68.06	$70.11	$68.74	$72.87	$74.97	$73.56
	Part D	$55.88	$55.89	$55.89	$57.49	$57.49	$57.49
Burdekin – Giru Groundwater	Part A	$5.95	$5.00	$5.00	$6.12	$5.14	$5.14
	Part B	$0.39	$0.39	$0.39	$0.40	$0.40	$0.40
	Part C	$38.81	$39.76	$39.76	$42.77	$43.75	$43.75
	Part D	$17.89	$17.89	$17.89	$18.40	$18.40	$18.40
Lower Mary Channel	Part A	$6.77	$5.34	$6.17	$6.96	$5.49	$6.35
	Part B	$1.24	$1.24	$1.24	$1.27	$1.27	$1.27
	Part C	$73.05	$74.48	$73.65	$78.00	$79.47	$78.61
	Part D	$52.54	$52.54	$52.54	$54.05	$54.05	$54.05
Mareeba-Dimbulah – Relift	Part A	$3.31	$2.66	$2.71	$3.40	$2.74	$2.79
	Part B	$0.63	$0.63	$0.63	$0.65	$0.65	$0.65
	Part C	$66.95	$67.60	$67.55	$71.72	$72.38	$72.33
	Part D	$100.68	$100.68	$100.68	$103.57	$103.57	$103.57

Note – Grey shading in cell indicates price shown is target price.

7.3. Long-term pricing impacts under RAB approach

QCA's guidance paper suggests that Sunwater's proposal should include a description and explanation of the short- and long-term potential financial and pricing impacts of transitioning to a RAB approach. This should include modelling of allowable costs and unit costs over a minimum 10-year forecast period to capture transitional effects and enduring impacts.

The focus of this section is on discussing the indicative long-term pricing impacts of transitioning to a RAB approach (short-term potential impacts are discussed in Section 7.2 of this proposal). It should also be noted that a detailed comparison of target and customer prices under both approaches is provided in the service contract summaries attached to this proposal.

Long-term prices are available in our online materials.

7.3.1. Modelling approach

Long-term price calculation approach under RAB approach

Sunwater's indicative annual total revenue requirement under the RAB approach over the 2029-30 to 2053-54 forecast period is based on the following building block assumptions and inputs:

- An annual opex allowance over the forecast period is based on:
  - the proposed opex component of QCA forecasts of annual renewal expenditures in each year of the forecast period
  - QCA final opex allowance in 2028–29, excluding the CASPr step change, maintained in real terms over the forecast period using the QCA forecast of CPI
- The annual capital return over the forecast period is based on an annual RAB roll-forward, which is calculated using:
  - the new capex component of QCA forecasts of annual renewal expenditures
  - an annual depreciation expense calculated using an annual weighted average life
  - QCA final nominal post-tax WACC of 6.66 per cent
- The annual allowance for revenue offsets in 2028–29 is maintained over the forecast period in real terms using the QCA CPI forecast
- The annual taxation allowance over the forecast period is calculated at the irrigation service contract level.

The conversion of the revenue requirement into target prices and customer prices is the same approach used to calculate Sunwater's proposed prices in the current price path, as discussed in Section 7.1 of this proposal.

Long-term price calculation approach under annuity approach

Sunwater's approach to developing the indicative annual total revenue requirement over the 2029-30 to 2053-54 forecast period under the annuity approach is based on the annual annuity contribution calculated on a fixed 30-year annuity period, and a forecast CPI escalation applied to the QCA final opex allowance (excluding the CASPr step change) and revenue offsets in 2028–29. Sunwater has assumed that there is no annual tax allowance over the forecast period under the annuity approach.

To make a fair like-for-like comparison, prices under the annuity approach are based on the same 30-year forecast renewal expenditure as used to calculate prices under the RAB approach. It is important to note that this means that the annuity used in the comparison against the RAB differs from the existing QCA annuity approach, where the annuity contribution is calculated annually on a rolling 30-year annuity period.

The conversion of the revenue requirement into target and customer prices is the same approach used to calculate Sunwater's proposed prices in the current price path, as discussed in **Section 7.1.** of this proposal.

7.3.2. Indicative long-term pricing impact prices under both approaches

As explained in **Section 5**, Sunwater developed a comprehensive customer invoice calculator as part of its engagement strategy for this proposal.[19] Sunwater believes it is important to provide customer-specific rather than general information on the impacts of the adoption of the RAB approach, particularly given that the impact of the RAB approach on customer and target prices varies considerably by tariff group. It is for this reason that Sunwater designed its calculator to enable customers to select their service contract and tariff group, and input their specific WAE and annual usage. On this basis, Sunwater's calculator produces the following customer-specific information:

- the indicative long-term invoice outcomes for the RAB approach under both depreciation options compared with the annuity approach
- a heatmap of price transition to target (cost reflective) levels over the long term
- target prices under both approaches in 2027–28 and 2028–29 and corresponding indicative target prices over the long term
- customer prices under both approaches in 2027–28 and 2028–29 and corresponding indicative customer prices over the long term.

Customer invoice calculator example: Barker Barambah-Redgate Relift tariff group

Sunwater has relied upon its customer invoice calculator to provide its irrigation customers with insights into the long-term impact of adopting the RAB approach.

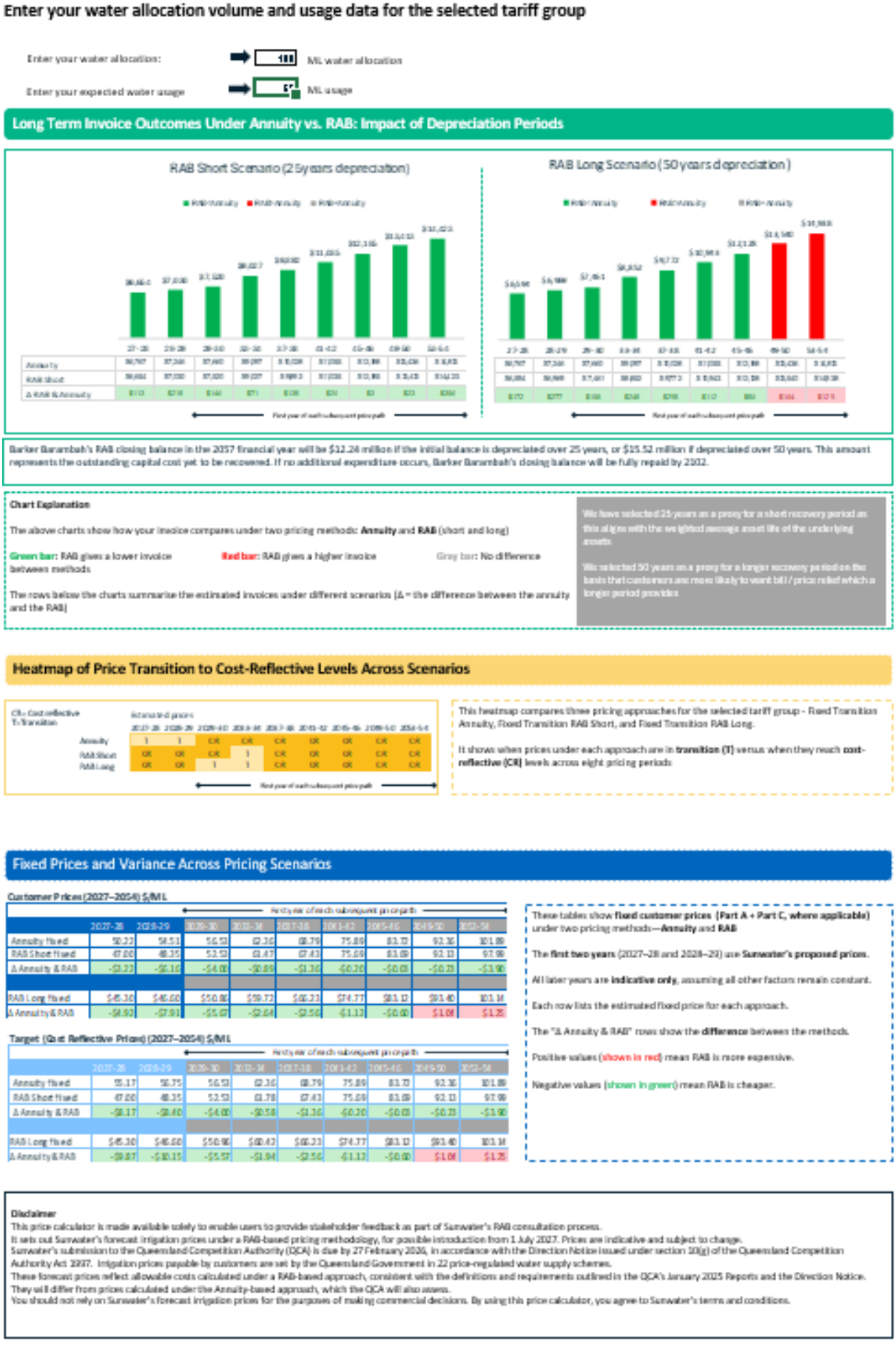
To illustrate the potential insights obtained from the calculator, a hypothetical customer in the Barker Barambah – Redgate Relift tariff group with WAE of 100 ML and annual usage of 65 ML, is shown in the screenshot of the calculator in **Figure 5** below.

Sunwater's calculator provides the following key insights on the impact of the RAB approach for this hypothetical customer:

- They are expected to pay a lower annual bill under the RAB approach based on 25-year depreciation over the long term compared with what they would pay under the annuity approach, as denoted by the green shaded columns in the figure (located at top left of the screenshot below).
- They are expected to pay a lower annual bill under the RAB approach based on 50-year depreciation compared with what they would pay under the annuity approach until the latter part of the projection period, as denoted by the green and red shaded columns in the figure (located at top right of the screenshot below).
- Their customer prices are expected to align with target prices under the annuity approach from 2029–30, whereas customer prices will experience periods of transition under the RAB approach until 2037–38, as highlighted in the heatmap and the customer and target price information tables shown in the screenshot below.

[19] Sunwater's irrigation customer invoice calculator is available at RAB Irrigation Price Review – Irrigation Customer Invoice Calculator – Sunwater.

Figure 5 – Illustrative example – customer invoice calculator



8. Conclusion

Sunwater and QCA both consider the RAB approach to have relative merits in terms of improved efficiency and transparency compared with the existing annuity approach.[20]

The key concerns with the existing annuity approach include the difficulty of accurately forecasting expenditure over a 30-year annuity period and the inability for customers to see the pricing impact of near-term renewals expenditure.

It was also recognised in the 2020 irrigation pricing review that the existing annuity approach is flawed, as it does not result in revenue adequacy over the initial term of the annuity. This is because the term for recovery of the remaining annuity fund balance is continually extended as the annuity calculation is progressively rolled forward over time. Further, because of this outcome, the cost of assets may not be fully recovered within their lifetime.[21]

Sunwater believes this proposal appropriately addresses QCA's concerns as raised in its January 2025 final report for the 2025–29 irrigation pricing review.

Sunwater's revised capitalisation procedure attached to this proposal appropriately addresses the QCA concerns, particularly given that Sunwater, not customers, bears the risks of any future changes in the rate of capitalisation under the RAB.

Sunwater has made a genuine effort to consult and engage customers on the price impacts of transitioning to a RAB approach over both a short- and long-term horizon, most notably through its customer invoice calculator and customer survey.

Sunwater has sought both to inform and respond to feedback from customers on what they consider to be the most appropriate way to address the transitional issues of the RAB approach. This has included the creation of additional educational materials and formats, as well as revisions to the timing of Sunwater's customer survey to provide customers more time to engage with those materials.

In relation to the question it put to customers, Sunwater has not sought to develop a definitive position on a period for return of funds. Rather Sunwater has put forward two timeframes that it sees as reasonable bookends, publishing the results of Sunwater's customer survey to help inform QCA and government consideration of this element of the RAB review.

Finally, Sunwater wishes to express its appreciation to irrigators who participated in its engagement and consultation activities. Consistent with the feedback provided to irrigators throughout its multi-year engagement on the RAB methodology, Sunwater's focus will remain on the provision of safe, sustainable and reliable irrigation services regardless of which methodology applies to the recovery of renewals expenditure.

[20] QCA 2025, Rural irrigation price review 2025–29: Sunwater, final report, January, p. 98.
[21] Saha International 2020, QCA Paper – Issues in the Application of Annuities, p. 23.

9. Glossary

Term	Definition
Access charge	This charge comprises an annual fixed amount per customer and recognises that some costs vary per customer, rather than by entitlements. Mareeba-Dimbulah is the only water supply scheme with an annual access charge.
Allowable costs	These costs are allowed to be included in Sunwater's revenue requirement, as per the interpretation and definition section of the referral notice.
Annuity	Refer to renewals annuity.
Annuity contribution	This is the annual revenue allowance that allows for the recovery of forecast asset renewal costs. It is (for Sunwater) calculated from a 30-year forecast of renewals expenditure.
Bulk Water Supply Scheme	Bulk water services that involve storing and delivering raw water to customers in accordance with their water access entitlements.
Customer and Stakeholder Project (CASPr)	A project to implement a new, integrated solution for customer and stakeholder relationship management, water accounting and billing.
Capital returns	Capital returns are applicable to capital assets, such as land, buildings and equipment, and comprise: • a return on assets, defined as the annual return to the owner of the assets to compensate for the opportunity cost of funds invested • a return of assets, defined as return of the initial cost of the capital assets in the form of an annual depreciation allowance.
Capex	Expenditure on capital assets, such as land, buildings, and equipment, that provide a benefit over more than a regulatory year.
Charge	The price applied to a specific tariff component.
Consumer Price Index (CPI)	A measure of inflation produced by the Australian Bureau of Statistics based on changes in the price of a fixed basket of goods and services acquired by households in the eight Australian states and territories.
Distribution service	Service provided to customers involving the operation, maintenance and renewal of assets (see distribution system) to convey water from a water storage or watercourse to an area closer to the final point of use.
Distribution system	Distribution systems generally comprise pumps, open channels and/or pipes designed to deliver water to customers not located on a river. All distribution system customers must also hold bulk water supply entitlements
Irrigation customer	A holder of water access entitlement(s) that uses water supplied by Sunwater for the purpose of irrigation.
Irrigation pricing review 2025	The QCA review of the pricing practices for monopoly business activities of Sunwater and distribution systems for the period 1 July 2025 to 30 June 2029.
Opex	Shorthand term for operating expenditure – all expenses required to run a business's operational activities. Opex is recovered from customer prices dollar for dollar in the year expended, compared with capex which is recovered over time.
Part A price	A fixed price per megalitre of entitlement, intended to recover the fixed costs associated with operating, maintaining, administering and renewing the bulk water supply schemes.
Part B price	A price per megalitre of annual usage, intended to recover the bulk variable costs associated with the actual delivery (usage) of water in relation to bulk water supply schemes.
Part C price	A fixed price per megalitre of entitlement, intended to recover all distribution system fixed costs.

Part D prices	A price per megalitre of annual usage, intended to recover the distribution system variable costs associated with the actual delivery (usage) of water.
Price path period	The period over which prices are set by Government following a review and recommendations by QCA. The price path period for this report is 1 July 2027 to 30 June 2029.
Queensland Competition Authority (QCA)	The economic regulator in Queensland tasked with ensuring monopoly businesses do not abuse their market power. They do this through price setting or monitoring roles across naturally monopolistic industries like water, rail, energy and ports, ensuring prices are competitive and access is fair.
Direction Notice	Issued by the Queensland Treasurer to QCA under Section 23 and 24 of the *Queensland Competition Authority Act 1997* (Qld) for it to investigate irrigation pricing practices related to bulk water supply and water distribution undertaken by Sunwater and Seqwater.
Regulated asset base (RAB)	The capital investment a business has made to provide a regulated service. It is different to the accounting asset base which represents the replacement costs of the assets – not what the assets owe the business over their life. Used as the basis for recovery of capital costs under a building block methodology.
Regulated schemes	The water supply schemes and distribution systems operated by Sunwater shown in Schedule 1 of the 2023 Referral Notice.
Renewals annuity	This is a funding method that recovers sufficient income (through prices) to fund the necessary asset renewal and rehabilitation works to maintain the serviceability and integrity of existing infrastructure assets. The annuity contribution recoveries will provide the cash requirements needed to renew a system of assets over the long-term.
Renewals expenditure	Expenditure on replacement and refurbishment of bulk supply and distribution assets that maintains the service potential of assets
Renewals funding methodology/cost recovery	The method to calculate the way renewals costs are recovered from customers. Sunwater currently applies an annuity methodology and is proposing a RAB methodology for the price path period.
Revenue offset	This component of the revenue requirement calculation relates to the revenue forecast to be recovered from miscellaneous fees and charges. The revenue from these fees and charges is deducted from the building block costs used to set irrigation water charges to avoid double counting this revenue.
Revenue requirement	Annual revenue required to be recovered through the target (cost reflective) fixed and volumetric charges.
Service Contract	A contract between Sunwater and customers that imposes obligations on Sunwater, as owner of the service infrastructure, to release or divert water in accordance with a customer's water access entitlements, pursuant to the *Water Act 2000* (Qld). Sunwater has water supply and distribution service contracts within the 22 in-scope schemes.
Smoothed target price or prices	Target prices that have been smoothed so the annual price increase over the next price path aligns with forecast CPI.
Taxation allowance	The annual revenue allowance to recover the forecast tax payable (if applicable) by the regulated business.
Tariffs	A tariff is typically structured to comprise the following tariff components: • a fixed tariff component designed to recover fixed costs from customers based on water access entitlements • a volumetric tariff component designed to recover variable costs based on actual water usage of the customer.
Tariff group	A subset of customers in a bulk water supply scheme or distribution system assigned to a specific tariff or tariffs.
Target price or prices	The price applied to a tariff component consistent recovery of allowable costs.

Transition (customer) price	Where an irrigation price is below the target price, it is referred to as a 'transition price'. Proposed transition prices are calculated in accordance with the pricing principles set out in the Direction Notice. Both target and transition prices are shown for tariff groups where historical or proposed price increases trigger application of the pricing principles.
Weighted average cost of capital (WACC)	A method of determining the rate of return a business should earn on its investments.

Appendix 1: Ministerial Direction Notice

QUEENSLAND COMPETITION AUTHORITY ACT 1997
Section 10(g)
DIRECTION NOTICE

A Definitions and Interpretations

(1.1) In this Direction:

(a) words and phrases have the same meaning as in the QCA Act

(b) these terms have the following meanings:

Term	Meaning
2023 Referral	The referral notice gazetted on 17 March 2023 that led to the delivery of the January 2025 reports.
2026-27 Fixed Price(s)	Where applicable, the Part A prices and the access charges in Schedule 1 and the Part A and Part C prices and the access charges in Schedule 2 of both the *Sunwater Irrigation Water Pricing Direction Notice (No. 1) 2025* and *Seqwater Irrigation Water Pricing Direction Notice (No. 1) 2025*.
2026-27 Volumetric Price(s)	Where applicable, the Part B prices in Schedule 1 and the Part B and Part D prices in Schedule 2 of both the *Sunwater Irrigation Water Pricing Direction Notice (No. 1) 2025* and *Seqwater Irrigation Water Pricing Direction Notice (No. 1) 2025*.
Allowable Costs	Allowable Costs should reflect the Authority's position for 2027–28 and 2028–29 in the January 2025 Reports adjusted for the following: (a) in the case of Sunwater, removing the annual step change in operating expenditure reported in Table 13 of the Authority's January 2025 Reports (b) for RAB-based prices: i. replacing the renewals expenditure allowance with an appropriate capital expenditure allowance that incorporates capital renewals into the RAB ii. adjusting the operating expenditure allowance to include renewals of an operating nature iii. replacing the tax allowance with an appropriate tax allowance under a RAB-based approach

Term	Meaning
	iv. any under-or over-recovery of costs in 2025–26 and 2026–27 resulting from the difference between the Authority's unit costs and the corresponding price targets in the January 2025 reports.
Annuity-based Prices	In the case of Seqwater, prices as per recommendation 1 of the January 2025 report. In the case of Sunwater, prices derived by applying the Pricing Principles and reflecting Allowable Costs calculated under an annuity-based approach.
Businesses	Sunwater and Seqwater.
Current Tariff Group	The tariff groups as set out in Schedules 1 and 2 of both the *Sunwater Irrigation Water Pricing Direction Notice (No. 1) 2025* and *Seqwater Irrigation Water Pricing Direction Notice (No. 1) 2025*.
Direction	This direction notice issued by the Minister to the Authority, under section 10(g) of the QCA Act.
Forecast Inflation	The Authority's measure of inflation used to derive price targets and prices in its January 2025 Reports.
January 2025 Reports	The Authority's Rural irrigation price review 2025–29 final reports of January 2025 for Sunwater and Seqwater.
Price Target	Prices for each Current Tariff Group over the Price Path Period that are: • set to recover Allowable Costs allocated to each Current Tariff Group over the Price Path Period • consistent with the Authority's positions in its January 2025 Reports, except to the extent of any inconsistency with the requirements in the Direction • adjusted so that they increase by Forecast Inflation in the second year of the Price Path Period.
Price Path Period	1 July 2027 to 30 June 2029.
Pricing Principles	The pricing principles in Schedule 2 of the 2023 referral, as modified to: • reflect the transition of prices for all Current Tariff Groups from the 2026-27 Fixed Price(s) and the 2026-27 Volumetric Price(s) towards the Price Target • replace references to 'the Authority's measure of inflation' with 'Forecast Inflation'

Term	Meaning
	• use Forecast Inflation in deriving the additional component.
QCA Act	*Queensland Competition Authority Act 1997*
RAB	Regulatory Asset Base
RAB-based Prices	Prices derived by applying the Pricing Principles and reflecting Allowable Costs calculated under a RAB-based approach.
Seqwater	Queensland Bulk Water Supply Authority (trading as Seqwater)
Sunwater	Sunwater Limited

B Direction

(1.1) Under section 10(g) of the QCA Act, I direct the Authority to investigate and report on appropriate RAB-based Prices for each Current Tariff Group for the Price Path Period, in accordance with the requirements in this Direction.

