



BURDEKIN RIVER IRRIGATION AREA IRRIGATORS LTD (BRIA)

Submission to the Queensland Competition Authority

Proposed RAB versus current Renewals Annuity

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1. INTRODUCTION

BRIA Irrigators Ltd represents irrigators in Sunwater’s largest irrigation scheme, the Burdekin Haughton Water Supply Scheme (BHWSS) which comprises 44,000 hectares of irrigated land and customer allocation entitlements totaling 325,000 megalitres.

From our perspective irrigation pricing frameworks should prioritise affordability, stability, sustainability, transparency and trust in cost recovery. The Queensland Competition Authority (Q.C.A.) is well aware that irrigators are price takers without any ability to automatically pass on cost increases imposed on them by Queensland Government Owned Corporations (G.O.C).

It is our view that the Queensland Government and QCA’s primary objective should be to ensure that irrigation pricing policy supports sustainable agricultural production and not theoretical economic efficiency.

Queensland irrigators have always understood that they are required to provide or transition to providing the efficient and prudent costs of operating, maintaining and renewing their scheme, which was the pre-2020 definition of lower bound pricing.

At a time when agricultural production is faced with long-term and large increases for fuel, fertilizer, harvesting and transport costs, the recovery of the efficient costs of providing irrigation water remains a reasonable and justifiable requirement. The requirement to provide a Queensland G.O.C. with a profit is not reasonable or justified.

BRIA Irrigators do not intend to debate the merits or otherwise of the discreet change to the pre-2020 lower bound by a previous Queensland Government and the retention of that policy by the current Government in this submission. These matters are better addressed by Queensland’s irrigators at the ballot box.

Our submission addresses the effect of introducing a Regulated Asset Base (RAB) pricing model in the BHWSS, which has a positive annuity balance and where current water charges are cost reflective and meet previous lower bound pricing principles.

2. EXECUTIVE SUMMARY

BRIA Irrigators Ltd. and our members have grave concerns with the proposed change from the current Renewals Annuity based approach to a Regulated Asset Base (RAB) pricing model for Queensland’s rural irrigation water pricing. We have not been provided with any information during the consultation period that allays our concerns and in fact we believe that irrigators in our scheme have been provided with some misleading and disingenuous information during the process.



Any decision by Sunwater to adopt a RAB pricing model to replace the current annuity-based pricing model unambiguously includes additional costs to be recovered from irrigators through water charges, creates an incentive to increase capital expenditure, reduces transparency and price stability and has adverse generational implications.

Therefore, we maintain our position that a shift from a Renewals Annuity to a RAB will result in significantly higher irrigation charges in the long term due to two additional costs that will be recoverable from Sunwater's irrigator customers in the BHWSS. They will be required to move from the previous lower bound pricing principle of providing prudent and efficient operating, maintenance and renewal costs towards upper bound pricing which includes a return on capital calculated by applying a Weighted Average Cost of Capital (WACC) to post 2020 capital expenditure. This additional cost will then be included in and recovered from water charges.

The WACC exposes irrigators to interest rate movements and price volatility in the rate of return included in BHWSS water charges, which already recover efficient costs, and will result in a profit and taxable income for Sunwater. This will in turn generate a requirement for a tax allowance to be recovered from customers via water charges.

3. CONCERNS WITH PROPOSED RAB

3.1 CONSULTATION – CUSTOMER SURVEY

Information provided to BHWSS customers during Sunwater's customer consultancy period was not adequate and detailed information with a comparison of water charges under a RAB versus Renewal Annuity on an individual scheme basis was not provided. Sunwater's customer survey results provided to the QCA which claim that the majority of customers were supportive or agnostic in relation to the proposed RAB is misleading and is not reflective of the response received from BHWSS customers.

Sunwater was requested to provide a practical and relevant comparison by modelling actual past expenditure in the BHWSS that has been funded through the renewals annuity and comparing it to the same expenditure modelled under the RAB framework.

Sunwater declined this request on the basis that it would be too difficult. We believe that the only legitimate comparison is to model the proposed RAB against a working renewals annuity where the proposed works have been budgeted for and funds accumulated. Sunwater's comparison whereby both methodologies begin with zero dollars in the bank and require a WACC to fund them is misleading.



Irrigation customers in the BHWSS represent 40% of Sunwater's total medium priority water allocation entitlements (WAE) and only 19% of customers voted in favour of a RAB. The BHWSS 40% when combined with Bundaberg 14% and Pioneer River 3% represents 57% of Sunwater's irrigation WAE and all voted against the proposed RAB.