C Conduct of the investigation

(1.1) In accordance with section 12(5) of the QCA Act, in conducting the investigation, the Authority is directed to:

(a) Undertake an open consultation process with relevant parties and consider submissions within the timetable for the delivery of the final report to the Minister detailed in paragraph D
(b) Subject to the Authority's obligations in relation to confidential information, make all reports and submissions publicly available on the Authority's website
(c) Report on the following:

(i) the Authority's assessment of the relative merits of the RAB-based Prices approach and the Annuity-based Prices approach

(ii) the Authority's recommendations on appropriate RAB-based Prices and appropriate Annuity-based Prices for the Price Path Period

(iii) the results of a comparison between recommended RAB-based Prices and Annuity-based Prices, as well as between the corresponding Price Targets, over the Price Path Period.

(1.2) In accordance with sections 12(5) and 12(6) of the QCA Act, all of Part 6 of the QCA Act applies to the investigation.

D Report timing

(1.1) The Authority should ask the Businesses to submit their proposals on RAB-based Prices for each Current Tariff Group by no later than 27 February 2026.

(1.2) The Authority must report the results of its investigation to the Minister administering the *Water Act 2000* and me by providing:

(a) a draft report by no later than 30 June 2026

(b) a final report and recommendations by no later than 30 September 2026.

Dated: 30 / 10 / 2025

HON. ROS BATES MP
Minister for Finance, Trade, Employment and Training

Appendix 2: Sunwater's draft revised capitalisation procedure

Asset Capitalisation Procedure

CS_PRO_01

Creation, Review and Approval

Author	Financial Accounting Manager	**SME**	Financial Controller	**Owner**	CFO
eDMS	2435813 v2	**Effective Date**	December 2025	**Next Review Date**	December 2027

Document History

Version	Date	Description	By
2	February 2025	2-year review. Updated on new QA template and across Procedure for current issues and added more detail on ICT assets capitalisation process and accounting for SaaS related products. Updated from a Guideline to a Procedure being more in line with the Quality Assurance guidelines.	Steve Smith
3	November/ December 2025	Asset capitalisation review performed, to ensure fit for purpose guideline and procedure for Financial and Regulatory purposes. Furthermore, one document prepared.	Steve Smith and Matthew Pearce

Contents

1. Purpose

The purpose of this document is to establish Sunwater's capitalisation recognition and eligibility criteria. This procedure is intended to support consistent and efficient decisions on the accounting treatment of expenditure as either capital or operating expense, in accordance with relevant Australian Accounting Standards and regulatory principles.

2. Scope

The scope of this document is to describe the principles and to include guidance on the circumstances for deciding to classify expenditure as capital. This procedure covers both accounting and regulatory considerations for tangible or intangible assets (e.g. software) that provide ongoing economic benefits to Sunwater.

The purchase of consumables or inventories (as accounted for in accordance with AASB 102 *Inventories*) are outside of the scope of this document.

3. Definitions and Abbreviations

Table 0-1 sets out the definitions and abbreviations used throughout this document.

Table 0-1: Definitions and Abbreviations

Term	Description
AASB	Australian Accounting Standards Board
AUC	Assets Under Construction
CCA's	Cloud computing arrangements
CGU	Cash generating unit
FAR	Fixed Asset Register
FRR	Queensland Treasury's Financial Reporting Requirements
MDG	Master Data Governance
P3MF	Portfolio, Programme & Project Management Framework
PPE	Property, Plant & Equipment
WBS	Work Breakdown Structure (S4 project reporting tool)
WIP	Work In Progress
WDV	Written Down Value
Asset useful life	Useful life is the period over which an asset is expected to be available for use by the entity.
Approved	Approved means a decision made by an authorised manager in accordance with Sunwater's delegation.
Capital expenditure	Money spent to acquire or upgrade long-term assets, both tangible (like buildings and equipment) and intangible (like patents and software), that are expected to provide future economic benefits beyond the current financial period.

Carrying amount	The term used to describe the written down value of an asset being the initial cost of the asset, plus or minus enhancements, revaluations and impairments, less accumulated depreciation.
Constructed asset	An asset that is created, usually along with a group of related assets, through numerous expenditure items such as labour, contracted services, materials, and directly attributable overheads.
Operating expenditure	Where the expenditure is to ensure an asset continues to operate at normal capacity until the end of its useful life, it is regarded as an operating expense. Expenditure that maintains the condition of an asset and does not increase the useful life or functionality of the asset will be classified as operating expenditure.
Overhaul	A major asset maintenance activity that does not typically occur on an annual (or more frequent) basis.
Purchased asset	A purchased asset is an asset that is acquired that does not involve expenditure on labour or materials to bring the asset into service.
Probable	50 percent or more likelihood that the project will proceed as a capital investment.
Tangible asset	A physical asset held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and is expected to be used during more than one period.
Intangible asset	An intangible asset is an identifiable non-monetary asset without physical substance.
Inventories	Inventories are assets; held for sale in the ordinary course of business; in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Statement of Profit and Loss	Otherwise known as “Income Statement.” This is a financial statement that presents all items of income and expense recognised in a period. It shows an entity's financial performance by tracking revenue minus expenses.
Statement of Financial Position	Otherwise known as “Balance Sheet.” This is a financial statement that presents the value of all the resources controlled by an entity and all the obligations due at a point in time.
Research	Research is original and planned investigation, undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
Development	Development is the application of research findings or other knowledge to plan or design to produce new or substantially improved materials, devices, products, processes, systems, or services before the start of commercial production or use.

4. Roles and Responsibilities

Table 0-2 sets out the roles and responsibilities of Sunwater personnel in relation to this asset capitalisation procedure.

Table 0-2: Roles and Responsibilities

Role	Description of responsibility
Project Managers	To review and ensure that expenditure has been correctly classified as capital consistently with the guidance outlined in this document
Finance	To provide guidance and support in the execution of this document and advice on the correct treatment under this capitalisation procedure.
CFO	Owner of this Asset Capitalisation Policy and Procedure. To implement and maintain this policy and be an advocate for compliance with Procedure Management and ensure that employees observe policy requirements.
Financial Controller	To apply the Procedure across the business for fixed asset accounting and to ensure that appropriate controls are in place. To disclose assets in the annual Financial Statements.
Audit & Risk Committee	To oversee financial reporting and the appropriateness of the accounting policies on the recognition of capital asset expenditure. To endorse the accounting treatment of specific project expenditure and conduct oversight of the annual impairment test across Sunwater's assets.
Asset Management	To manage and maintain asset compliance activities for water infrastructure including acquisitions, maintenance, upgrades, and disposals by submitting Fixed Asset Master Requests to Finance. To provide advice on the useful life of assets to the business as required.
ICT	To be responsible for ICT hardware purchases across Sunwater, delivery of project hardware builds and to follow the process outlined in Section 8.7 to ensure expenditure is appropriately recorded, reviewed, and capitalised. To check whether ICT maintains a register of portable and attractive items such as mobile phones, laptops, and similar devices and, where such a register exists, is responsible for its ongoing maintenance and accuracy. To notify the relevant asset management and finance functions of any disposals of ICT assets.

5. Related Legislation and Documents

- AASB 116 *Property, Plant and Equipment* (AASB 116)
- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (AASB 120)
- AASB 136 *Impairment of Assets* (AASB 136)
- AASB 138 *Intangible Assets* (AASB 138)
- *Corporations Act 2001*
- Queensland Treasury Financial Reporting Requirements for Queensland Government Agencies (FRR)
- Sunwater Accounting Policy
- FIN SUP 06 – Fixed Asset Master Request Form (Capitalisation, Disposal, Transfers)
- Sunwater Cost Allocation Methodology

6. Principles for Asset Recognition and Measurement

The objective of this section is to set out the high-level principles for:

- asset recognition;
- purchased and constructed assets;
- de-recognition of assets; and
- intangible assets.

6.1. Asset Recognition

6.1.1. Recognition criteria

The following criteria must be satisfied for expenditure to be classified as an item of capital expenditure and for Property, Plant and Equipment or an Intangible Asset to be recognised in the Statement of Financial Position:

- the asset must be controlled by Sunwater;
- the transaction or event that gives rise to the control has occurred in the past;
- the asset has a cost that can be reliably measured; and
- the asset must be expected to provide future economic benefits to Sunwater for a period of more than one financial year.

Control

Sunwater controls an asset if it has the power to obtain the future economic benefits flowing from the resource and it can restrict the access of others to those benefits. In determining the existence of an asset, the right of ownership is not essential, although Sunwater must have the ability to control the benefits which are expected to flow from the asset[1].

Reliable measurement

The value of assets can be measured reliably using one of a number of methods. These include:

- the price charged by the supplier;
- the value of resources directly attributed to the construction of the asset; and
- expert advice or a value from the marketplace.

For assets acquired at no cost or for nominal consideration, refer to Section 8.5 Customer Assets

Future economic benefit

Future economic benefits embodied in an asset have the potential to contribute, directly or indirectly, to the flow of cash or cash equivalents to Sunwater. Future economic benefits include revenues, efficiencies or assets indirectly supporting the delivery of operations. Where future economic benefits do not flow beyond a single financial period the amounts do not represent assets and are recorded as operating expenditure in Profit and Loss.

Probability that future economic benefits will eventuate

In determining whether to recognise an asset, Sunwater must consider the degree of certainty that attaches to the flow of economic benefits from the particular asset. If it is considered that it is probable that future economic benefits will eventuate, then this recognition test is satisfied.

[1] NCAP 1 (1.1)

6.1.2. Capitalisation thresholds

The minimum capitalisation threshold is $5,000. This means that any assets purchased, or assets constructed below this value are accounted for as operating expenditure (i.e. expensed as incurred) and any assets valued at or over this threshold are assessed under this guidance for capitalisation. There is no threshold used for water allocations.

Portable and attractive items (which may be below asset threshold)
Portable and attractive items are items that have values below the capitalisation threshold and are by their nature, susceptible to theft or loss. Sunwater's identification threshold is $300 and aligns with the Australian Taxation Office's (ATO) threshold for immediate write off i.e., expensed.

Regardless of the treatment of these types of assets for financial reporting purposes, Sunwater maintains a separate Portable and Attractive Items register that is used to record and account for the existence, location, condition, and disposal of portable and attractive items. All items on this register are not capitalised and subsequently depreciated for financial reporting purposes, but are subject to stocktake, control and disposal requirements like other classes of the Group's non-current assets.

6.2. Purchased and Constructed Assets

Sunwater records and carries PPE items, including infrastructure, at cost or deemed cost less accumulated depreciation and accumulated impairment.

6.2.1. Initial cost recognition

On initial recognition, all costs incurred in purchasing or constructing an asset and getting it ready for use are capitalised within the value of the asset. Costs included in the initial costs of an asset include:

a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

b) any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management; and

c) the initial estimate of the costs of dismantling, removal and restoration of the site at which the asset is located, resulting from an obligation to perform these activities identified on acquisition or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.[2]

For further detailed guidance on these costs, refer to Section 8.1.

6.2.2. Subsequent costs

Costs incurred after bringing an asset into use may be capitalised where the life or functionality of the asset is increased. Subsequent costs include:

- improvements and enhancements to existing PPE assets;
- replacement of a major unit of plant; and
- major inspections or overhauls.

For further detailed guidance on these costs, refer to Section 8.2.

6.2.3. Dismantling and restoration costs

Sunwater may have an obligation as a direct consequence of acquiring or constructing PPE to incur further costs in the future that it cannot avoid due to licence requirements or relevant legislation. In this case, the cost of an item of PPE is to include the estimated cost of decommissioning the asset(s). On recognition of the value in the asset cost, a corresponding liability is recognised in the Statement of

[2] AASB 116.16

Financial Position. The liability is to be measured at its present value, discounted using a pre-tax rate reflective of the risks included in the provision.

Changes in the decommissioning provision liability (being estimated dismantling, restoration, or removal costs) may result from revised estimates of anticipated future cash flows, revision in discount rates and changes in the timing of site restoration. Restoration costs are capitalised, these costs should be significant, easily measured, specific to the asset and probable to occur at the end of the service life of the asset.

6.2.4. Componentisation of Complex Assets

A complex asset is an asset capable of disaggregation into separable and maintainable component assets. A complex asset should be separated into the relevant non-complex assets in the FAR based on asset management hierarchy, when those assets:

- have a different useful life to other asset components;
- a likelihood of distinctive replacement or renewal throughout the complex asset's useful life; and/or
- are significant in relation to the total cost of the complex asset.

Grouping financial values of non-complex assets with the same useful lives is permitted.

6.2.5. Asset Management Hierarchy

Assets are categorised for management and reporting purposes using the hierarchy structure shown in **Error! Reference source not found.**. In deciding the appropriate treatment of an asset as either capital or operational expenditure, the appropriate level in the hierarchy structure to consider applying the capitalisation threshold is generally at the asset level. Assets that are components of a complex asset may be grouped at the planning or facility level if the above criteria 6.2.4 are met.

Figure 0-1 Hierarchy Structure

		Examples
Scheme	The overarching water supply network that have cashflows that are dependant within one another	Nogoa Mackenzie Water Supply Scheme
Service Contract	A group of segments that make up the network	Emerald Distribution, Nogoa Bulk Water, Blackwater pipeline
Segment	Group of asset facilities working collectively to provide a discrete service in a service contract	Arriga, Atherton. Barron River, Pump Station Header
Facility Level	Separately identifiable group of assets that perform a 'distinct function' within a segment	Dam, Spillway, Drainage, Pipelines, Pump Station, Channels, Water Treatment Plant
Planning Level	Componetised assets that are built to work within the asset facility	Drain valves, structures, pump units, electrical systems,
Asset	Individual asset components comprised (Bill of Materials) in the asset planning level	Motors, Valves, Filters

For guidance on major inspections refer to Section 8.2.3.

6.2.6. Depreciation

Assets are depreciated or amortised on a straight-line basis from the date the asset is available for use over the asset's useful life. Depreciation of an asset commences when the asset is in the location and condition for it to be capable of operating in the manner intended by management.

Each part of a complex asset with a cost that is significant to the total cost of the complex asset shall be assessed separately for the application of depreciation.

Land is not depreciated. Water allocations have an indefinite life and are not amortised.
Refer to Section 7.3 for details relating to asset useful lives.

6.2.7. Impairment

Assets (including capital WIP) are reviewed for indicators of impairment on an annual basis. If the recoverable amount is below an asset's carrying amount, the asset is written down to its recoverable amount. An impairment reversal or loss is recorded in the financial statements. Refer to Sunwater's impairment procedures for further detail.

6.3. De-recognition of assets

The carrying amount of assets shall be derecognised:

- on decommissioning, abandonment, or sale; or
- when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of assets shall be included in the Profit and Loss in the period the item is derecognised. Any resulting reversal of impairment loss is also recognised in the Profit and Loss.

The written down value is to be removed from the Statement of Financial Position and the corresponding entry recognised as an expense in the Profit and Loss. The asset is to be updated as decommissioned in the asset register.

6.4. Intangible Assets

6.4.1. Recognition criteria

To meet the definition of an intangible asset, an item lacks physical substance and is:

- identifiable.
- non-monetary[3]; and
- controlled by the entity and expected to provide future economic benefits to the entity - i.e. it meets the definition of an asset.[4]

Identifiable

For an intangible asset to be recognised it needs to be 'identifiable'. An item is identifiable if it:

- is separable - i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged either individually or together with a related contract, asset, or liability; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.[5]

Control

To demonstrate control, an entity needs to have the power to obtain the future economic benefits arising from the item and be able to restrict the access of others to those benefits.[6]

Intangible assets derive their value from the special rights that possession and use confer to Sunwater as the owner. Examples include computer software, patents, trademarks, copyrights, and water allocation rights.

[3] Monetary assets (such as cash and cash equivalents, trade receivables, income tax receivables etc) are subject to the requirements of other accounting standards.
[4] AASB 138.8-17
[5] AASB 138.12
[6] AASB 138.13-16

Internally generated brands, customer lists, goodwill, and items similar in substance are not to be recognised as intangible assets. However, they may be recognised as assets if acquired in a business combination.

Software as Service (SaaS) arrangements are generally accounted for as service contracts and as such are not recognised as intangible assets.

Costs incurred for the creation and development of software code that enhances or modifies, or creates additional capability to, existing on-premises systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis.

6.4.2. Initial cost recognition

An intangible asset is initially recognised at cost if:

- it is probable that future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.[7]

6.4.3. Subsequent costs

Subsequent expenditure to add to, replace part of, or service an intangible asset is recognised as part of the cost of an intangible asset if an entity can demonstrate that the item meets:

- the definition of an intangible asset (per Section 6.4 above); and
- the general recognition criteria for intangible assets (per Section 6.4.1 above).[8]

For further detailed guidance in relation to intangible assets, including purchased software and Software as a Service arrangement (i.e. cloud computing arrangements), refer to [Section 8.7].

6.4.4. Amortisation and Impairment

Finite Life

An intangible asset with a finite useful life is systematically amortised over its useful life from the time that it is available for use until it is either derecognised or classified as held for sale.

The amortisation period and method must be reviewed at least at the end of each reporting period. The residual value is assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or an active market for the asset in which its residual value can be determined and it is probable that such a market will exist at the end of the asset's useful life.

Indefinite Life

An intangible asset with an indefinite life is not amortised but is subject to annual impairment testing.

7. Asset Management and Registers

This section describes the asset registers, classifications, and processes for deciding and verifying useful lives.

7.1. Asset Registers

A record will be maintained of all assets by asset class, sub class, and their useful lives on the SAP ERP. A separate but related fixed asset register may be required for the developing of a regulatory asset base, where regulatory treatment differs from accounting treatment.

[7] AASB 138.21, 24
[8] AASB 138.18

7.2. Asset Classifications

Sunwater has the following asset classes which are shown in Table 0-3. The asset class is the level at which assets are separately identifiable and where either a single component or a collective number of components work together as a separate function.

Table 0-3: Asset classification

			Reported in Financial Statements				
Class	Description	Default Accounting Useful Life	Land	Buildings & Land improvement	Plant & equipment	Water Infrastructure	Software
BBD100	Buildings	60		X			
BDE100	Demountable Buildings	12		X			
CCS100	Computer Software	3					X
DCH100	Channels	150				X	
DDR100	Drainage	150				X	
DMF100	Monitoring Facilities	80				X	
DOW100	Other Water Distribution Assets	80				X	
DPL100	Pipelines	80				X	
DPS100	Pump Stations	80				X	
ILI100	Land Improvements	30		X		X	
LLO100	Land Owned	not depreciated	X				
PBE100	Boats and Boating Equipment	12.5			X		
PCE100	Computer Equipment	3			X		
PME100	Machinery and Equipment	10			X		
POF100	Office Furniture and Equipment	10			X		
POP100	Other Plant and Equipment	12.5			X		
PRE100	Recreational Equipment	15			X		
PSE100	Scientific Equipment	12.5			X		
PVH100	Vehicles and Heavy Plant	5			X		
SDA100	Dams	200				X	
SOW100	Other Water Storage Assets	100				X	
SWB100	Weirs and Barrages	200				X	
HES100	Hydro Electricity Stations	60				X	

7.3. Asset Useful Lives

Useful life is the period over which an asset is expected to be available for use by an entity. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. The factors that influence the decisions of variations to the default accounting useful lives are listed in Table 0-4.

Table 0-4: Key determinants that affects the asset life

Physical life	This requires an estimate of the period of time the asset is expected to be used. It is usually an outer limit of an asset's effective life.
Engineering information	An analysis of engineering information and manufacturer's specification. The life of a new asset may differ from that achieved in the past due to advances in technology, different materials, intensity of use and the level of repairs and maintenance.
Industry norm	The useful life used by other similar businesses for the same asset obtained via sources such as the internet, regulatory information, or ATO useful lives.
Intensity of use	The intensity of use can have a direct impact on the asset's effective life.
Repairs and maintenance	Additions or replacements to existing infrastructure assets will not always apply the default accounting useful life. The allocation of remaining useful life must consider the following: • The potential physical life of the asset over which the asset can be expected to physically last;

	• The technical life of the asset, the time the asset can be expected to remain efficient before becoming obsolescent; and • Commercial life of the asset corresponding to the commercial life of its product or output. The applicable useful life would be the shortest of the alternatives above.
Renewals	The estimate of when the asset will be wholly or substantially physically replaced.
Lease and/or contract periods	Assets such as fixtures and fittings in leased premises, or assets purchased on a contract basis, should be depreciated over the shorter of their estimated useful life or the lease / contract term.
Obsolescence	Can occur due to factors including technical, regulatory, or environmental.

The Asset Management team is responsible on advising a useful life of an asset before submission of the capitalisation journal (i.e. transfer of WIP to the FAR).

7.4. Review of useful lives

Consistent with AASB 116, useful lives of assets should be reviewed at least at each financial year-end. Finance is responsible for performing and documenting this review.

Finance prepares a review of the FAR for reasonableness of the asset useful life, obsolescence, and physical verification on a systematic basis so that each asset is reviewed at least once every five years.

The verification process is carried out by the business unit responsible for the assets. Every Quarter, Finance carry out the following fixed asset reviews:

- Additions – Review to ensure that the addition is of a capital nature and the useful life is in line with the asset class.
- Useful lives – A sample of 4% to 5% of the total WDV is selected to physically verify the asset and review its remaining useful life as being reasonable and in line with expectations (see work instructions FA04 Review of FAR).
- Disposals – Review to ensure all asset disposals are consistent with AASB 116 and have been appropriately approved prior for disposal and have been de-recognised from the asset register recognising a gain or loss on the disposal.

7.5. Asset verification

Asset verification (through stocktakes of assets, including inventories) are to be undertaken on a regular basis. For these guidelines, 'regular' means as a minimum all assets are physically verified at least once every five years on a rolling basis.

In undertaking the asset verification process, it is expected that assets are sighted. Assets not located during this process are to be written off in that year, subject to materiality, in accordance with the accounting policy and authorised by an appropriately delegated officer.

8. Detailed Guidance for Asset Recognition and Measurement

This section expands upon the high-level principles set out in Section 6 by providing detailed guidance for capitalising or expensing of assets under the following range of circumstances:

- initial costs for constructed and purchased costs;
- subsequent costs for improvements or enhancements, replacements, major inspections, spares;
- cancelled project costs;
- costs for acquired or constructed assets under government grants;
- customer assets;
- subsidiary assets;
- intangible assets; and
- investment life cycle of assets.

8.1. Initial Costs Guidance

8.1.1. Constructed assets

The cost of assets constructed by Sunwater includes:

- The cost of construction materials used
- Direct labour and contractors' costs
- Costs of employee benefits arising from the construction of the item
- An allocation of directly attributable indirect and overhead costs (see Cost Allocation Methodology below)
- Professional fees such as legal costs, architect's fees, and engineering costs specific to the construction of a specific asset; and
- Borrowing costs directly attributable to the construction of assets

To ensure that the value of constructed assets correctly reflects all costs incurred, it is necessary to charge direct costs, indirect and overhead costs that are directly attributable on a causal basis based on the Board approved Cost Allocation Methodology ("CAM").

The absorption costing method of allocating costs to capital works has been adopted by Sunwater for this purpose. Internally constructed assets include fully absorbed costs of construction, and this costing would be reflected in the asset value had they been acquired externally from a third party.

For additional information relating to the capitalisation of overheads and indirect costs, refer to the Sunwater CAM. Refer to Section 8.8 for the investment cycle of assets.

Research

Any research costs incurred prior to the Preliminary evaluation and business case development stage should be treated as operating expenses. Once the asset has been approved by management and is considered probable, further costs relating to research and mobilisation may be capitalised.

Planning and design

Preliminary appraisals, cost estimates, or investigative study costs, in the preliminary stage of constructed asset projects, are to be charged as operating expenses to the Profit and Loss. Operating costs from previous financial years cannot be transferred or reversed from the Profit and Loss to a current capital project.

Planning, design, and development costs incurred after the preliminary phase and the decision has been made to proceed with the capital project are recognised as capital expenditure.

The costs of abnormal amounts of waste materials, labour, or other resources incurred on internally constructed assets are not included in the cost of the asset. The following costs should not be capitalised as part of an asset:

- Expenses incurred in decommissioning an existing asset should not form part of the cost of a new asset, unless it forms an integral part of the site preparation costs required to install an asset at the same location.
- Costs of day-to-day servicing including labour and consumables, which may include the cost of small parts. This is often described as repairs and maintenance.
- Costs involved in the process of determining which asset to construct or purchase up to the point when the preferred option is decided.
- Costs of relocating or reorganising an asset or operation.
- Administration costs including establishing policies and procedures, hiring and redundancy costs, meal entertainment, celebration events, and work-related clothing.
- Costs of abnormal amounts of wasted material, labour, or other resources incurred in constructing an asset.
- Training costs.
- Costs of alternative designs that are subsequently rejected should be expensed.

8.1.2. Purchased assets

The directly attributable costs of purchased assets include:

- Costs of employee benefits arising from the acquisition of the item (where relevant).
- Initial delivery and handling costs.
- Installation and assembly costs.
- Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while testing.
- Professional fees such as legal costs, architect's fees, and engineering costs specific to the purchase of a specific asset. Costs of alternative designs that are subsequently rejected should be expensed.

Note that the above list is for example only and is not exhaustive.

8.2. Subsequent Costs Guidance

This subsection sets out the types of expenditure that occurs after the initial expenditure that is capitalised for:

- improvements and enhancements to existing PPE assets;
- replacement of major unit of plant; and
- major inspections.

8.2.1. Improvements or enhancements

Costs relating to improvement or enhancement activities for an existing asset should be capitalised if the work:

- Significantly increases the functionality or capacity of the asset; or
- Significantly extends the assets useful life beyond the original expected useful life.

Alterations and improvements to assets that are not significant and do not meet the above criteria must be expensed.

8.2.2. Replacements

Costs for the replacement of components of an asset (e.g. work undertaken under a refurbishment project) should be capitalised if the work:

- Significantly increases the functionality or capacity of the asset; or
- Significantly extends the assets useful life beyond the original expected useful life; or
- Replaces components of plant where those parts are significant in relation to the whole unit of plant and are expected to be used for more than one year.

In such instances, the original components are required to be retired from the fixed assets register (even if the replaced part had not been depreciated separately). Any remaining written down value of replaced components (where applicable) should be written off as an expense in Profit and Loss.

The replacement of small components, which are insignificant to the whole unit of plant, that maintain the asset and that do not significantly extend the original useful life should be expensed.

Repairs and maintenance activities performed to maintain an asset in operating condition or to bring an asset back to its original condition are considered an expense.

8.2.3. Major inspections

It is the nature of some assets that they require inspection/investigation or major maintenance activity (overhaul) on a scheduled program to ensure that they can be utilised for the full extent of their useful life and to avoid asset failure. These activities should form part of an asset management lifecycle for that asset.
Major asset inspections performed for the purpose of long-term condition monitoring with the requirement being driven by obligation (regulatory or legislative) or to inform future maintenance and capital programs can be treated as capital expenditure if it meets the following criteria:

- The planned inspection cycle is equal to and greater than 12 months (e.g. performed every 5 years)
- The cost of the inspection is greater than the asset capitalisation threshold (refer to 6.1.2 Capitalisation thresholds); and
- The cost of the inspection can be measured reliably (e.g. labour costs can be directly attributed to the inspection). This can include internal and external costs.

Where major inspections are performed as a condition to operate the asset, regardless of whether repairs are made, the cost of the inspection may be recognised as part of the carrying amount of the asset.[9] The inspection costs capitalised should be depreciated over the period until the next inspection. If the next inspection is earlier than expected, then the depreciation on the existing inspection asset should be accelerated and/or the existing asset is fully written off before the new inspection asset is capitalised. Any remaining carrying amount relating to the previous inspection is de-recognised. The cost of the previous inspection does not need to have been separately identified and depreciated when the item was acquired or constructed. The estimated cost of a future similar inspection can be used as a proxy for the carrying value that needs to be de-recognised if this was not separately identified previously.

[9] AASB 116.14

The following inspection costs are considered operational expenditure:

- Adhoc inspections (not considered part of a long-term asset condition monitoring program);
- Routine inspections with inspection cycle of less than 12 months; and
- Replacement parts which do not meet the capitalisation criteria noted in Section 8.2.1 Improvements/enhancements or Section 8.2.2 Replacements.

8.2.4. Spares

Spare parts refer to items that are purchased and stored in advance of assets being integrated into the infrastructure network or used on site. Spares are either major spare which are capitalised and routine spares which are expensed.

Major spares

Major spares are held to enable timely restoration of failed equipment that require long procurement lead times. These are also referred as a strategic or critical spares. Major spares qualify as PPE when Sunwater will gain service for more than one financial period. Major spares usually have the following characteristics:

- have low turnover (i.e. more than 12 months);
- typically have a serial number for unique identification and tracking;
- long lead delivery time or construction timeframe; and
- are often held due to adverse impact on the business if the spare parts were unavailable.

Routine spares

Routine spares have a high turnover rate (under 12 months) and are required at regular intervals. Routine spare parts are usually carried as inventory and recognised in Profit and Loss as consumed.

8.3. Cancelled Project Costs

On cancellation of projects, all direct costs incurred on those projects will be specifically reviewed, and:

- Costs that can be genuinely attributed to other projects should be reallocated to those capital projects.
- Items of inventory or equipment should be returned to the stores where they will be subject to normal procedures to review for obsolescence.
- Remaining costs that cannot be considered to be directly attributable to an asset, reallocated to another capital project, or returned to inventory / equipment stores, should be recognised as an operational expense.

8.4. Assets Acquired or Constructed under Government Grants

When an asset is acquired or constructed by way of a government grant, Sunwater is to recognise the asset and the grant at fair value in accordance with AASB 120. Government grants related to assets are to be presented in the Statement of Financial Position as unearned revenue and recognised as income on a systematic basis over the useful life of the asset. It is a requirement of the FRR that presentation of the asset and unearned revenue is on a gross basis i.e., the business cannot net the asset with the grant value.

Sunwater will follow government direction on treatment of government funded grants in the regulatory asset base.

8.5. Customer Assets

Assets that are acquired, purchased, or constructed by Sunwater, but are paid for by the customer, are accounted for in different ways.

Meters

- Costs associated with the purchase or design of meters are expensed if they are below capitalisation thresholds or if Sunwater does not control the meter.
- The asset is capitalised at cost if the value is above the capitalisation threshold and Sunwater determines it has control of the meter.

Other assets constructed via contribution by customers

- Customer contribution is recognised as unearned revenue.
- Costs relating to the construction of the asset are capitalised (in accordance with this document).
- The unearned revenue will be amortised as revenue matching the depreciation profile over the life of the asset (i.e. useful life).

Construction relating to third party assets

Where Sunwater carries out construction or maintenance work for an asset in control of a third party, these costs should be treated as an operating cost. This is because the asset is not under Sunwater's control and therefore does not meet the criteria for capitalisation.

Gifted assets

When an asset is received by Sunwater at no cost (i.e. nil consideration), the asset is recognised at its fair value on the date of acquisition, with the corresponding credit recognised as revenue, in accordance with the relevant accounting standards. Under the building block form of regulation, gifted assets do not have a value in the Regulatory Asset Base (RAB) and regulatory depreciation does not apply.

8.6. Subsidiary Assets

Assets must be accounted for in the company that has control of the infrastructure and where economic benefits are to be received. Sunwater Limited primarily acts as the service provider to the asset and generally is where purchase and labour costs will be incurred. These costs are transferred to the subsidiary entity by way of an intercompany transaction.

It is important to note that the costs incurred in Sunwater will be treated as an internal operating expense. When the expense is recorded in the subsidiary it will be recorded as a capital expense if it meets the criteria of an asset as outlined in this document.

8.7. Intangible Assets

Where there is expenditure incurred in creating an internally generated intangible asset (e.g. software), it needs to be determined whether the expenditure meets the definition of research or development expenditure as defined in AASB 138.

8.7.1. Research phase

Research phase costs are activities related to:

- the searches for alternatives for materials, devices, products, processes, systems, or services; or
- the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems, or services.

Generally, the majority of expenditure prior to the initiation phase of a project is research phase costs. Research expenditure must be expensed.

An example of research phase costs related to computer software projects is all the costs incurred prior to the commitment to a particular product will be research activities (that is, expenses incurred in investigating the various alternatives and the preparation of the business case).

8.7.2. Development phase

Development phase costs are activities related to the design, construction and testing of new or improved materials, devices, products, processes, systems, or services. Expenditure incurred in creating a new asset is deemed to be development phase expenditure (compared with expenditure incurred in making the decision to create an asset, which is research expenditure). Any costs incurred prior to the approval of the preferred option are operational in nature. An example of development phase costs is all the costs incurred in the detailed functional design, build and configuration stages of a project.

For costs that have been incurred in the development phase to be capitalised as an intangible asset, demonstration of all the following criteria must be met.

1) The technical feasibility of completing the intangible asset so that it will be available for use or sale

2) The intention to complete the intangible asset and use or sell it

3) The ability to use or sell the intangible asset

4) How the intangible asset will generate probable future economic benefits

5) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and

6) The ability to measure reliably the expenditure attributable to the intangible asset during its development

Regulatory treatment for software development

Software development expenditure is capitalised when the project meets the following criteria:

- create a new module of a software product; or
- amend an existing module of a software product to create expanded ICT capability, functions, or services; or
- demonstrate the economic benefit in future years.

Demonstration of criteria would normally require:

- a business case or similar analysis demonstrating the feasibility of the project; and
- unconditional approval of the project by the relevant delegated authority (e.g. CEO, Board).

Where there is indicative approval of a project by the relevant delegated authority, as part of a formal two stage approval process, judgement must be exercised on a case-by-case basis to determine whether all the criteria are satisfied.

8.7.3. Software

Software is a combination of acquired and developed software which have a finite life and are carried at cost less accumulated amortisation and impairment.

Costs of developing products or systems and acquiring software that will contribute to future financial benefits through revenue generation and/or cost reduction are capitalised to software.

Costs capitalised include external direct costs of materials and service, employee costs, and an appropriate portion of relevant project support costs (indirect). Costs of software development include only direct costs of the development phase and are only recognised after completion of technical feasibility assessments and where Sunwater intends to and can use the asset.

8.7.4. Software as a Service (SaaS)

The purchase of a cloud-based software where there is a contractual right to take possession of the software at any time (without significant penalty) within the hosting period and it is feasible to run the software on Sunwater's own hardware is treated as an intangible asset.

The purchase of a cloud-based software under a hosting arrangement where there are no contractual or legal rights to the specific asset and the rights are to access the supplier's application are treated as an operating expense.

Configuration and customisation of the SaaS product, may involve significant custom coding, setting of various flags or switches, or defining parameters within the application software's existing code to function in a specified way. Where the configuration or customisation activities do not create a resource controlled by Sunwater that is separate from the supplier's software, the criteria for recognising an intangible asset will not be met. However, costs to configure or customise the agency's existing software or IT environment to integrate with the new cloud software can be capitalised in line with general software capitalisation principles where the related software code is controlled by the agency.

8.7.5. Water allocations

Water allocations are intangible assets that are valued at cost or deemed cost. Subsequent acquisitions are recognised at cost, which is a nominal amount ($1) when water allocations are granted at no cost. After initial recognition, all water allocations are carried at cost less accumulated impairment.

Water allocations have an indefinite life and are not amortised but are tested annually for impairment in accordance with the impairment procedure.

8.8. Capitalisation through the Investment Lifecycle

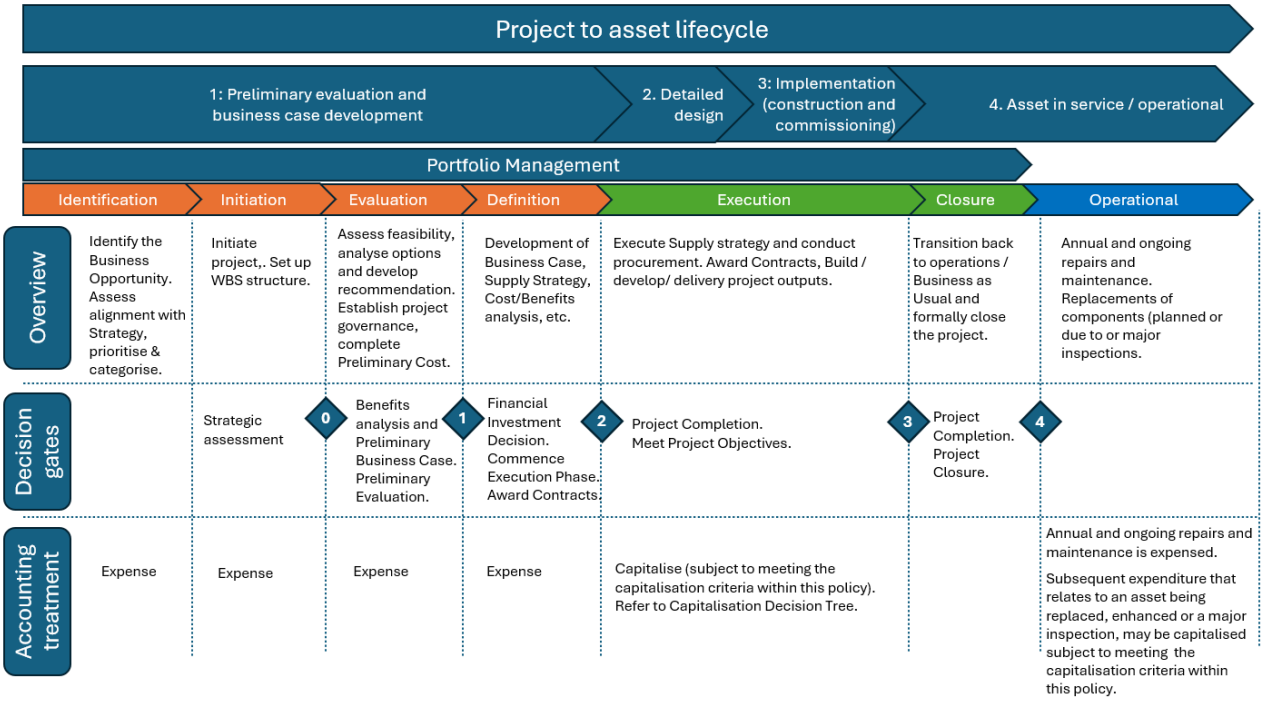
Commencement of capitalisation

For constructed assets, capitalisation will usually commence once:

- the asset recognition criteria have been met (see Section 6.1)
- the asset to be capitalised has been identified and management approval has been obtained to build or purchase the asset; and
- Probable that the project will proceed as a capital investment.

When there are several choices or options being considered as to which asset to invest in, capitalisation will commence from when the high-level functional requirement of the project has been scoped, and a preferred solution has been decided that establishes a line of sight to the eventual asset as shown in Figure 0-2. Expenditure incurred up to that point is not to be capitalised as part of the asset. The high-level overview of capitalisation policy across the investment cycle and project cycle is shown in Figure 0-2 respectively. Clear identification of a specific asset may be evidenced even if the final specifications are being refined.

Figure 0-2. Capitalisation across investment lifecycle and project stages



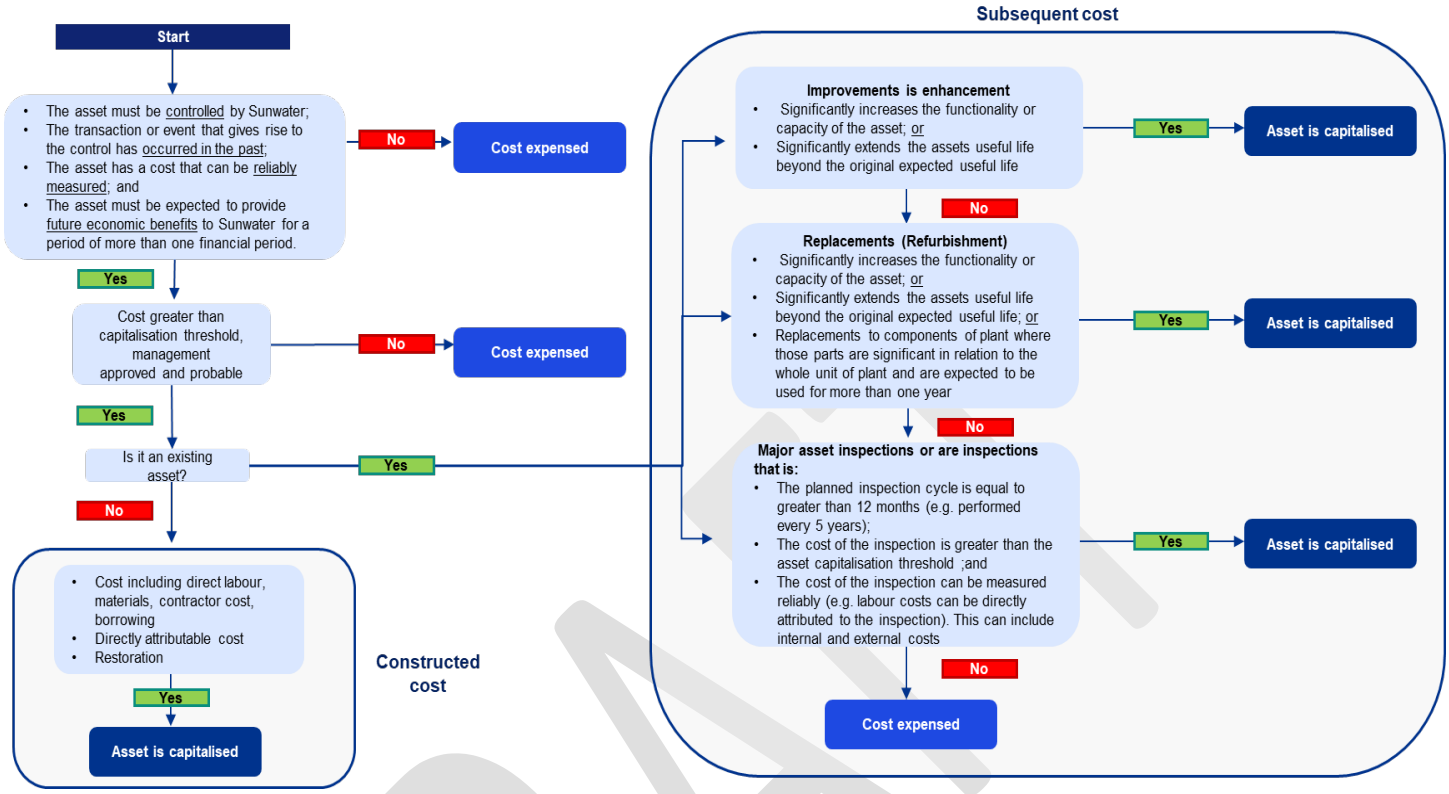
9. Reporting

This section sets out the accounting reporting arrangements undertaken by Finance.