Sunwater chose to determine the Go Vote result based on the majority of schemes supporting a RAB despite them representing only 43% of total WAE. BRIA Irrigators believe that a commercial precedent was established by the Queensland Government during Local Management deliberations when customer voting was based on a per megalitre of WAE. Sunwater's decision to determine the voting result on a scheme basis suggests a desire to achieve a pre-determined outcome in favour of the proposed RAB.

3.2 CATEGORISING EXPENDITURE

Sunwater will have an incentive to over capitalize (gold plate) and to incorrectly allocate operating expenditure to capital expenditure in an effort to capture additional returns. Under a RAB, Sunwater's post - 2020 capital expenditure will be included in the asset base and attracts a rate of return until the asset is fully depreciated which has a cumulative effect resulting in higher water charges in the longer term. Sunwater's invoice calculator provided to customers indicates that Burdekin Distribution's RAB closing balance will be \$108.13 million by 2057. This amount represents the outstanding capital cost yet to be recovered if no additional expenditure occurs.

Sunwater's RAB review capitalization approach (page 19 section 4.1.2) in their response to review of RAB-based irrigation prices February 2026 which identifies 96%-98% of renewal expenditure being designated as capex reinforces our concern that operational expenditure will incorrectly be classified as capital expenditure.

3.3 RATE OF RETURN and TAX ALLOWANCE

Sunwater's response to the QCA review of RAB-based irrigation prices (27th February 2026) proposes a rate of return currently based on a 6.66% WACC.

Sunwater's proposed approach to a tax allowance is to calculate the tax allowance at the individual service contract level. Sunwater states that this approach ensures that a tax allowance only applies to schemes that have underlying tax liabilities (page 33 – section 6.2.3.).



They further state that calculating the tax allowance at a pseudo whole-of-Sunwater level breaks with the user pays/cost reflectivity principles and that Sunwater's preference is to avoid the situation where an individual service contract with underlying tax liabilities is allocated a tax allowance of zero.

The BHWSS has a positive annuity balance and the efficient costs of providing irrigation water are being recovered through water charges, with the exception of the Giru Benefited Groundwater Area. Additional income generated by a rate of return will constitute a profit and a taxable income for Sunwater at the BHWSS level.

Therefore, a tax allowance will apply and BHWSS customers will incur these two additional costs (return on capital, tax allowance), which will then be recovered through increased water charges should a RAB approach be adopted.

3.4 PRICE STABILITY AND TRANSPARENCY

The current renewals annuity allows irrigators the opportunity to consider and discuss major capital costs going forward over a 30-year period and provides for more predictable water charges through the smoothing of costs.

By contrast a RAB framework not only introduces two additional costs to be recovered through water charges in the BHWSS but also makes predicting long term water charges and planning extremely difficult as capital expenditure and the asset base are much less transparent.

3.5 INTERGENERATIONAL EQUITY

BRIA Irrigators do not support the transfer of costs to future generations of irrigators which will occur with the adoption of a RAB. Retaining the renewals annuity smooths costs evenly over generations. Modelling from a range of sources indicates a substantial increase in costs over the longer term when a RAB approach is introduced which negates the short-term benefits that may flow to the current generation of irrigators at the expense of future generations.



4. CONCLUSION

BRIA Irrigators have conscientiously analysed the merits of a regulated asset base approach to irrigation pricing and concluded that the arguments put forward for adopting a RAB are not sufficient to justify the significant increases in water charges for irrigation customers in the longer term and we do not believe that it will deliver any long term benefit to irrigators in the BHWSS.

To the contrary, we are convinced that there are a range of negative implications for irrigators in our scheme which have been listed in the body of our submission and any short-term reduction in irrigation charges resulting from moving to a RAB, will be outweighed by significant increases in charges over the longer term.

The increase in irrigation charges which would result from the adoption of a RAB are attributable to the increase in revenue generated from a return on capital, creating a taxable profit for Sunwater in the BHWSS. This would then result in a requirement for a tax allowance which will also be recovered through water charges.

The independent review of rural water pricing frameworks commissioned by the Queensland Farmers Federation has confirmed that all the concerns raised by BRIA Irrigators during the consultation period and in this submission are real and not imagined. The review's modelling produced a consistent result across all six schemes assessed: the renewals annuity framework delivers lower long-term prices, smoother price paths, stronger intergenerational equity and greater transparency than a RAB framework.

BRIA Irrigators agree with the findings and fully support the recommendations contained in the QFF submission and in particular the recommendation that the renewals annuity approach be retained for irrigation pricing in Queensland.

5. RECOMMENDATION

BRIA Irrigators recommend that: To ensure the sustainability of irrigated agricultural production in Queensland, RAB based irrigation pricing should be rejected by the Queensland Government and the Renewals Annuity approach retained for setting irrigation charges in Sunwater schemes.