- Monthly, Finance will reconcile the Sunwater's FAR to the general ledger. These are prepared as part of the monthly General Ledger reconciliations of balance sheet and control accounts and reviewed by the Financial Accounting Manager.
- Each quarterly, Finance will review asset additions, disposals, and useful lives of assets to ensure compliance with the Policy. The report is reviewed by the Financial Controller and Financial Accounting Manager.
- Annually, Finance will reconcile and prepare PPE notes and disclosure requirements for the audited Financial Statements in line with AASB 116. QAO review and sign off these disclosures.
- Asset capitalisation, disposal, and transfer forms are sent through S4 Master Data Governance (MDG) workflow. This will track the any required approval process and provide an audit trail of the preparer, reviewer, and approver.
- Fixed asset master requests to capitalise, dispose or transfer infrastructure assets are sent through SAP workflows (MDG) by the asset management team.
- Finance prepares a review of the FAR for reasonableness of the asset useful life, obsolescence, and physical verification on a systematic basis so that each asset is reviewed at least once every five years.

Appendix [1] | Capitalisation Decision Tree

Figure 0-3Capitalisation Decision Tree for constructed assets



Appendix [2] | Examples of Capital and Operational Expenditure

Table 0-5: Examples of Capital and Operating Expenditure

Description	Treatment	Rationale	Example
General maintenance, Aesthetic improvements	Opex	Existing asset Does not meet the criteria in [Section 8.2]	Vegetation slashing, mowing and painting
Annual ongoing maintenance	Opex	Existing asset Does not meet the criteria in [Section 8.2]	Replacing spares and periodic servicing
Replacement/Refurbishment of an asset to original acceptable function	Capex* **Replaced asset must be written off/removed from asset register.*	Existing asset Meets criteria of [Section 8.2.2]	Repair following a flood (extends the life) Change filters (significant component to the unit of plant)
Meters	Capex	Existing asset Meets the criteria of [Section 8.2]	Meter replacement/new installation (critical component to the plant)
Major inspections	Capex	Existing asset Meets the criteria in [Section 8.2.3]	Dam conditioning monitoring (Major inspections)
Small scale hardware	Opex	Routine spares [Section 8.2.4]	Nuts and bolts

Appendix [3] | Examples of Capitalisation through the Investment Cycle

Table 0-6 List of activities for each stage of investment cycle

Preliminary evaluation and business case development	Detailed design	Implementation	Operational
Expense (OPEX) items: • Scope development; • Feasibility studies; • Planning reports, surveys, studies, and modelling (prior to commitment to complete project); • Formulation, design, evaluation, and selection of possible alternatives (prior to commitment to complete project); • Pre-Development Business case; • Cost estimating; • Procurement strategy development; • Resource and Delivery planning / scheduling. **Except: payment to obtain an option to acquire asset**	**Capital (CAPEX) items:** **Some activities (where capitalisation criteria are met):** • Planning reports, surveys, studies, and modelling (prior to commitment to complete project); • Pre-Development Business case; • Procurement strategy development. Note: Capitalise costs that are incremental relative to preliminary stage and are directly attributable. The capitalisation commences once it is project is considered probable. **Expense (OPEX) all items:** • Organisational change management (OPEX in all stages of the project); • Training costs including training materials / operational manuals (OPEX in all stages of the project); and • Repairs that do not significantly extend the original useful life or increase capacity of the unit of plant.	**Capital (CAPEX) items:** • Direct costs of design, development, and construction; • Delivery Business Case / Scope development; • Studies and surveys (after commitment to complete project is provided); • Obtaining external approvals; • Project Planning, administration, and management (after commitment to complete project is provided); • Purchase of unit of plant • Contractor Construction costs; • Commissioning and testing (including fault corrections resulting from testing); • Employee, contractor, and consultant costs directly associated with project delivery and implementation e.g. project manager; • Reasonable project support costs incurred to support capital activities; • Borrowing costs (where applicable). **Expense (OPEX) all items:** • Organisational change management (OPEX in all stages of the project); • Training costs including training materials / operational manuals (OPEX in all stages of the project); • Repairs that do not significantly extend the original useful life or	**Capital (CAPEX) items:** **Subsequent cost:** • If there is an enhancement expected to significantly enhance the functionality of the asset or extends the life of an asset; • If the cost is related to a planned major overhaul or inspection of an asset. In which case previously capitalised expenses of this nature should be de-recognised and the cost of the latest inspection capitalised. **Expense (OPEX) all items:** • Training costs including training materials / operation manuals; • Organisational change management including communications & business readiness activities. • Post project appraisal reviews; • Closure of Project Account and capitalisation; • Ongoing operation of assets; • Day to day repairs and maintenance.

		increase capacity of the unit of plant.	

Appendix 3: RAB review proposal checklist (against requirements in QCA guidance)

Topic	Relevant QCA guidance	Proposal reference
Engagement	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.	Section 5
Proposed prices under RAB and annuity approaches	Sunwater's proposal should: • explain how revenue requirement at the scheme level is converted into price targets • include prices for each tariff group that are derived by applying the pricing principles • compare the annual changes in proposed RAB-based prices and annuity-based prices and the annual changes in the corresponding price targets over the price path period.	Section 7.1 Scheme summaries Section 7.2 Scheme summaries
Revenue requirement under RAB and annuity approaches	Sunwater's proposal should: • clearly set out the calculation of total revenue requirement under both RAB and annuity approaches, 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.	Section 6 Scheme summaries

Topic	Relevant QCA guidance	Proposal reference
Proposed revenue requirement and prices	Sunwater's proposal should include for each scheme over the price path period:	
	• total revenue requirement	Section 6 Service contract summaries
	• total RAB, rolled forward from 1 July 2027 to 30 June 2029	Section 6.2 Service contract summaries
	• a description of, and rationale for, the proposed depreciation method and asset lives	Section 4.3
	• the proposed return on and of capital and inflation adjustment	Section 6.2 Service contract summaries
	• a tax allowance	Section 6.2 Service contract summaries
	For each current tariff group over the price path period:	
	• proposed price targets and prices (under both annuity and RAB approaches)	Service contract summaries
	• annual changes in proposed prices, based on total price per megalitre of WAE, using the assumed scheme usage percentages in the 2025 review	Executive Summary Section 7.2 Service contract summaries
	• a comparison of the annual changes in proposed prices and annuity prices	Section 7.2 Service contract summaries
	• a comparison of the annual changes in corresponding price targets.	Sections 7.2 and 7.3 Service contract summaries
	The business should provide all relevant supporting information, data and calculations, including a revenue and price model that derives revenue requirement, price targets and prices	Sunwater's regulatory pricing model is an attachment to its proposal
Managing transitional impacts	As part of this review, Sunwater is expected to assess transitional impacts over a minimum of 10 years. This should support an understanding of the long-term financial impacts of moving to a RAB-based approach, the short-term and long-term impacts on price targets, and the adequacy of proposed transitional arrangements.	Section 4.3 Section 7.3 Service contract summaries

Topic	Relevant QCA guidance	Proposal reference
Proposed RAB approach	Sunwater's proposal should include: • explain 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 revenue requirement 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.	Section 4.1 Appendix 2 Section 4.2 Section 4.3 Section 7.2 Section 5
Adjustment to revenue allowance under RAB approach	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 to avoid an under- or over-recovery of costs across the full four-year period.	Section 6.2
Tax allowance	Tax allowance to be calculated at a Sunwater level and then allocated to individual schemes.	Section 6.2 Service contract summaries
Price targets and price	Proposals should: • explain how revenue requirement at the scheme level is converted into price targets • include prices for each tariff group that are derived by applying the pricing principles.	Section 7.1 Service contract summaries

Appendix 4: Synergies Economic Consulting

Refer to attached document.

Comparing the annuity and regulatory asset base valuation approaches

Sunwater

12 February 2026

Synergies
ECONOMIC CONSULTING

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The matters dealt with in this report are limited to those requested by the client and those matters considered by Synergies to be relevant for the Purpose.

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Executive Summary

Synergies Economic Consulting (Synergies) has undertaken a comparison of the merits of the annuity and regulatory asset base (RAB) approaches, each of which can be used to determine capital expenditure (capex) values to set the prices of regulated water infrastructure services.

In Sunwater's case, since 2000, the annuity approach has been applied to its actual and forecast renewals capex that it uses to provide price-regulated irrigation services to its customers.

Comparative analysis of annuity and RAB approaches

Table 1 summarises the key findings from our comparative assessment of the annuity and RAB approaches.

Table 1.1: Comparison of annuity and RAB approaches

Issue	Annuity approach	RAB approach
Is the model fit for purpose for all types of capital investment?	No, it is not readily applicable for capital investments with uncertain demand, augmentations, expansions, asset reconfiguration, asset disposals. Hence, it is typically applied to asset renewals with stable long-term demand underpinned by long-term robust expenditure planning.	Yes, it can be applied to all types of capital investment (both growth and renewal) with varying asset lives. Long term capital planning remains important but is not strictly necessary to apply the RAB approach.
Is the approach dependent on the quality of long-term asset planning information?	Yes, it relies heavily on the stability and quality of long-term asset planning and on low levels of forecasting error. This is because annuity values are generally set for 30-plus years.	High-quality long-term asset planning and forecasting is desirable to provide confidence in the long-term prudency of the total capex program. A requirement for service providers to publicly release long term asset management and capex planning documentation to inform interested stakeholders can often form part of the RAB approach. However, capex forecasts are generally approved for only 3 to 5 year regulatory periods.

Issue	Annuity approach	RAB approach
Is there potential for cost forecasting error?	Yes, it is high because of the need to set the value of the annuity for a long period (30 years in Sunwater's case). Cost forecasting errors can be addressed through sinking fund adjustments. The existence of quality long term asset planning information can also help address cost forecast error but there will generally be a relatively high degree of uncertainty because of the required long-term nature of the cost forecasting.	Cost forecasts are set for the term of the regulatory period, which in Australia is generally 3 to 5 years. This relatively short period reduces the potential size of cost forecasting errors compared to forecasting costs over a 30-year period. To the extent that forecast errors are made over a 3 to 5 year period this error is confined to the term of each regulatory period, after which cost forecasts are reset.
Is the method able to smooth the revenue path in response to lumpy operational and capital costs	Yes, given the long-term nature of the annuity charge and provided it is not adjusted significantly over time due to major changes in planning of the capex program. However, the potential exists for unplanned events that require annuity-related capex to occur periodically. In practice, this requires the capex to be incurred and causes an adjustment to be made to the annuity charge (or sinking fund balance) because the capex was not captured under the long-term plan.	There is potential for revenue (and price) volatility if the capex program is lumpy across regulatory periods (of 3 to 5 year terms). However, this can partly be mitigated through revenue and price smoothing during each regulatory period. There is also scope to make changes in the asset depreciation profile to smooth revenues.
Can the approach contribute to regulatory certainty over infrastructure charges?	Yes, if the capex program subject to the annuity is relatively stable over time. If not, the annuity arrangement must address the long-term capex planning uncertainties eg, through a sinking fund. Careful management of the sinking fund used to manage these forecasting uncertainties will also be required. The extent of forecast error in the size of capex program and	A high degree of regulatory certainty is provided for each regulatory period but not necessarily across regulatory periods. This is because the RAB approach does not rely on high-quality long-term asset planning and forecasting to set revenue and prices within a regulatory period. Rather, it can be based on short to medium-term capex forecasts.

Issue	Annuity approach	RAB approach
	its associated cost will ultimately determine the extent of regulatory certainty over infrastructure charges	The potential exists for a material increase in infrastructure charges when a new regulatory period commences.
Who bears risk in relation to the capex program	The customer bears most of the risk in terms of the long-term capex program through paying the annuity charge. The annuity charge is a form of pre-payment for the future (30-year) renewals capex program including the uncertainties associated with the scope and cost of that program.	The service provider bears the risk in terms of delivery of the capex program approved by the economic regulator for the term of the regulatory period, including bearing the risk of potentially over-spending in relation to the approved capex forecasts. The capex over-spend may not necessarily be rolled into the RAB. The customer bears no risk today in terms of charges paid in relation to the forecast long-term capex program because it is not reflected in the capex forecasts for the 3-5 year regulatory period.
Administrative costs of approaches	The annuity approach that is currently applied to Sunwater creates large administrative costs associated with the need for it to develop a rolling 30-year renewals capex program as the basis of its renewals capex forecasts, for which both its customers and the QCA must consider at each regulatory review. There is also a need for the associated annuity balances across schemes to be maintained and updated annually.	Under the RAB approach, the medium-term nature of the approved capex program for each 3-5 year regulatory period would create a lower ongoing administrative cost for Sunwater, its customers and the QCA. However, adoption of the RAB approach would not remove the need for Sunwater to develop and share its long-term renewals plans for the irrigation schemes.

Practical issues moving from annuity to RAB approach

The key practical issues associated with implementing a RAB approach to apply to Sunwater's renewals capex would be to:

- Establish the initial RAB value for the renewal assets previously subject to the annuity
- Determine a robust method to classify capex and opex in relation to renewals

expenditure

- Unwind the existing sinking fund balances across irrigation schemes, which is most likely to be linked to establishment of the initial RAB value.

Given the sensitivities associated with these practical issues, primarily arising from the likely differential impacts on Sunwater's customers across its 26 irrigation schemes, customer engagement would need to be a critical component of any move away from the annuity approach.

Ultimately, the QCA would be required to approve the details of any move away from the annuity approach, including resolving the practical implementation issues in a way that protects the legitimate business interests of Sunwater, as well as its irrigation customers in terms of price impacts.

Conclusion

In principle, application of the annuity and RAB approaches should deliver the same outcomes for Sunwater and its customers over time in terms of capital returns and irrigation prices respectively. However, in practice, there may be timing differences associated with these outcomes because of the different underlying estimation methodologies of the two approaches.

More importantly, we do not consider that the renewals annuity approach is well-suited to the diverse character of the multiple irrigation schemes that Sunwater currently operates and maintains, including varying complexity, age and condition of the assets across schemes. Rather, the annuity approach is most effective when applied in relation to single large or homogenous assets, which facilitates the robust long-term planning that is essential to effective application of the approach. This problem is exacerbated by the program scope and cost forecasting errors inherent in developing 30-year renewals capex forecasts.

In contrast, the RAB approach does not depend to the same extent on long term planning, particularly as it relates to revenue and price setting, which is limited to existing sunk assets and capex forecasts in 3-5 year windows. This medium term timeframe can sometimes result in large variations in the size of capex forecasts that are approved by the economic regulator across regulatory periods. This means that in theory a price path under the RAB approach may not be as stable as the annuity approach in some periods dependent on the timing of required renewals capex in the long term. However, in practice, this stability may not be evident, particularly where major unplanned expenditure does not form part of an annuity at a point in time such that it periodically needs to be reset to accommodate this unplanned expenditure. Further, this potential for more stable prices under the annuity approach comes at a cost to irrigation customers who must pay in advance for the 30-year forecast renewals program.

In indicating our preference for the RAB approach, we recognise that the annuity approach has been applied to Sunwater's renewals capex since 2000, which would create several

important practical issues in implementing the RAB approach. However, we do not think that these practical issues are insurmountable or will create windfall gains and losses for Sunwater or its irrigation customers.

This is because the QCA is very familiar with application of annuity and RAB approaches and so would be well-placed to ensure that there is a reasonable balancing of Sunwater's and its customers' interests if the RAB approach were to be implemented in place of the annuity approach.

Further, over recent rural price reviews by the QCA, most focus regarding the 30-year renewals forecast has been on the first five years of it for which Sunwater (and the QCA) has most confidence from a planning and delivery perspective. As a result, the RAB approach would be applied in a similar way to the annuity approach has been applied but absent the long-term renewals capex forecast and its inherent uncertainties.

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1. Introduction

Synergies has been engaged to provide our assessment of the differences between the annuity and regulatory asset base (RAB) valuation approaches and what needs to be considered if Sunwater was to replace its current annuity approach with a RAB approach.

Over the past decade, Sunwater and the Queensland Competition Authority (QCA) have considered the possibility of a change from the current annuity approach applied to Sunwater's renewals capex to a RAB-based approach.

A proposed change in approach formed part of Sunwater's November 2023 pricing proposal to the QCA. While the QCA deferred recommending a change based on some preparedness concerns, in October 2025, the Queensland Government initiated a QCA-led review of RAB-based pricing in preparation for possible application of this method to Sunwater from 1 July 2027 .

1.1 Scope of advice

Our report addresses the following matters:

- the theoretical basis of each valuation approach
- short and long-term time horizons in applying the two valuation approaches.
- practical strengths and limitations of each approach, including
  - the nature and scale of limitations that might arise under either approach,
  - how each approach applies (or would apply) to Sunwater and does (or might) impact on Sunwater's customers' prices; and
  - what mitigations might reasonably be implemented to address any limitations and how effective they could expect to be.

1.2 Report structure

The remainder of this report is structured as follows:

- Section 2 briefly summarises the key features of the annuity and RAB approaches and the application of the former approach in relation to Sunwater's renewal capex.
- Section 3 presents our comparative analysis of the annuity and RAB approaches, with a focus on strengths and limitations of each.
- Section 4 discusses practical issues associated with transitioning from the annuity to RAB approach.
- Section 5 concludes.

2. Differences between annuity and RAB approaches

The purpose of this section is to provide brief descriptions of the annuity and RAB approaches, including their key underlying assumptions, and Australian regulatory precedent regarding their use. It also briefly summarises the historical application of the annuity approach to Sunwater's renewals capex.

2.1 Annuity approach

A renewals annuity recovers future renewals expenditure required to maintain the service capacity of the relevant assets. The annuity is an annual constant payment to recover forecast expenditure over a defined period (eg. 30 to 50 years). The annuity is calculated using the weighted average cost of capital (WACC) as the discount rate to establish the smoothed annual value of the annuity. In effect, it is assumed that the asset will provide ongoing services into the long term and will be renewed but never reach an end-of-life state. That is, demand for the services provided by the assets is assumed to continue into the long term.

In practice, the annuity includes the pre-funding of future capex associated with the relevant assets, which may lead to the build-up of a positive annuity balance if most of the expenditure that the annuity is intended to fund has yet to occur (which in practice is generally not the case). However, it is also possible that the service provider will need to fund the capex when there is a negative annuity balance or the positive balance is insufficient to fund forecast capex. The existence of negative or positive annuity balances will be a function of the long-term capex forecasts used to establish the value of the annuity, as well as the WACC used to discount the annuity, both of which can change materially over time.

Under the annuity approach, the service provider recovers the cost of its investments in the relevant assets over the term of the annuity rather than the expected life of the assets as is the case under the RAB approach.

The decision about whether to adopt the annuity approach should primarily be based on the characteristics of the assets. Where assets maintain their service potential indefinitely and there is no reason to expect that demand for the service will reduce or cease in the foreseeable future, a renewals annuity approach can be appropriate.

From the late 1990s, annuities were sometimes used in relation to Australian price-regulated water infrastructure because of the key underlying assumption of ongoing renewal of the assets over time underpinned by expected long term water demand. However, over time, economic regulators have transitioned away from the annuities approach to adopt the RAB approach. It is reasonable to conclude that there is now a strong

preference for the RAB approach, with the rural irrigation schemes of Sunwater (and Seqwater) outliers in continuing to be subject to the annuities approach.

2.2 RAB approach

The RAB is an accumulation of the value of investments that a service provider has made in the infrastructure that it uses to supply services to its customers. It includes assets of various technical (or economic) lives.[1] Most of these assets will depreciate over their life, although a small number do not, such as easements and land.

Once established, the RAB value is generally updated annually to reflect:

- increments of new capex, including due to renewals of existing assets
- asset depreciation, reflecting the deterioration in the value of assets as they are used over their lives
- asset inflation indexation, which adjusts the value of assets to reflect movements in inflation over time
- asset disposals.

The service provider finances all its investments as they occur through:

- recovering the cost of debt and equity funds used to make its investments, which forms part of allowance total revenues;
- depreciation net of inflation indexation of the assets, which is another component of allowable total revenues.

These two forms of allowable revenue are ultimately reflected in the prices that customers pay for the infrastructure service. Allowable revenues are recovered over the expected life of the assets as determined by the asset's depreciation profiles.

Where the service potential of the relevant assets declines over time, the RAB approach can be appropriate, as this aligns the recovery of capital costs with the decline in service potential.

Other than the Sunwater (and Seqwater) rural irrigation schemes, the RAB approach is now the preferred approach to determine allowable revenues for services providers under Australian regulatory frameworks in relation to water, electricity and gas infrastructure. The RAB approach applied under Australian regulatory frameworks is not dependent on long term capex forecasts, although long-term asset management plans are often required to be published for the benefit of customers consuming the regulated services. Rather, the economic regulator's approved capex forecasts for the service provider are aligned to the

[1] Economic life will be shorter than technical life if the expected demand for the services provided by the assets is expected to be shorter than technical life, such that the assets will no longer be required once demand ceases.

term of each regulatory period (generally 3 to 5 years) and are used in determining revenues and prices for the regulated services.

2.3 Application of annuity approach to Sunwater's renewals capex

Sunwater adopted the renewals annuity approach commencing in the year 2001.

The renewals annuity is calculated for a rolling 30-year term and has been set having regard only to forward-looking renewals capex required to maintain the service capacity of bulk water assets. In other words, this renewals annuity is set without any regard to the value of an asset base. The QCA approves the WACC used to discount the value of the renewals annuity into present day terms, which then forms part of allowable revenue to be recovered through prices applied across Sunwater's irrigation schemes in each regulatory period.

The QCA's most recent rural irrigation price review continued application of the annuity approach in relation to Sunwater's renewals capex, setting an aggregate renewals allowance of $101.2m (in nominal dollar terms) for the four-year regulatory period from 2025/26 to 2028/29, reflecting its view of the prudent and efficient costs of Sunwater renewing its existing assets.[2]

In response to Sunwater's proposal to switch from the annuity approach to a RAB approach, the QCA indicated its supports for an appropriately designed RAB approach. However, in its view, Sunwater's proposal was not sufficiently robust and well-developed to be supported at that time.[3]

2.4 Conclusion

Both the annuity and RAB approaches are different ways of funding the renewal and replacement of assets used to provide infrastructure services. Both approaches have been applied under Australian regulatory frameworks, with the RAB approach now the dominant approach across water, energy and transport regulatory frameworks. The Sunwater (and Seqwater) rural irrigation renewals annuities are atypical.

In simple terms, both approaches are intended to allow the service provider to recover the efficient costs of its investment in the relevant assets, which is reflected in the prices paid by its customers. In principle, the revenue and prices outcomes should be the same under each approach when applied to the same set of assets and converted into present value dollar terms, such that the impact on Sunwater and its customers would be neutral under either approach.

[2] QCA (2025), Rural irrigation price review: Sunwater. Final report, January, p 87

[3] QCA (2025), p 98

However, the different underlying assumptions of the two approaches regarding the assumed term of the annuity (under the annuity approach) and assumed asset lives (under the RAB approach), which are unlikely ever to be aligned, means that there will be differences in the timing of allowable revenue recovery and associated price path profiles.

Further, choosing between the two approaches should require consideration of factors that will determine the capital return and price outcomes under each approach, including how much each depends on good asset management practice and the development of robust long term capex forecasts. In this regard, the allocation of forecast risk in relation to the service provider's capex program both in the short and long terms is an important issue to be considered.

Finally, both approaches will require regulatory scrutiny over time regarding the prudency and efficiency of the forecast capex program.

3. Comparative analysis of annuity and RAB approaches

This section includes a comparative analysis of the annuity and RAB approaches, including discussion of their strengths and weaknesses.

3.1 Comparative assessment of approaches

This section provides a criterion-based comparison of the key differences between the RAB and annuity approaches.

3.1.1 Is the approach fit for purpose for all types of capital investment?

Annuity approach — No	RAB approach — Yes

The annuity approach is not well-suited for assets with uncertain demand, that require expansion, asset reconfiguration or asset disposal because of the long-term forecasting uncertainty associated with the timing of such investment or disposal events.

While Sunwater's annuity charge is linked only to its renewal capex program, the diverse nature of the asset ages and conditions across its 26 irrigation service contracts similarly creates forecasting challenges when required over a 30-year period.

In contrast, the RAB approach can be applied to all types of capex with varying asset lives.

The RAB approach is commonly used in Australia for regulation of monopoly providers of services with long-lived assets, such as electricity, rail, gas, water and telecommunications.

In contrast, assets that are best suited to an annuity approach are:

- 'renewable' or replaceable; and
- have constant, expected long term demand and associated long-term planned expenditure programs.[4]

3.1.2 How dependent is the approach on quality of long-term asset planning?

Annuity approach — Very high	RAB approach — Moderate

The annuity approach relies much more heavily on there being robust long term asset planning than the RAB approach because annuity values associated with the forecast capex

[4] National Transport Commission, National heavy vehicle charges: Adopting a life cycle approach using forward looking costs, Results of exploratory work. 2016.

program are generally set for 30-plus years, as is the case for Sunwater's renewals capex.

With or without good long term asset planning, under the annuity approach the potential exists for unplanned events that require annuity-related capex to occur periodically. In practice, this requires the capex to be incurred and causes an adjustment to be made to the annuity charge (or sinking fund balance) because the capex was not captured under the long-term plan.

In contrast, the RAB approach is not dependent on long term asset planning (or asset management plans). Rather capex forecasts are approved by economic regulators for the term of the regulatory period, which is generally 3 to 5 years. Hence, the occurrence of an unplanned capex-related event in a regulatory period if sufficiently critical will need to be delivered using the funding provided in the economic regulator's price determination through re-prioritisation of projects in the capex program. Hence, there is no immediate impact on customers arising from occurrence of the event. The impact of this project re-prioritisation may have implications for the service provider's future capex program, but this will be subject to the economic regulator's assessment and decision prior to the start of the next regulatory period. In this way, the outcomes of the unplanned capex event under the annuity and RAB approaches are broadly similar.

More generally, under the RAB approach, economic regulators expect a service provider's capex forecasts to be a function of good asset management practice reflected in robust, long term asset planning, because it will contribute to the prudency and efficiency of the delivered capex program during each recurring regulatory period.

3.1.3 How significant is the potential for cost forecasting error?

Annuity approach — Very high	RAB approach — Moderate

The potential for cost forecasting error is materially higher under an annuity approach than the RAB approach given the need to set the value of the annuity based on a long-term capex forecast (30 years in Sunwater's case). While the value of the annuity can be reset at the start of each regulatory period to reflect any forecast changes in the scope and/or cost of the long-term renewals capex program, customers are essentially making forward-payments today for future delivery of the program, including any adjustments that are being made to it.

These forecasting errors in the long-term capex program can be mitigated through establishment of a sinking fund, where differences between the current annuity charge and adjusted annuity charge based on the revised long-term capex program are carried forward, with variations reflected in annuity price adjustments in subsequent price reviews.[5] We understand that Sunwater's annuity charges across all 26 irrigation service contracts are rolled-forward on an annual basis at each price review having regard to the

[5] QCA (2000). Statement of Regulatory Pricing Principles for the Water Sector.

delivered renewals program. This adds considerable complexity to the annuity approach and can be contrasted with the situation where it is applied to a single large or small set of homogeneous assets that have a stable long-term renewals capex profile.

The existence of quality long term asset planning information can also help address cost forecasting errors, but there will generally always be a high degree of uncertainty because of the required long term nature of the annuity-related capex forecasting.

Under the RAB approach, cost forecasts are set for the term of the regulatory period, which are generally between 3 to 5 years in Australia. This relatively short period reduces the potential size of cost forecasting errors. That is, cost forecast error is confined to the term of each regulatory period, when cost forecasts are reset for the next regulatory period. It is the service provider that bears cost risk in relation to the total capex program approved by the economic regulator for each regulatory period. Only approved capex can be rolled into the RAB for subsequent recovery through prices.

3.1.4 Is the approach able to smooth the revenue path in response to lumpy operational and capital costs

Annuity approach — Yes, with good long-term planning	RAB approach — Yes, with revenue adjustments

Under the annuity approach, given its long-term nature, the annuity-based revenue and price path can be smoothed provided there are no significant adjustments made to the long-term capex program over time. As previously noted, this will fundamentally depend on homogenous assets, which facilitate the development of stable capex forecasts over the long term (in Sunwater's case, 30 years).

In contrast, under a RAB approach, there is potential for revenue (and price) variability if the capex program is lumpy across 3-5 year regulatory periods. However, this variability can partly be mitigated through revenue and price smoothing during each regulatory period. There is also scope to make changes in the RAB's asset depreciation profile to smooth revenues and prices.

3.1.5 Can the approach contribute to regulatory certainty over infrastructure charges?

Annuity approach — Yes	RAB approach — Yes

Any certainty provided by applying an annuity approach will fundamentally depend on the stability and quality of long term-asset planning and on low levels of error in relation to program composition and cost forecasting. Subject to these conditions being satisfied, stable annuity charges can create certainty for customers about the level of future infrastructure charges.

In contrast, under the RAB approach, certainty about future revenues and prices is

provided for the term of the regulatory period. However, the approach generally does not provide long-term certainty for customers about the future level of infrastructure charges. Allowable revenues are reset at the start of each regulatory period to incorporate both the prior regulatory period's actual capex and new capex forecasts relating to the 3-5 year regulatory period.

3.1.6 Who bears risk in relation to the capex program?

Annuity approach — Primarily customer (and Queensland Government	RAB approach — Primarily service provider

Under the annuity approach, the customer bears most of the risk in terms of the long-term capex program through paying the annuity charge. The annuity charge includes an element of pre-payment for future (30-year) renewals expenditure including the uncertainties associated with the scope and cost of that program.

In contrast, under the RAB approach, the service provider bears the risk in terms of delivery of the capex program approved by the economic regulator for the term of the regulatory period, including bearing the risk of potentially over-spending in relation to the approved capex forecasts.

3.1.7 Administrative cost of approaches

Annuity approach — High	RAB approach — Moderate

The annuity approach that is currently applied to Sunwater creates large administrative costs associated with the need for it to develop a rolling 30-year renewals program as the basis of its renewals expenditure forecasts, for which both its customers and the QCA must consider at each regulatory review. Further, there is a need for the associated annuity balances across schemes to be maintained and updated annually. As previously noted, given the forecasting uncertainties associated with this long-term capex renewals program, there appears no material benefits to Sunwater's customers from its development and periodic approval by the QCA.

In contrast, under the RAB approach, the medium-term nature of the approved capex program for each 3-5 year regulatory period would create a lower ongoing administrative cost for Sunwater, its customers and the QCA.

However, it is important to note that adoption of the RAB approach would not remove the need for Sunwater to develop and share its long-term renewals plans for the irrigation schemes. This is good water industry practice and something that the QCA will always consider in relation to any capex programs that it reviews as part of its price determinations. The main difference with the annuity approach is that the administrative costs and associated forecasting uncertainties attempting to develop a long term renewals capex forecast linked to the long-term plan are removed.

3.2 Strengths and weaknesses of each of the approaches

Based on our comparative assessment of the two approaches, the table below compares the strengths and weaknesses of the annuity and RAB approaches.

Table 3.1: Comparison of annuity and RAB approaches

	Annuity approach	RAB approach
Strengths	• Annuity approach is well-suited to a single large or small number of homogenous assets, which facilitates the accrual of good asset condition information and robust long-term planning. • Revenue recovery is generally smoothed across regulatory periods due to the annuity charge. • In principle, the annuity should facilitate a greater commitment by the service provider to forward planning and asset management, including development of long-term robust asset management plans. • Customer funding is used to finance future capex reducing the service provider's funding requirement.	• The RAB approach is a relatively straightforward approach to apply that is also consistent with standard accounting practice in a commercial environment. • May lead to more effective scrutiny of future capital requirements because the economic regulator is reviewing and approving capex forecasts for relatively short periods (while recognising that the approved capex will have technical lives longer than the term of the regulatory period). This reduces the risk of the service provider over-investing in assets. • There is no need to include a sinking fund to mitigate long-term capex forecasting risk. • There is financial discipline imposed on the service provider because it must provide capital as well as service the associated financing costs.
Weaknesses	• Annuity approach is not well-suited to multiple diverse assets, including different asset ages and conditions, which makes it more difficult to accrue good asset condition information and undertake robust long-term planning. • Unavoidable difficulties in making long-term accurate forecasts regarding renewal expenditures due to the long-term nature of forecasting (eg. 30 years or more is required), as well as the associated administrative costs in doing so. • If there are long-term capex forecasting errors, there will be frequent adjustments to the size of the annuity, which can be complex to administer. • Robust information on condition of the assets must be known to set a stable annuity charge over time. • Any re-prioritisation of the service provider's total capex program in response to changing operating conditions is constrained in relation to the assets subject to the annuity calculation. • A sinking fund will most likely need to be created to account for timing differences	• There can be an irregular/lumpy capital recovery profile across regulatory periods because capex forecasts are only approved for 3-5 year periods. • Lumpiness in capex forecasts across regulatory periods can cause allowable and revenue volatility, which can be partly but not fully mitigated, • The service provider needs to access external finance to fund lumpy capex. • The accuracy of the amount of depreciation built into allowable revenue depends on the accuracy of the estimates of the useful life of assets.

	Annuity approach	RAB approach
	between annuity payments charged to customers and the service provider's actual expenditure during each regulatory period. The more frequent the changes to the renewals capex program the more frequent will changes be required to annuity charges and associated changes in sinking fund balances. • Management of sinking funds applying across multiple diverse assets/schemes is administratively time-consuming. • Prices paid by irrigation customers may depart from cost reflective levels to the extent that the renewals capex program is subject to forecasting error.	

4. Practical issues in changing from annuity to RAB approach

There are practical issues associated with Sunwater moving from the current annuity approach to a RAB approach as it is applied to its renewals expenditure, including the following issues discussed in this section:

- establish an initial RAB value for irrigation assets
- avoid double counting of capital returns
- determine the categorisation of capex and opex across schemes
- avoid customer price shocks
- protect Sunwater's legitimate business interests.

4.1 Establishing an initial RAB value

When setting the initial value of the RAB, past compensation to the service provider for investing in assets under the annuity approach will influence how the initial value of the RAB should be set. In Sunwater's case, the annuity applying to forecast renewals capex has applied from 2000 with periodic determinations by the QCA setting the annuity charges since then.

The key issue in setting the initial RAB value then will be the treatment of existing annuity balances across Sunwater's irrigation schemes, which will recognise the current status across irrigation schemes about the extent to which Sunwater or its irrigation customers have contributed to funding the rolling 30-year renewals program.

In this regard, we understand that the sinking fund balances in most of the irrigation schemes is currently negative, which implies that Sunwater has generally paid forward for its long-term renewals capex program. Hence, these negative balances could be capitalised into the initial RAB value for the relevant irrigation scheme assets. Alternatively, the negative balances could be recovered through an increase in irrigation prices for the affected customers.

The choice between these two approaches should depend on the size of the sinking fund negative balances. In our view, it is likely that capitalisation into the initial RAB value is the approach that best balances the interests of Sunwater and its customers by ensuring Sunwater recovers the initial RAB value over time and customer price shocks are avoided (refer to section 4.4 below for more on the latter).

In contrast, if the sinking fund balance is positive in a specific irrigation scheme, it should either be returned to the affected customers immediately or through a reduction in their irrigation prices over a time frame that does not unreasonably adversely impact on Sunwater's cash flows.

This treatment of the annuity balances as part of the setting of the initial RAB value should ensure that there is no future double counting of capital returns in relation to irrigation scheme assets. In other words, the RAB value is reflective of the forward-looking down-payments that have been made in relation to the 30-year renewals program as most recently assessed by the QCA in its rural price review completed in January 2025.

Once established, the initial RAB value would then be rolled forward each year to reflect prudent capital additions, asset depreciation and any asset disposals.

4.2 Cost categorisation

Categorisation of expenditure as either capex (subject to slower cost recovery) and opex (subject to immediate cost recovery) is an important issue both in terms of setting the renewals annuity and in moving from the annuity to RAB approach. This is primarily a function of Sunwater's capitalisation policy.

The importance of cost categorisation stems from its effect on irrigation prices arising from the balance of capitalised and expensed cost items flowing from application of Sunwater's capitalisation policy.

Based on the QCA's most recent rural irrigation price review, this appears to be an area where more work is required by Sunwater to provide confidence to the QCA about application of its new capitalisation policy and the associated irrigation price effects that will arise from it over time.[6]

Under the RAB approach, there is likely to be a cleaner distinction between opex and capex and their recovery through prices.

4.3 Avoiding customer price shocks

As noted above, in principle, the annuity and RAB approach should be the same, but there will be differences in cash flows over time under each approach.

It is also the case that the 'consumption' of the asset influences prices. For instance:[7]

> "... customers may prefer not to make upfront payments to provide for future renewals capital expenditure, but to pay a larger amount of money in the future to fund capital expenditure once it has been invested. This pattern may be preferred particularly if there is considerable doubt about the forward capital expenditure projections."

In our view, the key consideration is that there should be no price shocks for customers in any move away from an annuity to RAB approach. Any such shocks should not arise from

[6] QCA (2025), p 93

[7] SAHA Issues Paper on Renewals Annuity or a Regulatory Allowance: SunWater's Water Supply Schemes 2011-2016 Price Paths, (2010).

what is effectively a change in the methodology used to determine Sunwater's recovery of its renewals expenditure over time.

Beyond removing this potential price shock issue, there is no reason to believe that Sunwater's customers will be worse off in pricing terms if the RAB approach is applied. In our view, it is more likely to be in their interests by removing the significant forecasting risks that they currently bear under the annuity charging approach.

4.4 Sunwater's legitimate business interests

As previously discussed, establishment of the initial RAB value for the renewals assets will be the most sensitive factor in preserving Sunwater's legitimate business interests and ensuring that its irrigation customers do not pay twice for the relevant assets.

Once the initial RAB value is established, Sunwater's legitimate business interests will be protected through recovery of the cost of the RAB assets and any future efficient renewals capex and opex that it incurs.

Subject to the other practical issues being resolved, application of the RAB approach will remove Sunwater's long term cost forecasting challenges that are being reflected in current renewals annuity charges and in so doing should result in more reliable renewals capex forecasts across future regulatory periods.

The RAB approach is well-accepted across the Australian water and energy network sectors that protects the legitimate business interests of service providers like Sunwater, while providing strong regulatory oversight to ensure the prudency and efficiency of the capex and opex that is incurred and ultimately paid for by customers.

5. Conclusion

Our analysis of the strengths and weaknesses of the annuity and RAB approaches in Section 3 suggests that the RAB approach has more favourable features, particularly having regard to the approval of prudent and efficient renewals capex over time and the absence of the pre-payment feature of the annuity approach.

In contrast, the renewals annuity approach is not well-suited to the diverse character of the 26 irrigation schemes that Sunwater operates, maintains and invests in. This results in what is more likely to be unpredictable cost sharing between Sunwater's irrigation customers today and into the future. This is because of significant long-term forecasting challenges associated with the renewals program. Where the 30-year renewals forecast is too high, current irrigators are bearing a heavier cost recovery burden compared to future irrigators because of the pre-payment nature of the annuity charge. In contrast, when the 30-year forecasts are too low (the need for previously unexpected investment emerges), the reverse is true.

In practice, we consider that addressing the practical issues raised in Section 4 of this paper will be the most important issue to resolve in moving from the annuity to RAB approach in relation to Sunwater's renewals capex. While it is important that Sunwater consults closely with its irrigation customers in relation to these practical issues, we consider that the QCA is ultimately best placed to determine appropriate responses to them that will balance the interests of Sunwater and its customers.

Subject to satisfactory resolution of the practical issues, we consider that the RAB approach is more likely to be in the interests of Sunwater and its customers over time than continuation of the annuity approach, including by removing long-term forecasting uncertainties currently reflected in annuity charges. That the RAB approach is as widely used as it is in an Australian context in relation to water and energy infrastructure assets supports such a change.

Extract of scope of works from email sent to consultancies seeking a proposal to supply a consulting opinion

Government RAB Review – Independent opinion consultancy

[redacted]

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REQUEST FOR QUOTATION

Quote details

Sunwater Limited (**Sunwater**) is seeking a quotation for the provision of an expert opinion on the relative merits of the annuity and regulated asset base (RAB) methodologies for the recovery of renewals capital expenditure (capex) (**Supply**), on the terms of this Request for Quotation (**RFQ**) (the **Quotation**).

The overarching objective of this consultancy is to provide an independent, plain English perspective on the annuity and RAB approaches to the recovery (through customer prices) of renewals capex.

Over the past decade Sunwater and the Queensland Competition Authority have discussed and proposed a change from the current annuity approach to recovery of renewals capex to a RAB approach.

A shift in methodology was an explicit part of Sunwater's recent (November 2023) pricing proposal to the QCA. While the QCA deferred recommending a shift on the basis of some preparedness concerns the Queensland Government has (in late 2025) initiated a QCA-led review of RAB-based pricing.

During the course of its engagement on this topic over the past two years, Sunwater has received feedback from some customers that they are unsure whether or not this change is in their best interests.

The purpose of this consultancy is to provide a view that is independent of Sunwater on the relevant merits of the two approaches. Sunwater is not seeking to constrain the scope nor procure a pro-RAB outcome if this is not the Consultant's actual view, however we would expect that the opinion should consider:

1. the theoretical basis of each approach
2. practical limitations, including how each applies (or would apply) to Sunwater
3. the nature and scale of any practical limitations or flaws that might arise under either approach
4. how these flaws do (or might) impact customer prices
5. what mitigations might be reasonably implemented to address these flaws, and how effective they could be expected to be
6. short and long-term time horizons

Appendix 5: - Service Contract Summaries

Barker Barambah bulk water service contract

Context/transition matters

The Barker Barambah service contract sits wholly within the Barker Barambah Water Supply Scheme. There are two tariff groups in this service contract, the Barker Barambah tariff group and the Barker Barambah – Redgate Relift tariff group.

Barker Barambah holds total water access entitlements (WAE) of 34,315 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in this scheme is 11,067 ML per annum.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $3.89 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB opening balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Barker Barambah –Bulk ($'000s)

Component	Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29
RAB opening balance	3893.22	6385.41	3893.22	6305.36
Plus new capital	2507.82	157.79	2507.82	157.79
Plus inflation	143.88	171.29	143.88	169.17
Less depreciation	159.50	249.10	239.55	331.27
RAB closing balance	6385.41	6465.38	6305.36	6301.05

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Barker Barambah bulk ($m)

Building block component	Annuity		RAB – long (50 years)		RAB – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.59	1.63	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.01				
Base opex adjusted for CASPr	1.58	1.62				
Opex – renewals	0.00	0.00	0.02	0.01	0.02	0.01
Return on	0.00	0.00	0.33	0.42	0.33	0.41
Return of	0.00	0.00	0.02	0.08	0.09	0.16
Annuity contribution	0.84	0.86	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Revenue requirement – unsmoothed	2.42	2.47	1.95	2.11	2.02	2.19
Smoothing adjustment[1]	0.00	0.00	0.03	0.00	0.03	0.00
Total	**2.42**	**2.47**	**1.97**	**2.11**	**2.05**	**2.19**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 - Barker Barambah bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Barker Barambah – Redgate Relift	Part A	55.17	56.75	45.94	47.26	47.65	49.01
	Part B	38.11	39.20	38.11	39.20	38.11	39.20
Barker Barambah – Redgate River	Part A	54.51	56.07	45.28	46.58	46.99	48.33
	Part B	9.31	9.58	9.31	9.58	9.31	9.58

Customer prices

Sunwater has applied the Government's pricing principles to derive its proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Barker Barambah bulk ($/ML)

Tariff group	Price Component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Barker Barambah – Redgate Relift	Part A	50.22	54.51	45.94	47.26	47.65	49.01
	Part B	26.84	27.61	31.12	34.86	29.41	33.11
Barker Barambah – Redgate River	Part A	50.22	54.51	45.28	46.58	46.99	48.33
	Part B	4.95	5.09	9.31	9.58	8.18	9.58

Bowen Broken bulk water service contract

Bowen Broken irrigation customers are unaffected by the choice of renewals recovery methodology as one hundred per cent of renewals costs are allocated to high priority entitlements.

Context/transition matters

The Bowen Broken Bulk service contract sits wholly within the Bowen Broken Rivers Water Supply Scheme. There is only one tariff group.

Bowen Broken holds total WAE of 38,930 ML. Most entitlements are high priority and held by customers who use water for non-irrigation purposes. The long-term (20-year) average annual usage in this scheme is 15,657 ML per annum.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $4.93 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this scheme.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Bowen Broken Bulk ($'000)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	4928.00	5152.57	4928.00	5051.25
Plus new capital	$'000	191.72	188.47	191.72	188.47
Plus inflation	$'000	140.65	139.02	140.65	136.34
Less depreciation	$'000	107.80	126.85	209.12	230.86
RAB closing balance	$'000	5152.57	5353.21	5051.25	5145.20

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial opening RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Bowen Broken Bulk ($m)

Building block component	Annuity		RAB – long (50 years)		RAB – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.85	1.90	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.01				
Base opex adjusted for CASPr	1.84	1.88				
Opex – renewals	0.00	0.00	0.10	0.00	0.10	0.00
Return on	0.00	0.00	0.32	0.34	0.32	0.33
Return of	0.00	0.00	-0.03	-0.01	0.07	0.09
Annuity contribution	0.69	0.70	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.01	0.01
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	2.52	2.58	2.23	2.21	2.34	2.32
Smoothing adjustment[1]	0.00	0.00	0.02	0.00	0.02	0.00
Total	**2.52**	**2.58**	**2.25**	**2.21**	**2.36**	**2.32**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Bowen Broken Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Bowen Broken – Bulk	Part A	10.14	10.43	10.14	10.43	10.14	10.43
	Part B	7.75	7.97	7.75	7.97	7.75	7.97

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 - Bowen Broken Bulk ($/ML)

Tariff group	Price Component ($/ML)	Annuity Approach		RAB Approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Bowen Broken – Bulk	Part A	10.14	10.43	10.14	10.43	10.14	10.43
	Part B	7.75	7.97	7.75	7.97	7.75	7.97

Boyne River and Tarong bulk water service contract

Context/transition matters

The Boyne River and Tarong Bulk service contract sits wholly within the Boyne River Bulk Water Supply Scheme. There is a single tariff group in this service contract.

Boyne River and Tarong holds total WAE of 43,405 ML. Most entitlements are high priority and held by customers who use water for non-irrigation purposes. Long-term (20–year) average annual usage in the scheme is 21,975 ML per annum.

Consistent with the QCA's Final Report, this service contract has a negative annuity closing balance of $16.17 million in 2026–27, which under Sunwater's proposal becomes the initial opening RAB balance.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Boyne River and Tarong – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	16,165.82	16,958.79	16,165.82	16,626.42
Plus new capital	$'000	680.49	536.29	680.49	536.29
Plus inflation	$'000	462.10	456.47	462.10	447.66
Less depreciation	$'000	349.62	397.49	681.99	738.66
RAB closing balance	$'000	16,958.79	17,554.07	16,626.42	16,871.71

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 - Boyne River and Tarong - Bulk ($m))

Building block component	Annuity		RAB – long (50 years)		RAB – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.41	1.44	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.01				
Base opex adjusted for CASPr	1.40	1.43				
Opex – renewals	0.00	0.00	0.01	0.00	0.01	0.00
Return on	0.00	0.00	1.06	1.11	1.06	1.09
Return of	0.00	0.00	-0.11	-0.06	0.21	0.28
Annuity contribution	1.22	1.23	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.02	0.06
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	2.62	2.67	2.37	2.49	2.71	2.86
Smoothing adjustment[1]	0.00	0.00	0.04	0.00	0.04	0.00
Total	**2.62**	**2.67**	**2.41**	**2.49**	**2.75**	**2.86**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Boyne River and Tarong – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Boyne River and Tarong	Part A	16.75	17.23	15.84	16.29	17.33	17.83
	Part B	3.40	3.49	3.40	3.49	3.40	3.49

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Boyne River and Tarong – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Boyne River and Tarong	Part A	16.75	17.23	15.84	16.29	17.33	17.83
	Part B	3.40	3.49	3.40	3.49	3.40	3.49

Bundaberg bulk water service contract

Context/transition matters

The Bundaberg Bulk Water Supply Scheme includes the Paradise Dam; however, water services related to this asset are excluded from the terms of the direction to QCA.

There is a single tariff group for the Bundaberg bulk service contract

The Bundaberg scheme holds total WAE of 380,329 ML; however 144,000 ML are associated with the Paradise Dam. After accounting for the efficient level of distribution losses at 33,888 ML, the remaining bulk WAE of 202,441 ML has a long-term (20-year) average usage of 114,471 ML per annum (equivalent to 48.44 per cent of total WAE). There is one tariff groups for this bulk service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $20.32 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Bundaberg – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	20,317.48	20,883.87	20,317.48	20,466.14
Plus new capital	$'000	420.60	376.49	420.60	376.49
Plus inflation	$'000	574.74	558.38	574.74	547.31
Less depreciation	$'000	428.95	461.37	846.68	890.17
RAB closing balance	$'000	20,883.87	21,357.36	20,466.14	20,499.77

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Bundaberg – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	2.49	2.55	Unchanged		Unchanged	
CASPr adjustment	-0.02	-0.02				
Base opex adjusted for CASPr	2.47	2.53				
Opex – renewals	0.00	0.00	0.08	0.09	0.08	0.09
Return on	0.00	0.00	1.32	1.36	1.32	1.33
Return of	0.00	0.00	-0.14	-0.09	0.26	0.33
Annuity contribution	2.04	2.07	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.03	0.05	0.10	0.12
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	4.50	4.60	3.75	3.93	4.23	4.41
Smoothing adjustment[1]	0.00	0.00	0.03	0.00	0.03	0.00
Total	**4.50**	**4.60**	**3.79**	**3.93**	**4.27**	**4.41**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Bundaberg – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation (50 years)		Depreciation (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
River	Part A	13.90	14.29	11.85	12.19	13.22	13.60
	Part B	1.57	1.61	1.56	1.61	1.56	1.61

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 - Bundaberg - Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation (50 years)		Depreciation (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
River	Part A	13.90	14.29	11.85	12.19	13.22	13.60
	Part B	1.57	1.61	1.56	1.61	1.56	1.61

Bundaberg distribution water service contract

Context/transition matters

The Bundaberg distribution system holds 166,330 ML in entitlements and delivers water for some allocations associated with Paradise Dam. The long-term (20-year) average annual usage within the distribution scheme is 80,739 ML per annum. This is equivalent to 48.54 per cent of total WAE.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $9.25 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Bundaberg – Distribution ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	9246.74	11,239.17	9246.74	11,049.06
Plus new capital	$'000	1937.62	1833.81	1937.62	1833.81
Plus inflation	$'000	285.85	321.98	285.85	316.94
Less depreciation	$'000	231.04	325.63	421.15	520.78
RAB closing balance	$'000	11,239.17	13,069.33	11,049.06	12,679.03

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Bundaberg – Distribution ($m)

Building block component	Annuity		RAB – long (50 years)		RAB – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	16.24	16.71	Unchanged		Unchanged	
CASPr adjustment	-0.10	-0.10				
Base opex adjusted for CASPr	16.15	16.61				
Opex – renewals	0.00	0.00	0.06	0.02	0.06	0.02
Return on	0.00	0.00	0.66	0.78	0.66	0.77
Return of	0.00	0.00	-0.05	0.00	0.13	0.20
Annuity contribution	2.86	2.96	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	19.00	19.56	16.81	17.41	16.99	17.59
Smoothing adjustment[1]	0.00	0.00	-0.09	0.00	-0.09	0.00
Total	**19.00**	**19.56**	**16.71**	**17.41**	**16.90**	**17.59**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Bundaberg – Distribution ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Bundaberg Channel	Part A	13.90	14.29	11.85	12.19	13.22	13.60
	Part B	1.57	1.61	1.56	1.61	1.56	1.61
	Part C	93.95	96.64	79.79	82.07	81.73	84.07
	Part D	55.89	57.50	55.94	57.55	55.94	57.55
	Part A + Part C	107.85	110.93	91.64	94.26	94.95	97.67
	Part B + Part D	57.46	59.11	57.50	59.16	57.50	59.16

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Bundaberg – Distribution ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Bundaberg Channel	Part A	13.90	14.29	11.85	12.19	13.22	13.60
	Part B	1.57	1.61	1.56	1.61	1.56	1.61
	Part C	68.06	72.87	70.11	74.97	68.74	73.56
	Part D	55.88	57.49	55.89	57.49	55.89	57.49
	Part A + Part C	81.96	87.16	81.96	87.16	81.96	87.16
	Part B + Part D	57.45	59.10	57.45	59.10	57.45	59.10

Burdekin-Haughton bulk water service contract

Context/transition matters

The Burdekin-Haughton Water Supply Scheme holds total WAE of 1,079,592 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. After taking the efficient level of distribution losses of 130,546 ML into account, the remaining 949,045 ML has a long-term (20-year) average annual usage in the scheme of 497,600 ML per annum. This is equivalent to 52.4 per cent of total WAE.

There is a single tariff class for this bulk supply service contract.

Consistent with QCA's Final Report, this service contract has a positive annuity closing balance of $3.96 million in 2026–27. Sunwater's proposal is to apply a zero initial opening RAB balance and return these funds to customers by way of a bill rebate, rather than by making an adjustment to future prices. Sunwater consulted customers on two options to return these returns – a short period of four years and a long period of eight years.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Burdekin Bulk ($'000s)

Component	Unit	Depreciation –long		Depreciation – short	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	0	1013.99	0	1013.99
Plus new capital	$'000	1014.18	1491.75	1014.18	1491.75
Plus inflation	$'000	14.10	46.51	14.10	46.51
Less depreciation	$'000	14.28	62.18	14.28	62.18
RAB closing balance	$'000	1013.99	2490.07	1013.99	2490.07

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Burdekin-Haughton Bulk ($m)

Building block component	Annuity		RAB – long (50 years)		RAB – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	6.02	6.17	Unchanged		Unchanged	
CASPr adjustment	-0.03	-0.03				
Base opex adjusted for CASPr	5.99	6.14				
Opex – renewals	0.00	0.00	0.06	0.00	0.06	0.00
Return on	0.00	0.00	0.03	0.11	0.03	0.11
Return of	0.00	0.00	0.00	0.02	0.00	0.02
Annuity contribution	1.30	1.33	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Revenue requirement – unsmoothed	7.29	7.46	6.08	6.26	6.08	6.26
Smoothing adjustment[1]	0.00	0.00	0.03	0.00	0.03	0.00
Total	**7.29**	**7.46**	**6.11**	**6.26**	**6.11**	**6.26**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Burdekin-Haughton Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Burdekin-Haughton - Bulk	Part A	5.95	6.12	5.00	5.14	5.00	5.14
	Part B	0.81	0.84	0.81	0.84	0.81	0.84

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Burdekin-Haughton Bulk ($/ML)

Tariff group	Price Component ($/ML)	Annuity Approach		RAB Approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Burdekin-Haughton - Bulk	Part A	5.95	6.12	5.00	5.14	5.00	5.14
	Part B	0.81	0.84	0.81	0.84	0.81	0.84

Rebate for return of positive annuity balance

Sunwater has considered two options for the return of the positive annuity closing balance to customers – a short period of four years and a long period of eight years.

The following tables shows the annual rebate amount to be returned to customers and the annual customer bill rebate in 2027-28 under both options for the Burdekin-Haughton – Bulk tariff group. Note that this is a smoothed annual rebate value which includes interest on outstanding balances and is then to be escalated by forecast inflation over the remaining years.

Proposed customer rebate over 4-years and 8 years– Burdekin-Haughton – Bulk tariff groups

	unit	2027-28	
		4-year	8-year
Rebate amount	$m	1.13	0.64
Customer fixed rebate	$/WAE	0.87	0.47

Burdekin distribution water service contract

Context/transition matters

The Burdekin-Haughton Bulk Water Supply Scheme holds total WAE of 1,079,592 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. The distribution system holds 335,431 ML of WAE, after the exclusion of 110,000ML of entitlement held at the last irrigation pricing review.

Long-term (20-year) average annual usage in this distribution scheme is 205,634 ML per annum (equivalent to 61.30 per cent of applicable distribution system WAE).

There are three tariff groups in this service contract: Burdekin – Channel, Burdekin – Giru Groundwater and Burdekin – Gladys Lagoon (other than natural yield)

Consistent with QCA's Final Report, this service contract has a positive annuity closing balance of $2.15 million in 2026–27. Sunwater's proposal is to apply a zero initial opening RAB balance and return these funds to customers by way of a bill rebate, rather than by making an adjustment to future prices. Sunwater consulted customers on two options to return these returns – a short period of four years and a long period of eight years.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Burdekin-Haughton distribution ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	0	2178.99	-	2178.99
Plus new capital	$'000	2201.53	3644.76	2201.53	3644.76
Plus inflation	$'000	30.61	105.72	30.61	105.72
Less depreciation	$'000	53.15	189.39	53.15	189.39
RAB closing balance	$'000	2178.99	5740.08	2178.99	5740.08

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Burdekin-Haughton Distribution ($m)

Building block component	Annuity		RAB – long (50 years)		RAB – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	19.95	20.46	Unchanged		Unchanged	
CASPr adjustment	-0.14	-0.14				
Base opex adjusted for CASPr	19.81	20.32				
Opex – renewals	0.00	0.00	0.19	0.04	0.19	0.04
Return on	0.00	0.00	0.07	0.26	0.07	0.26
Return of	0.00	0.00	0.02	0.08	0.02	0.08
Annuity contribution	3.08	3.15	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	-1.02	-1.04	-1.02	-1.04	-1.02	-1.04
Revenue requirement – unsmoothed	21.88	22.43	19.08	19.65	19.08	19.65
Smoothing adjustment[1]	0.00	0.00	-0.06	0.00	-0.06	0.00
Total	**21.88**	**22.43**	**19.01**	**19.65**	**19.01**	**19.65**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Burdekin-Haughton Distribution ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Burdekin - Giru Groundwater	Part A	5.95	6.12	5.00	5.14	5.00	5.14
	Part B	0.81	0.84	0.81	0.84	0.81	0.84
	Part C	52.39	53.89	43.75	45.00	43.75	45.00
	Part D	22.93	23.59	22.93	23.59	22.93	23.59
	Part A + Part C	58.34	60.01	48.75	50.14	48.75	50.14
	Part B + Part D	23.74	24.43	23.74	24.43	23.74	24.43
Burdekin – Gladys Lagoon (other than natural yield)	Part A	5.95	6.12	5.00	5.14	5.00	5.14
	Part B	0.81	0.84	0.81	0.84	0.81	0.84
	Part C	52.39	53.89	43.75	45.00	43.75	45.00
	Part D	22.93	23.59	22.93	23.59	22.93	23.59
	Part A + Part C	58.34	60.01	48.75	50.14	48.75	50.14
	Part B + Part D	23.74	24.43	23.74	24.43	23.74	24.43
Burdekin Channel	Part A	5.95	6.12	5.00	5.14	5.00	5.14
	Part B	0.81	0.84	0.81	0.84	0.81	0.84
	Part C	52.39	53.89	43.75	45.00	43.75	45.00
	Part D	22.93	23.59	22.93	23.59	22.93	23.59
	Part A + Part C	58.34	60.01	48.75	50.14	48.75	50.14
	Part B + Part D	23.74	24.43	23.74	24.43	23.74	24.43

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Burdekin-Haughton Distribution ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Burdekin – Giru Groundwater	Part A	5.95	6.12	5.00	5.14	5.00	5.14
	Part B	0.39	0.40	0.39	0.40	0.39	0.40
	Part C	38.81	42.77	39.76	43.75	39.76	43.75
	Part D	17.89	18.40	17.89	18.40	17.89	18.40
	Part A + Part C	44.76	48.89	44.76	48.89	44.76	48.89
	Part B + Part D	18.28	18.80	18.28	18.80	18.28	18.80
Burdekin – Gladys Lagoon (other than natural yield)	Part A	5.95	6.12	5.00	5.14	5.00	5.14
	Part B	0.81	0.84	0.81	0.84	0.81	0.84
	Part C	52.39	53.89	43.75	45.00	43.75	45.00
	Part D	22.93	23.59	22.93	23.59	22.93	23.59
	Part A + Part C	58.34	60.01	48.75	50.14	48.75	50.14
	Part B + Part D	23.74	24.43	23.74	24.43	23.74	24.43
Burdekin Channel	Part A	5.95	6.12	5.00	5.14	5.00	5.14
	Part B	0.81	0.84	0.81	0.84	0.81	0.84
	Part C	52.39	53.89	43.75	45.00	43.75	45.00
	Part D	22.93	23.59	22.93	23.59	22.93	23.59
	Part A + Part C	58.34	60.01	48.75	50.14	48.75	50.14
	Part B + Part D	23.74	24.43	23.74	24.43	23.74	24.43

Rebate for return of positive annuity balance

Sunwater has considered two options for the return of the positive annuity closing balance to customers – a short period of four years and a long period of eight years.

The following tables shows the annual rebate amount to be returned to customers and the annual customer bill rebate in 2027-28 under both options for the Burdekin-Haughton – Bulk tariff group. Note that this is a smoothed annual rebate value which includes interest on outstanding balances and is then to be escalated by forecast inflation over the remaining years.

Proposed customer rebate over 4-years and 8 years– Burdekin-Haughton – Distribution tariff groups

	unit	2027-28	
		4-year	8-year
Rebate amount	$m	0.61	0.35
Customer fixed rebate	$/WAE	3.02	1.62

Callide Valley bulk water service contract

Context/transition matters

The Callide Valley bulk water service contract holds total WAE of 19,039 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. There are 514 ML of risk priority entitlements, which are treated as medium priority for pricing purposes. The long-term (20-year) average annual usage in the scheme is 12,262ML per annum. This is equivalent to 64.41 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $29.99 million in 2026–27, which under Sunwater's proposal becomes the initial opening RAB balance.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Callide Valley – Bulk ($'000)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	29,991.55	30,694.58	29,991.55	30,077.95
Plus new capital	$'000	481.92	898.49	481.92	898.49
Plus inflation	$'000	846.46	825.23	846.46	808.89
Less depreciation	$'000	625.35	663.88	1241.98	1296.85
RAB closing balance	$'000	30,694.58	31,754.42	30,077.95	30,488.49

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Callide Valley – Bulk ($m)

Building block component	Annuity		RAB – long (50 years)		RAB – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	2.47	2.53	Unchanged		Unchanged	
CASPr adjustment	-0.02	-0.02				
Base opex adjusted for CASPr	2.45	2.51				
Opex – renewals	0.00	0.00	0.10	0.02	0.10	0.02
Return on	0.00	0.00	1.95	2.01	1.95	1.97
Return of	0.00	0.00	-0.21	-0.16	0.38	0.47
Annuity contribution	2.51	2.56	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.06	0.00	0.17	0.12
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	4.96	5.07	4.35	4.39	5.06	5.09
Smoothing adjustment[1]	0.00	0.00	0.08	0.00	0.08	0.00
Total	**4.96**	**5.07**	**4.43**	**4.39**	**5.14**	**5.09**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Callide Valley – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Callide Valley – Bulk	Part A	111.84	115.05	99.18	102.03	112.89	116.13
	Part B	13.95	14.35	13.95	14.35	13.95	14.35

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Callide Valley – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Callide Valley – Bulk	Part A	41.38	45.41	41.38	45.41	41.38	45.41
	Part B	10.34	10.64	10.34	10.64	10.34	10.64

Chinchilla Weir bulk water service contract

Context/transition matters

The Chinchilla Weir bulk service contract holds total WAE of 4049 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in the scheme is 2,239 ML per annum. This is equivalent to 55.3 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $1.84 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Chinchilla Weir – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	1838.86	1907.82	1838.86	1870.01
Plus new capital	$'000	58.15	271.54	58.15	271.54
Plus inflation	$'000	52.30	54.13	52.30	53.13
Less depreciation	$'000	41.49	51.67	79.30	90.47
RAB closing balance	$'000	1907.82	2181.82	1870.01	2104.20

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Chinchilla Weir – Bulk ($m)

Building block component	Annuity		RAB – long (50 years)		RAB – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	0.15	0.15	Unchanged		Unchanged	
CASPr adjustment	0.00	0.00				
Base opex adjusted for CASPr	0.15	0.15				
Opex – renewals	0.00	0.00	0.01	0.00	0.01	0.00
Return on	0.00	0.00	0.12	0.13	0.12	0.13
Return of	0.00	0.00	-0.01	0.00	0.03	0.04
Annuity contribution	0.20	0.20	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.01	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	0.34	0.35	0.26	0.28	0.30	0.31
Smoothing adjustment[1]	0.00	0.00	0.01	0.00	0.01	0.00
Total	**0.34**	**0.35**	**0.27**	**0.28**	**0.31**	**0.31**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Chinchilla Weir – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Chinchilla Weir – Bulk	Part A	26.88	27.65	22.61	23.26	24.77	25.48
	Part B	5.74	5.90	5.74	5.90	5.74	5.90

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Chinchilla Weir – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Chinchilla Weir – Bulk	Part A	26.88	27.65	22.61	23.26	24.77	25.48
	Part B	5.74	5.90	5.74	5.90	5.74	5.90

Cunnamulla bulk water service contract

Context/transition matters

The Cunnamulla Weir bulk service contract holds total WAE of 2612 ML.

All entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in the scheme is 1545 ML per annum. This is equivalent to 59.14 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $0.53 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Cunnamulla Weir – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	529.44	561.53	529.44	550.65
Plus new capital	$'000	30.85	-	30.85	-
Plus inflation	$'000	15.25	14.88	15.25	14.59
Less depreciation	$'000	14.01	17.60	24.90	28.77
RAB closing balance	$'000	561.53	558.82	550.65	536.47

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Cunnamulla – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	0.04	0.04	Unchanged		Unchanged	
CASPr adjustment	0.00	0.00				
Base opex adjusted for CASPr	0.04	0.04				
Opex – renewals	0.00	0.00	0.00	0.00	0.00	0.00
Return on	0.00	0.00	0.04	0.04	0.04	0.04
Return of	0.00	0.00	0.00	0.00	0.01	0.01
Annuity contribution	0.07	0.07	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.01
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	0.11	0.11	0.08	0.08	0.09	0.10
Smoothing adjustment[1]	0.00	0.00	0.00	0.00	0.00	0.00
Total	**0.11**	**0.11**	**0.08**	**0.08**	**0.09**	**0.10**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Cunnamulla – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Cunnamulla - Bulk	Part A	41.02	42.20	30.06	30.92	34.72	35.72
	Part B	1.51	1.56	1.51	1.56	1.51	1.56

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Cunnamulla – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Cunnamulla – Bulk	Part A	41.02	42.20	30.06	30.92	34.72	35.72
	Part B	1.51	1.56	1.51	1.56	1.51	1.56

Dawson Valley bulk water service contract

Context/transition matters

The Dawson bulk service contract holds total WAE of 61,737 ML.

Most entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in the scheme is 38,188 ML per annum. This is equivalent to 61.86 per cent of total WAE.

Consistent with QCA's Final Report, this service contract has a positive annuity closing balance of $3.22 million in 2026–27. Sunwater's proposal is to apply a zero initial opening RAB balance and return these funds to customers by way of a bill rebate, rather than by making an adjustment to future prices. Sunwater consulted customers on two options to return these returns – a short period of four years and a long period of eight years.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Dawson Valley – Bulk ($'000)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	0.00	1685.09	0.00	1685.09
Plus new capital	$'000	1695.90	2479.00	1695.90	2479.00
Plus inflation	$'000	23.58	77.29	23.58	77.29
Less depreciation	$'000	34.39	122.93	34.39	122.93
RAB closing balance	$'000	1685.09	4118.45	1685.09	4118.45

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Dawson Valley – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.34	1.38	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.01				
Base opex adjusted for CASPr	1.33	1.36				
Opex – renewals	0.00	0.00	0.13	0.05	0.13	0.05
Return on	0.00	0.00	0.05	0.19	0.05	0.19
Return of	0.00	0.00	0.01	0.04	0.01	0.04
Annuity contribution	0.63	0.65	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	1.97	2.01	1.53	1.64	1.53	1.64
Smoothing adjustment[1]	0.00	0.00	0.00	0.00	0.00	0.00
Total	**1.97**	**2.01**	**1.53**	**1.64**	**1.53**	**1.64**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Dawson Valley – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Dawson Valley – River (high priority)	Part A	110.75	113.93	83.43	85.83	83.43	85.83
	Part B	2.07	2.13	2.07	2.13	2.07	2.13
Dawson Valley – River (medium priority)	Part A	22.45	23.09	18.12	18.64	18.12	18.64
	Part B	2.07	2.13	2.07	2.13	2.07	2.13

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027-–28 and 2028–29 – Dawson – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Dawson Valley – River (high priority)	Part A	70.25	75.11	70.25	75.11	70.25	75.11
	Part B	1.88	1.93	1.88	1.93	1.88	1.93
Dawson Valley – River (medium priority)	Part A	22.45	23.09	18.12	18.64	18.12	18.64
	Part B	2.07	2.13	2.07	2.13	2.07	2.13

Rebate for return of positive annuity balance

Sunwater has considered two options for the return of the positive annuity closing balance to customers – a short period of four years and a long period of eight years.

The following table shows the annual rebate amount to be returned to customers and the annual customer bill rebate in 2027-28 under both options for the Dawson Valley – Bulk tariff group. Note that this is a smoothed annual rebate value which includes interest on outstanding balances and is then to be escalated by forecast inflation over the remaining years

Proposed customer rebate over 4-years and 8 years– Dawson Valley – Bulk tariff groups

	Tariff group	unit	2027-28	
			4-year	8-year
Rebate amount	*Not applicable*	$m	0.92	0.52
Customer fixed rebate	*Dawson Valley – River (high priority)*	$/WAE	60.17	32.26
	Dawson Valley – River (medium priority)	$/WAE	9.53	5.11

Eton bulk water service contract

Context/transition matters

The Eton bulk service contract holds total WAE of 62,759 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in the scheme is 21,900 ML per annum. This is equivalent to 34.9 per cent of total WAE.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $2.78 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Eton – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	2781.96	4854.81	2781.96	4797.61
Plus new capital	$'000	2056.14	819.43	2056.14	819.43
Plus inflation	$'000	106.48	139.44	106.48	137.92
Less depreciation	$'000	89.77	148.65	146.97	207.36
RAB closing balance	$'000	4854.81	5665.02	4797.61	5547.60

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Eton – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.91	1.96	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.01				
Base opex adjusted for caspr	1.89	1.94				
Opex – renewals	0.00	0.00	0.05	0.02	0.05	0.02
Return on	0.00	0.00	0.25	0.34	0.25	0.34
Return of	0.00	0.00	-0.02	0.01	0.04	0.07
Annuity contribution	0.78	0.79	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	2.67	2.74	2.17	2.31	2.23	2.37
Smoothing adjustment[1]	0.00	0.00	-0.02	0.00	-0.02	0.00
Total	**2.67**	**2.74**	**2.15**	**2.31**	**2.21**	**2.37**

Note – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Eton – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Eton (high A priority local management supply	Part A	125.85	129.46	100.64	103.53	103.65	106.62
	Part B	5.92	6.09	5.92	6.09	5.92	6.09
Eton (high B priority)	Part A	34.73	35.72	28.63	29.45	29.36	30.20
	Part B	5.92	6.09	5.92	6.09	5.92	6.09
Eton risk priority	Part B	40.65	41.81	34.55	35.54	35.28	36.29

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Eton – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Eton (high A priority local management supply	Part A	125.85	129.46	100.64	103.53	103.65	106.62
	Part B	5.92	6.09	5.92	6.09	5.92	6.09
Eton (high B priority)	Part A	34.73	35.72	28.63	29.45	29.36	30.20
	Part B	5.92	6.09	5.92	6.09	5.92	6.09
Eton risk priority	Part B	40.65	41.81	34.55	35.54	35.28	36.29

Lower Fitzroy bulk water service contract

Context/transition matters

The Lower Fitzroy bulk service contract holds total WAE of 28,621 ML.

The long-term (20-year) average annual usage in the scheme is 18,529 ML per annum. This is equivalent to 64.7 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $0.29 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Lower Fitzroy – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	292.99	356.02	292.99	350.00
Plus new capital	$'000	61.35	72.76	61.35	72.76
Plus inflation	$'000	9.06	10.39	9.06	10.23
Less depreciation	$'000	7.38	10.32	13.40	16.51
RAB closing balance	$'000	356.02	428.85	350.00	416.48

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Lower Fitzroy – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	0.43	0.44	Unchanged		Unchanged	
CASPr adjustment	0.00	0.00				
Base opex adjusted for CASPr	0.42	0.43				
Opex – renewals	0.00	0.00	0.00	0.00	0.00	0.00
Return on	0.00	0.00	0.02	0.03	0.02	0.02
Return of	0.00	0.00	0.00	0.00	0.00	0.01
Annuity contribution	0.10	0.10	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	0.52	0.53	0.44	0.46	0.45	0.46
Smoothing adjustment[1]	0.00	0.00	0.00	0.00	0.00	0.00
Total	**0.52**	**0.53**	**0.44**	**0.46**	**0.45**	**0.46**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Lower Fitzroy – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Lower Fitzroy	Part A	16.47	16.94	14.04	14.45	14.23	14.64
	Part B	1.82	1.87	1.82	1.87	1.82	1.87

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Lower Fitzroy – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Lower Fitzroy	Part A	16.47	16.94	14.04	14.45	14.23	14.64
	Part B	1.82	1.87	1.82	1.87	1.82	1.87

Lower Mary bulk water service contract

Context/transition matters

The Lower Mary bulk service contract holds total WAE of 34,449 ML via the addition of high and medium priority WAEs held within the Teddington Weir Water Supply Scheme by Wide Bay Water.[22] Most entitlements are medium priority, held by customers who use water for irrigation purposes.

Lower Mary has long-term (20-year) average annual usage equivalent to 25.7 per cent of total WAE.

The distribution system holds 15,262 ML and 4912 ML of loss entitlements. Long-term (20-year) usage in the distribution system is equivalent to 29.7 per cent of total distribution and loss WAE.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $2.48 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Lower Mary – Bulk ($'000)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	2479.52	2570.91	2479.52	2519.93
Plus new capital	$'000	74.01	90.04	74.01	90.04
Plus inflation	$'000	70.46	69.31	70.46	67.96
Less depreciation	$'000	53.06	59.14	104.04	111.47
RAB closing balance	$'000	2570.91	2671.13	2519.93	2566.47

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

[22] The inclusion of this volume is consistent with past pricing reviews and reflects the requirement (Mary Basin Resource Operations Plan, Sept 2011) for Sunwater to transfer water from Lower Mary to the Teddington Weir Water Supply Scheme when certain conditions are met.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Lower Mary – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	0.38	0.39	Unchanged		Unchanged	
CASPr adjustment	0.00	0.00				
Base opex adjusted for CASPr	0.38	0.39				
Opex - renewals	0.00	0.00	0.00	0.00	0.00	0.00
Return on	0.00	0.00	0.16	0.17	0.16	0.17
Return of	0.00	0.00	-0.02	-0.01	0.03	0.04
Annuity contribution	0.34	0.36	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.01	0.01
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement - unsmoothed	0.71	0.74	0.52	0.54	0.58	0.60
Smoothing adjustment[1]	0.00	0.00	0.00	0.00	0.00	0.00
Total	**0.71**	**0.74**	**0.52**	**0.54**	**0.58**	**0.60**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Lower Mary – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Lower Mary – Mary Barrage	Part A	6.77	6.96	5.34	5.49	6.17	6.35
	Part B	1.24	1.27	1.24	1.27	1.24	1.27
Lower Mary – Tinana and Teddington	Part A	22.32	22.96	15.91	16.37	16.74	17.22
	Part B	17.86	18.37	17.88	18.40	17.88	18.40

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Lower Mary – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Lower Mary – Mary Barrage	Part A	6.77	6.96	5.34	5.49	6.17	6.35
	Part B	1.24	1.27	1.24	1.27	1.24	1.27
Lower Mary – Tinana & Teddington	Part A	22.32	22.96	15.91	16.37	16.74	17.22
	Part B	17.86	18.37	17.88	18.40	17.88	18.40

Lower Mary distribution water service contract

Context/transition matters

The Lower Mary bulk service contract holds total WAE of 34,449ML via the addition of high and medium priority WAEs held within the Teddington Weir Water Supply Scheme by Wide Bay Water.[23] Most entitlements are medium priority, held by customers who use water for irrigation purposes.

Lower Mary has long-term (20-year) average annual usage equivalent to 25.7 per cent of total WAE.

The distribution system holds 15,262ML and 4912ML of loss entitlements. Long-term (20-year) usage in the distribution system is equivalent to 29.7 per cent of total distribution and loss WAE.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $2.50 million in 2026–27 which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Lower Mary – Distribution ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	2495.34	2654.14	2495.34	2602.83
Plus new capital	$'000	140.58	263.86	140.58	263.86
Plus inflation	$'000	71.82	73.81	71.82	72.45
Less depreciation	$'000	53.60	63.46	104.91	116.12
RAB closing balance	$'000	2654.14	2928.35	2602.83	2823.02

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

[23] The inclusion of this volume is consistent with past pricing reviews and reflects the requirement (Mary Basin Resource Operations Plan, Sept 2011) for Sunwater to transfer water from Lower Mary to the Teddington Weir Water Supply Scheme when certain conditions are met.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Lower Mary – Distribution ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.44	1.48	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.01				
Base opex adjusted for CASPr	1.42	1.46				
Opex – renewals	0.00	0.00	0.00	0.02	0.00	0.02
Return on	0.00	0.00	0.17	0.18	0.17	0.18
Return of	0.00	0.00	-0.02	-0.01	0.03	0.04
Annuity contribution	0.47	0.49	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	1.90	1.95	1.57	1.65	1.62	1.70
Smoothing adjustment[1]	0.00	0.00	0.00	0.00	0.00	0.00
Total	**1.90**	**1.95**	**1.57**	**1.65**	**1.62**	**1.70**

Note *1* – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Lower Mary – Distribution ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Lower Mary Channel	Part A	6.77	6.96	5.34	5.49	6.17	6.35
	Part B	1.24	1.27	1.24	1.27	1.24	1.27
	Part C	115.65	118.97	93.52	96.20	97.30	100.09
	Part D	52.55	54.06	52.60	54.11	52.60	54.11
	Part A + Part C	122.42	125.93	98.86	101.69	103.47	106.44
	Part B + Part D	53.79	55.33	53.84	55.38	53.84	55.38

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Lower Mary – Distribution ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Lower Mary Channel	Part A	6.77	6.96	5.34	5.49	6.17	6.35
	Part B	1.24	1.27	1.24	1.27	1.24	1.27
	Part C	73.05	78.00	74.48	79.47	73.65	78.61
	Part D	52.54	54.05	52.54	54.05	52.54	54.05
	Part A + Part C	79.82	84.96	79.82	84.96	79.82	84.96
	Part B + Part D	53.78	55.32	53.78	55.32	53.78	55.32

Macintyre Brook bulk water service contract

Context/transition matters

The Macintyre Brook bulk service contract holds total WAE of 24,997 ML.

Most entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in the scheme is 13,357 ML per annum. This is equivalent to 53.44 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $20.53 million in 2026-27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Macintyre Brook – Bulk ($'000)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	20,529.78	23,854.08	20,529.78	23,431.99
Plus new capital	$'000	3222.86	1129.85	3222.86	1129.85
Plus inflation	$'000	619.64	647.01	619.64	635.82
Less depreciation	$'000	518.20	664.26	940.29	1,097.53
RAB closing balance	$'000	23,854.08	24,966.68	23,431.99	24,100.13

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 202829 – Macintyre Brook - Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.74	1.79	Unchanged		Unchanged	
CASPr adjustment	-0.02	-0.02				
Base opex adjusted for CASPr	1.73	1.77				
Opex – renewals	0.00	0.00	0.06	0.07	0.06	0.07
Return on	0.00	0.00	1.43	1.57	1.43	1.55
Return of	0.00	0.00	-0.10	0.02	0.31	0.45
Annuity contribution	1.80	1.82	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	3.52	3.59	3.11	3.43	3.52	3.83
Smoothing adjustment[1]	0.00	0.00	0.06	0.00	0.06	0.00
Total	**3.52**	**3.59**	**3.18**	**3.43**	**3.58**	**3.83**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Macintyre Brook – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Macintyre Brook	Part A	124.15	127.72	114.03	117.30	128.24	131.92
	Part B	8.33	8.57	8.33	8.57	8.33	8.57

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Macintyre Brook – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Macintyre Brook	Part A	77.20	82.26	77.20	82.26	77.20	82.26
	Part B	4.78	4.92	4.78	4.92	4.78	4.92

Maranoa bulk water service contract

Context/transition matters

The Maranoa bulk service contract holds total WAE of 805 ML.

The long-term (20-year) average annual usage in the scheme is 22 ML per annum. This is equivalent to 2.8 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $0.04 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Maranoa – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	39.85	40.15	39.85	39.33
Plus new capital	$'000	-	-	-	-
Plus inflation	$'000	1.12	1.06	1.12	1.04
Less depreciation	$'000	0.82	0.84	1.64	1.68
RAB closing balance	$'000	40.15	40.37	39.33	38.69

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Maranoa – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	0.06	0.06	Unchanged		Unchanged	
CASPr adjustment	0.00	0.00				
Base opex adjusted for CASPr	0.05	0.06				
Opex – renewals	0.00	0.00	0.00	0.00	0.00	0.00
Return on	0.00	0.00	0.00	0.00	0.00	0.00
Return of	0.00	0.00	0.00	0.00	0.00	0.00
Annuity contribution	0.02	0.02	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	0.07	0.08	0.06	0.06	0.06	0.06
Smoothing adjustment[1]	0.00	0.00	0.00	0.00	0.00	0.00
Total	**0.07**	**0.08**	**0.06**	**0.06**	**0.06**	**0.06**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Maranoa River – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Maranoa River	Part A	89.04	91.60	68.15	70.10	69.29	71.28
	Part B	117.51	120.88	117.50	120.87	117.50	120.87

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Maranoa River – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Maranoa River	Part A	82.61	87.83	68.15	70.10	69.29	71.28
	Part B	77.33	79.55	91.79	97.27	90.65	96.09

Mareeba-Dimbulah bulk water service contract

Context/transition matters

The Mareeba-Dimbulah bulk service contract holds total WAE of 204,424ML. Most entitlements are medium priority, held by customers who use water for irrigation purposes.

The distribution system holds 136,341 ML and is supported by 32,892 ML of loss entitlements. Long-term (20-year) usage in the distribution system is equivalent to 62.5 per cent of total distribution and loss WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $1.31 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Mareeba-Dimbulah – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	1,307.93	3,607.78	1,307.93	3,580.89
Plus new capital	$'000	2,319.77	422.74	2,319.77	422.74
Plus inflation	$'000	68.87	101.17	68.87	100.46
Less depreciation	$'000	88.79	165.95	115.68	193.55
RAB closing balance	$'000	3,607.78	3,965.74	3,580.89	3,910.54

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Mareeba-Dimbulah – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.78	1.82	Unchanged		Unchanged	
CASPr adjustment	-0.02	-0.02				
Base opex adjusted for caspr	1.76	1.80				
Opex – renewals	0.00	0.00	0.02	0.01	0.02	0.01
Return on	0.00	0.00	0.16	0.25	0.16	0.24
Return of	0.00	0.00	0.02	0.06	0.05	0.09
Annuity contribution	0.62	0.63	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	-0.74	-0.76	-0.74	-0.76	-0.74	-0.76
Revenue requirement – unsmoothed	1.64	1.67	1.22	1.36	1.24	1.39
Smoothing adjustment[1]	0.00	0.00	0.01	0.00	0.01	0.00
Total	**1.64**	**1.67**	**1.22**	**1.36**	**1.25**	**1.39**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Mareeba-Dimbulah – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Mareeba-Dimbulah – River Tinaroo/Barron	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
Mareeba-Dimbulah – Access charge		818.08	841.56	818.08	841.56	818.08	841.56

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Mareeba-Dimbulah – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Mareeba-Dimbulah – River Tinaroo/Barron	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
Mareeba-Dimbulah – Access charge		818.08	841.56	818.08	841.56	818.08	841.56

Mareeba-Dimbulah distribution water service contract

Context/transition matters

The Mareeba-Dimbulah bulk service contract holds total WAE of 204,424 ML. Most entitlements are medium priority, held by customers who use water for irrigation purposes.

The distribution system holds 136,341 ML and is supported by 32,892 ML of loss entitlements. Long-term (20-year) usage in the distribution system is equivalent to 62.5 per cent of total distribution and loss WAE.

There are five tariff groups in this service contract and the Mareeba-Dimbulah scheme has a universal access charge.

Consistent with QCA's Final Report, this service contract has a positive annuity closing balance of $13.69 million in 2026-27. Sunwater's proposal is to apply a zero initial opening RAB balance and return these funds to customers by way of a bill rebate, rather than by making an adjustment to future prices. Sunwater consulted customers on two options to return these returns – a short period of four years and a long period of eight years.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Mareeba-Dimbulah – Distribution ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	0.00	2263.77	0.00	2263.77
Plus new capital	$'000	2296.52	1287.78	2296.52	1287.78
Plus inflation	$'000	31.93	76.94	31.93	76.94
Less depreciation	$'000	64.68	176.28	64.68	176.28
RAB closing balance	$'000	2263.77	3452.21	2263.77	3452.21

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Mareeba-Dimbulah – Distribution ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	8.44	8.65	Unchanged		Unchanged	
CASPr adjustment	-0.08	-0.08				
Base opex adjusted for CASPr	8.36	8.57				
Opex – renewals	0.00	0.00	0.03	0.02	0.03	0.02
Return on	0.00	0.00	0.07	0.19	0.07	0.19
Return of	0.00	0.00	0.03	0.10	0.03	0.10
Annuity contribution	0.10	0.12	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Revenue requirement – unsmoothed	8.45	8.68	8.49	8.86	8.49	8.86
Smoothing adjustment[1]	0.00	0.00	-0.02	0.00	-0.02	0.00
Total	**8.45**	**8.68**	**8.47**	**8.86**	**8.47**	**8.86**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Mareeba-Dimbulah – Distribution ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Mareeba-Dimbulah – outside a relift up to 100 ML	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	73.22	75.32	72.76	74.84	72.86	74.95
	Part D	8.50	8.74	8.50	8.74	8.50	8.74
	Part A + Part C	76.53	78.72	75.42	77.58	75.57	77.74
	Part B + Part D	9.13	9.39	9.13	9.39	9.13	9.39
Mareeba-Dimbulah – outside a relift 100 ML to 500 ML	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	64.57	66.42	64.16	66.00	64.25	66.09
	Part D	8.50	8.74	8.50	8.74	8.50	8.74
	Part A + Part C	67.88	69.82	66.82	68.74	66.96	68.88
	Part B + Part D	9.13	9.39	9.13	9.39	9.13	9.39
Mareeba-Dimbulah – outside a relift over 500 ML	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	50.14	51.58	49.82	51.25	49.89	51.32
	Part D	8.50	8.74	8.50	8.74	8.50	8.74
	Part A + Part C	53.45	54.98	52.48	53.99	52.60	54.11
	Part B + Part D	9.13	9.39	9.13	9.39	9.13	9.39
Mareeba-Dimbulah – river supplemented streams and Walsh River	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	33.79	34.76	33.57	34.53	33.62	34.58
	Part D	5.10	5.24	5.10	5.24	5.10	5.24
	Part A + Part C	37.10	38.16	36.23	37.27	36.33	37.37
	Part B + Part D	5.73	5.89	5.73	5.89	5.73	5.89
Mareeba-Dimbulah – relift	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	75.97	78.15	75.63	77.80	75.71	77.88
	Part D	100.68	103.57	101.71	104.63	101.71	104.63
	Part A + Part C	79.28	81.55	78.29	80.54	78.42	80.67
	Part B + Part D	101.31	104.22	102.34	105.28	102.34	105.28

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Mareeba-Dimbulah – Distribution ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Mareeba-Dimbulah – outside a relift up to 100 ML	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	73.22	75.32	72.76	74.84	72.86	74.95
	Part D	7.91	8.74	8.50	8.74	8.50	8.74
	Part A + Part C	76.53	78.72	75.42	77.58	75.57	77.74
	Part B + Part D	8.54	9.39	9.13	9.39	9.13	9.39
Mareeba-Dimbulah – outside a relift 100 ML to 500 ML	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	64.57	66.42	64.16	66.00	64.25	66.09
	Part D	8.50	8.74	8.50	8.74	8.50	8.74
	Part A + Part C	67.88	69.82	66.82	68.74	66.96	68.88
	Part B + Part D	9.13	9.39	9.13	9.39	9.13	9.39
Mareeba-Dimbulah – outside a relift over 500 ML	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	50.14	51.58	49.82	51.25	49.89	51.32
	Part D	8.50	8.74	8.50	8.74	8.50	8.74
	Part A + Part C	53.45	54.98	52.48	53.99	52.60	54.11
	Part B + Part D	9.13	9.39	9.13	9.39	9.13	9.39
Mareeba-Dimbulah – river supplemented streams and Walsh River	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	33.79	34.76	33.57	34.53	33.62	34.58
	Part D	5.10	5.24	5.10	5.24	5.10	5.24
	Part A + Part C	37.10	38.16	36.23	37.27	36.33	37.37
	Part B + Part D	5.73	5.89	5.73	5.89	5.73	5.89
Mareeba-Dimbulah – relift	Part A	3.31	3.40	2.66	2.74	2.71	2.79
	Part B	0.63	0.65	0.63	0.65	0.63	0.65
	Part C	66.95	71.72	67.60	72.38	67.55	72.33
	Part D	100.68	103.57	100.68	103.57	100.68	103.57
	Part A + Part C	70.26	75.12	70.26	75.12	70.26	75.12
	Part B + Part D	101.31	104.22	101.31	104.22	101.31	104.22

Rebate for return of positive annuity balance

Sunwater has considered two options for the return of the positive annuity closing balance to customers – a short period of four years and a long period of eight years.

The following tables shows the annual rebate amount to be returned to customers and the annual customer bill rebate in 2027-28 under both options for the Mareeba-Dimbulah tariff group. Note that this is a smoothed annual rebate value which includes interest on outstanding balances and is then to be escalated by forecast inflation over the remaining years.

Proposed customer rebate over 4-years and 8 years– Mareeba-Dimbulah –Distribution tariff groups

	Tariff group	unit	2027-28	
			4-year	8-year
Rebate amount	*Not applicable*	$m	3.92	2.22
Customer fixed rebate	*Mareeba-Dimbulah – outside a relift up to 100 ML*	$/WAE	35.39	19.08
	Mareeba-Dimbulah – outside a relift 100 ML to 500 ML	$/WAE	31.38	16.82
	Mareeba-Dimbulah – outside a relift over 500 ML	$/WAE	24.37	13.06
	Mareeba-Dimbulah – river supplemented streams and Walsh River	$/WAE	16.42	8.80
	Mareeba-Dimbulah – relift	$/WAE	27.37	14.67

Nogoa Mackenzie bulk water service contract

Context/transition matters

The Nogoa Mackenzie bulk water service contract holds total WA) of 231,857 ML inclusive of 46,125 ML of high priority entitlements associated with industrial pipelines. The remaining 185,731 ML of entitlements are predominantly held by customers who use water for irrigation purposes, including the Nogoa Mackenzie Local Management Authority. The long-term (20-year) average annual usage in this scheme is 150,553 ML per annum. This is equivalent to 64.9 per cent of total WAE

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $10.21 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Nogoa Mackenzie – Bulk ($'000s)

Component	Unit	Depreciation – (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	10,207.13	12,274.62	10,207.13	12,064.76
Plus new capital	$'000	1,995.41	3,066.91	1,995.41	3,066.91
Plus inflation	$'000	313.54	365.65	313.54	360.09
Less depreciation	$'000	241.47	350.94	451.33	566.36
RAB closing balance	$'000	12,274.62	15,356.24	12,064.76	14,925.40

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Nogoa Mackenzie – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	4.17	4.27	Unchanged		Unchanged	
CASPr adjustment	-0.03	-0.03				
Base opex adjusted for CASPr	4.14	4.24				
Opex – renewals	0.00	0.00	0.14	0.04	0.14	0.04
Return on	0.00	0.00	0.72	0.89	0.72	0.88
Return of	0.00	0.00	-0.07	-0.01	0.13	0.20
Annuity contribution	1.82	1.89	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	-0.11	-0.12	-0.11	-0.12	-0.11	-0.12
Revenue requirement – unsmoothed	5.85	6.02	4.82	5.04	5.02	5.24
Smoothing adjustment[1]	0.00	0.00	0.01	0.00	0.01	0.00
Total	**5.85**	**6.02**	**4.83**	**5.04**	**5.03**	**5.24**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Nogoa Mackenzie – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Nogoa Mackenzie (high priority)	Part A	74.64	76.78	59.19	60.89	62.30	64.08
	Part B	2.05	2.11	2.05	2.11	2.05	2.11
Nogoa Mackenzie (medium priority local management supply)	Part A	11.45	11.77	9.95	10.24	10.25	10.55
	Part B	2.05	2.11	2.05	2.11	2.05	2.11
Nogoa Mackenzie (medium priority)	Part A	11.45	11.77	9.95	10.24	10.25	10.55
	Part B	2.05	2.11	2.05	2.11	2.05	2.11

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Nogoa Mackenzie – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Nogoa Mackenzie (high priority)	Part A	53.72	58.11	53.72	58.11	53.72	58.11
	Part B	0.99	1.02	0.99	1.02	0.99	1.02
Nogoa Mackenzie (medium priority local management supply)	Part A	11.45	11.77	9.95	10.24	10.25	10.55
	Part B	2.05	2.11	2.05	2.11	2.05	2.11
Nogoa Mackenzie (medium priority)	Part A	11.45	11.77	9.95	10.24	10.25	10.55
	Part B	2.05	2.11	2.05	2.11	2.05	2.11

Pioneer River bulk water service contract

Context/transition matters

The Pioneer River bulk water service contract holds total WAE of 78,110 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in this scheme is 22,774 ML per annum. This is equivalent to 29.16 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $8.99 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Pioneer River – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	8987.76	9612.12	8987.76	9427.33
Plus new capital	$'000	557.17	692.01	557.17	692.01
Plus inflation	$'000	259.40	263.83	259.40	258.93
Less depreciation	$'000	192.22	217.93	377.01	407.61
RAB closing balance	$'000	9612.12	10,350.03	9427.33	9970.66

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Pioneer River – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.73	1.78	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.01				
Base opex adjusted for CASPr	1.72	1.76				
Opex – renewals	0.00	0.00	0.07	0.02	0.07	0.02
Return on	0.00	0.00	0.60	0.64	0.60	0.63
Return of	0.00	0.00	-0.07	-0.04	0.11	0.14
Annuity contribution	1.01	1.03	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	2.73	2.79	2.32	2.38	2.50	2.56
Smoothing adjustment[1]	0.00	0.00	0.01	0.00	0.01	0.00
Total	**2.73**	**2.79**	**2.34**	**2.38**	**2.52**	**2.56**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Pioneer River – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Pioneer River	Part A	22.55	23.20	19.31	19.87	20.72	21.31
	Part B	4.61	4.74	4.61	4.74	4.61	4.74

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Pioneer River – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Pioneer River	Part A	22.55	23.20	19.31	19.87	20.72	21.31
	Part B	4.61	4.74	4.61	4.74	4.61	4.74

Proserpine River bulk water service contract

Context/transition matters

The Proserpine River bulk water service contract holds total WAE of 62,876 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in this scheme is 23,293 ML per annum. This is equivalent to 37.0 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $0.28 million in 2026–27, which under Sunwater's proposal becomes the initial opening RAB balance.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Proserpine River – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	280.09	677.88	280.09	672.12
Plus new capital	$'000	400.82	257.43	400.82	257.43
Plus inflation	$'000	13.42	21.35	13.42	21.20
Less depreciation	$'000	16.45	38.74	22.21	44.65
RAB closing balance	$'000	677.88	917.93	672.12	906.11

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Proserpine River – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.73	1.77	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.01				
Base opex adjusted for CASPr	1.71	1.75				
Opex – renewals	0.00	0.00	0.03	0.00	0.03	0.00
Return on	0.00	0.00	0.03	0.05	0.03	0.05
Return of	0.00	0.00	0.00	0.02	0.01	0.02
Annuity contribution	0.33	0.34	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	2.05	2.10	1.78	1.82	1.79	1.83
Smoothing adjustment[1]	0.00	0.00	0.01	0.00	0.01	0.00
Total	**2.05**	**2.10**	**1.79**	**1.82**	**1.80**	**1.83**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Proserpine River – Bulk ($/ML)

Tariff group	Price component ($/ML)			RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Proserpine River	Part A	17.66	18.16	15.76	16.21	15.80	16.25
	Part B	5.16	5.31	5.16	5.31	5.16	5.31

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Proserpine River– Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Proserpine River	Part A	17.66	18.16	15.76	16.21	15.80	16.25
	Part B	5.16	5.31	5.16	5.31	5.16	5.31

St George bulk water service contract

Context/transition matters

The St George bulk water service contract holds total WAE of 84,575 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in this scheme is 71,488 ML per annum. This is equivalent to 84.5 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $8.47 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – St George – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	8473.20	10,724.47	8473.20	10,550.26
Plus new capital	$'000	2238.16	148.78	2238.16	148.78
Plus inflation	$'000	268.37	286.16	268.37	281.54
Less depreciation	$'000	255.25	351.01	429.46	529.84
RAB closing balance	$'000	10,724.47	10,808.40	10,550.26	10,450.75

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – St George – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.85	1.89	Unchanged		Unchanged	
CASPr adjustment	-0.02	-0.02				
Base opex adjusted for CASPr	1.83	1.88				
Opex – renewals	0.00	0.00	0.00	0.02	0.00	0.02
Return on	0.00	0.00	0.62	0.70	0.62	0.69
Return of	0.00	0.00	-0.01	0.06	0.16	0.24
Annuity contribution	1.15	1.16	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	2.98	3.03	2.44	2.65	2.60	2.81
Smoothing adjustment[1]	0.00	0.00	0.04	0.00	0.04	0.00
Total	**2.98**	**3.03**	**2.48**	**2.65**	**2.65**	**2.81**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – St George – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
St George (high priority local management supply)	Part A	52.28	53.78	43.06	44.30	46.37	47.70
	Part B	1.73	1.78	1.73	1.78	1.73	1.78
St George (medium priority)	Part A	33.20	34.15	27.89	28.69	29.79	30.65
	Part B	1.73	1.78	1.73	1.78	1.73	1.78

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – St George – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
St George (high priority local management supply)	Part A	51.77	53.78	43.06	44.30	46.37	47.70
	Part B	1.26	1.78	1.73	1.78	1.73	1.78
St George (medium priority)	Part A	33.20	34.15	27.89	28.69	29.79	30.65
	Part B	1.73	1.78	1.73	1.78	1.73	1.78

Three Moon Creek bulk water service contract

Context/transition matters

The Three Moon Creek bulk water service contract holds total WAE of 14,934 ML. Most entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in this scheme is 5877 ML per annum. This is equivalent to 39.35 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $3.65 million in 2026-27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Three Moon Creek – Bulk ($'000s)

Component	Unit	Depreciation – (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	3652.55	5801.66	3652.55	5726.56
Plus new capital	$'000	2165.01	310.59	2165.01	310.59
Plus inflation	$'000	132.37	157.83	132.37	155.84
Less depreciation	$'000	148.27	234.15	223.36	311.23
RAB closing balance	$'000	5801.66	6035.94	5726.56	5881.76

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Three Moon Creek – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.07	1.09	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.01				
Base opex adjusted for CASPr	1.06	1.08				
Opex – renewals	0.00	0.00	0.00	0.01	0.00	0.01
Return on	0.00	0.00	0.31	0.38	0.31	0.38
Return of	0.00	0.00	0.02	0.07	0.09	0.15
Annuity contribution	0.57	0.59	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	1.63	1.68	1.38	1.55	1.45	1.62
Smoothing adjustment[1]	0.00	0.00	0.01	0.00	0.01	0.00
Total	**1.63**	**1.68**	**1.39**	**1.55**	**1.46**	**1.62**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Three Moon Creek – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Three Moon Creek	Part A	72.44	74.52	64.54	66.39	67.52	69.46
	Part B	12.06	12.40	12.06	12.40	12.06	12.40

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Three Moon Creek – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Three Moon Creek	Part A	48.84	53.09	48.84	53.09	48.84	53.09
	Part B	5.68	5.84	5.68	5.84	5.68	5.84

Upper Burnett bulk water service contract

Context/transition matters

The Upper Burnett bulk water service contract holds total WAE of 48,700 ML, of which 19,980 ML is held by Burnett Water (associated with the Kirar Weir and outside the scope of irrigation price review). The remaining 28,720 ML are subject to the irrigation pricing review. Most of these entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in this scheme is 15,564 ML per annum. This is equivalent to 54.2 per cent of total WAE.

There is a single tariff group in this service contract.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $2.99 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Upper Burnett – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	2985.55	4166.59	2985.55	4105.21
Plus new capital	$'000	1164.50	274.48	1164.50	274.48
Plus inflation	$'000	99.79	114.03	99.79	112.40
Less depreciation	$'000	83.25	117.17	144.63	180.18
RAB closing balance	$'000	4166.59	4437.93	4105.21	4311.91

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Upper Burnett – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	1.53	1.57	Unchanged		Unchanged	
CASPr adjustment	-0.01	-0.02				
Base opex adjusted for CASPr	1.52	1.56				
Opex – renewals	0.00	0.00	0.04	0.00	0.04	0.00
Return on	0.00	0.00	0.23	0.28	0.23	0.27
Return of	0.00	0.00	-0.02	0.00	0.04	0.07
Annuity contribution	0.58	0.59	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	2.10	2.14	1.78	1.84	1.84	1.89
Smoothing adjustment[1]	0.00	0.00	0.01	0.00	0.01	0.00
Total	**2.10**	**2.14**	**1.79**	**1.84**	**1.85**	**1.89**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Upper Burnett – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Upper Burnett – John Goleby Weir	Part A	51.28	52.76	44.02	45.29	45.39	46.69
	Part B	7.49	7.70	7.49	7.70	7.49	7.70
Upper Burnett – Regulated Section of the Nogo/ Burnett River	Part A	51.28	52.76	44.02	45.29	45.39	46.69
	Part B	7.49	7.70	7.49	7.70	7.49	7.70

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Upper Burnett – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Upper Burnett – John Goleby Weir	Part A	51.28	52.76	44.02	45.29	45.39	46.69
	Part B	7.39	7.70	7.49	7.70	7.49	7.70
Upper Burnett – Regulated Section of the Nogo/ Burnett River	Part A	51.28	52.76	44.02	45.29	45.39	46.69
	Part B	7.49	7.70	7.49	7.70	7.49	7.70

Upper Condamine bulk water service contract

Context/transition matters

The Upper Condamine bulk water service contract holds total WAE of 33,960 ML. Most of these entitlements are medium priority and held by customers who use water for irrigation purposes. The long-term (20-year) average annual usage in this scheme is 14,422 ML per annum. This is equivalent to 42.5 per cent of total WAE.

There are three tariff groups in this service contract: Sandy Creek or Condamine River, North Branch and North Branch Risk A.

Consistent with QCA's Final Report, this service contract has a negative annuity closing balance of $0.59 million in 2026–27, which becomes the initial opening RAB balance under Sunwater's proposal.

The following table shows the initial opening RAB balance and annual RAB roll-forward in 2027–28 and 2028–29 under the short and long depreciation period for this service contract.

Proposed roll-forward of the RAB in 2027–28 and 2028–29 – Upper Condamine – Bulk ($'000s)

Component	Unit	Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29
RAB opening balance	$'000	593.18	2290.01	593.18	2277.82
Plus new capital	$'000	1683.24	606.00	1683.24	606.00
Plus inflation	$'000	16.61	60.69	16.61	60.36
Less depreciation	$'000	12.20	41.72	24.39	54.24
RAB closing balance	$'000	2290.01	2905.90	2277.82	2880.86

Revenue requirement

Consistent with the Direction Notice, Sunwater has set proposed prices in 2027–28 and 2028–29 on the basis of total allowable costs from QCA's Final Position excluding the opex step change relating to CASPr. The two-year revenue requirement under the proposed RAB approach has also been adjusted for the effect of shifting from prices smoothed over four years to prices smoothed over two years.

The following table shows Sunwater's proposed annual revenue requirement in 2027–28 and 2028–29 for this scheme under the annuity and RAB approach under short and long depreciation periods applied to the initial RAB balance.

Proposed annual revenue requirement under both approaches in 2027–28 and 2028–29 – Upper Condamine – Bulk ($m)

Building block component	Annuity		Depreciation – long (50 years)		Depreciation – short (25 years)	
	2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Base opex	2.25	2.30	Unchanged		Unchanged	
CASPr adjustment	-0.02	-0.02				
Base opex adjusted for CASPr	2.23	2.28				
Opex – renewals	0.00	0.00	0.05	0.06	0.05	0.06
Return on	0.00	0.00	0.09	0.17	0.09	0.17
Return of	0.00	0.00	-0.01	-0.01	0.00	0.00
Annuity contribution	0.51	0.53	0.00	0.00	0.00	0.00
Tax allowance	0.00	0.00	0.00	0.00	0.00	0.00
Revenue offsets	0.00	0.00	0.00	0.00	0.00	0.00
Revenue requirement – unsmoothed	2.74	2.81	2.35	2.49	2.36	2.51
Smoothing adjustment[1]	0.00	0.00	0.00	0.00	0.00	0.00
Total	**2.74**	**2.81**	**2.36**	**2.49**	**2.37**	**2.51**

Note 1 – This adjustment accounts for differences between the unit costs and the smoothed price targets for 2025–26 and 2026–27 to avoid an under- or over-recovery of costs across the full four-year period.

Proposed target and customer prices for 2027–28 and 2028–29

Target prices

Sunwater's proposed target prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed target prices by tariff group under both approaches in 2027–28 and 2028–29 – Upper Condamine – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2028–29	2027–28	2028–29	2027–28	2028–29
Upper Condamine – North Branch	Part A	25.64	26.38	24.44	25.15	24.48	25.19
	Part B	33.92	34.89	33.91	34.89	33.91	34.89
Upper Condamine – Risk A	Part A	23.87	24.56	23.87	24.56	23.87	24.56
	Part B	33.92	34.89	33.91	34.89	33.91	34.89
Upper Condamine – Sandy Creek on Condamine River	Part A	24.45	25.15	23.25	23.91	23.29	23.95
	Part B	11.33	11.66	11.33	11.66	11.33	11.66

Customer prices

Sunwater has applied the Government's pricing principles to derive Sunwater's proposed customer prices, as required by the Direction Notice. The pricing principles constrain the annual increase in price charged to customers such that prices are transitional to target (cost reflective) levels over time.

Sunwater's proposed customer prices under the annuity and RAB approach are shown in the table below. Two sets of prices are shown for the RAB approach, arising from alternative (short and long) depreciation periods for the initial RAB balance.

Proposed customer prices under both approaches in 2027–28 and 2028–29 – Upper Condamine – Bulk ($/ML)

Tariff group	Price component ($/ML)	Annuity approach		RAB approach			
				Depreciation – long (50 years)		Depreciation – short (25 years)	
		2027–28	2027–28	2027–28	2028–29	2027–28	2028–29
Upper Condamine – North Branch	Part A	25.64	26.38	24.44	25.15	24.48	25.19
	Part B	21.97	25.44	23.17	26.67	23.13	26.63
Upper Condamine – Risk A	Part A	23.38	24.56	23.38	24.56	23.38	24.56
	Part B	22.52	25.50	22.52	25.50	22.52	25.50
Upper Condamine – Sandy Creek on Condamine River	Part A	24.45	25.15	23.25	23.91	23.29	23.95
	Part B	9.12	11.66	10.32	11.66	10.28	11.66