



COTTON
AUSTRALIA



**Review of RAB-Based
irrigation prices 2027-29**
Michael Murray

Review of RAB-Based irrigation prices 2027-29

Submission prepared by Michael Murray

Contents

Submission prepared by Michael Murray.....	2
1. Executive summary	3
2. Recommendations	3
3. Submission response.....	4
3.1. RAB vs Annuity.....	4
3.2. QCA's Role	5
4. Conclusion	5



ABOUT COTTON AUSTRALIA

Cotton Australia is the peak body for Australia's cotton growers, representing up to 1,500 cotton farms mainly in New South Wales and Queensland but also in the Northern Territory and Western Australia. Cotton Australia works with growers and stakeholders to ensure the Australian cotton industry remains viable.

Cotton Australia supports the Australian cotton industry to be globally competitive, sustainable and valued by the community. It drives the industry's strategic direction, retains a strong focus on research and development, promotes strength of the industry, manages sustainability reporting and implements policy objectives.

1. Executive summary

Cotton Australia welcomes the opportunity to provide this submission to the Review of RAB-Based Irrigation Prices for the 2027–29 pricing period. As the peak body representing the interests of Queensland cotton growers—many of whom are customers of Sunwater and Seqwater—Cotton Australia has been an active and long-standing participant in irrigation pricing reviews conducted by the Queensland Competition Authority (QCA) and comparable processes in other jurisdictions. This submission has been informed by Cotton Australia’s experience in previous price investigations and by analysis commissioned by the Queensland Farmers Federation (QFF) examining renewal cost recovery mechanisms. Cotton Australia endorses the QFF submission and the attached consultant report and will therefore only be providing this high-level submission.

Cotton Australia recognises that both the Regulated Asset Base (RAB) and Annuity approaches to renewal expenditure recovery have strengths and weaknesses. The Annuity approach provides a smoother and more predictable price path for irrigators and supports greater intergenerational equity, albeit at the cost of reliance on long-term forecasting. While a RAB approach may improve short-term accuracy of renewal expenditure and reduce forecasting effort, evidence shows it can result in increased price volatility over time and facilitate returns on capital that are inconsistent with the Queensland Government’s commitment to lower bound pricing for rural water users. Independent analysis of multiple Sunwater and Seqwater schemes indicates that although RAB-based pricing may deliver lower charges in the short to medium term, prices increasingly exceed those determined under the Annuity model over the longer term.

On this basis, Cotton Australia strongly supports the continuation of the Annuity method for recovering renewal expenditure in irrigation pricing. While the adoption of a RAB approach may deliver lower short to medium term prices, real and sustainable price relief for irrigators will only be achieved through a genuine cultural shift by service providers toward ensuring all costs are demonstrably prudent and efficient, supported by appropriate resourcing of the QCA to rigorously test and drive efficiency improvements.

2. Recommendations

- 2.1. That the Queensland Government commits to the continuation of the use of the Annuity method for the recovery of renewal expenditure when determining prices for the irrigation customers of Sunwater and Seqwater.
- 2.2. That the service providers (Sunwater and Seqwater), should focus their attempt to reduce overall costs to irrigators by ensuring all costs are genuinely prudent and efficient, and the QCA is resourced appropriately to determine prudence and efficiency, and drive efficiency improvements.

3. Submission response

Cotton Australia is the peak body representing the interests of approximately 500 Queensland cotton growers, many of them who are customers of Sunwater and a small number who are customers of Seqwater.

Cotton Australia has been an active participant in the Queensland Competition Authority's (QCA) Irrigation Price Investigations since 2011 and is also very familiar with similar pricing process conducted by the New South Wales Independent Pricing and Regulatory Tribunal (IPART) for determining prices for WaterNSW and the Water Administration Ministerial Corporation (WAMC).

Cotton Australia is an active member of the Queensland Farmers Federation (QFF) and has worked closely with QFF, and its other members in developing this response.

QFF was able to secure Queensland Government funding to engage a consultant to do an independent review of the two main renewal recovery mechanisms, the Annuity and Regulated Asset Base (RAB) approaches.

Cotton Australia has relied heavily on the QFF commissioned report prepared by Highlander Consulting and is aware that its conclusions are significantly different from those that form part of the Sunwater and Seqwater submissions to this Review.

Cotton Australia will not be attaching the Highland Consulting report to this submission, leaving it to QFF to formally include it as part of its submission.

Given the detail of the QFF submission, with the Highlander Consulting report, and Cotton Australia's strong member relationship with QFF, this submission will be brief and high level.

3.1. RAB VS ANNUITY

Cotton Australia largely accepts the premise that both the Annuity and RAB approach have strength and weakness.

In general, the Annuity approach:

- Creates a smoother, more predictable price path
- Provide greater intergenerational fairness

But it suffers from a higher level of forecasting accuracy as it tries to predict renewal expenditure up to 30 years out.

While the RAB approach:

- Provides higher accuracy on renewal expenditure
- Requires much less forecasting resources

But, renewal payments can be a lot more variable, and the model appears to help facilitate a Return on Capital, which is not consistent with the Qld Government's commitment to Lower Bound pricing for rural water charges.

Cotton Australia is aware that many pricing experts will argue that in a world of perfect assumptions, over the long-term a RAB approach and an Annuity approach will deliver the same result. However, the world is not perfect.

The work of Highlander Consulting looked at six schemes in total; four Sunwater schemes and two Seqwater schemes and the consistent result was that in the short to medium term the RAB approach did result in lower renewal pricing components, but over time RAB pricing started to significantly outstrip pricing determined under the Annuity model.

The conclusions of the Highlander Report cannot be ignored and therefore Cotton Australia strongly supports the continuation of the use of the Annuity model.

Further, it rejects any notion that the adoption of a RAB approach would in itself drive significant improvements in the efficiencies of Sunwater and Seqwater.

Cotton Australia does acknowledge:

- That the adoption of a RAB approach is likely to lead to reduced water charges in the short to medium term for many if not all schemes, but that advantage is lost over time.
- That the adoption of a RAB approach would significantly reduce the resources required for the rolling 30-year capital expenditure forecasts.

However, Cotton Australia strongly argues that real efficiency and price relief will only flow when Sunwater and Seqwater culturally change their approach and really focus on delivering their services in the most efficient and prudent way.

Cotton Australia is aware that the Sunwater's Customer and Stakeholder Project (CASPr), like its namesake ghost, is dead, but its specter will continue to haunt Sunwater as a textbook example of failing to be prudent and efficient.

True pricing efficiency will come from driving down costs while maintaining or improving services.

3.2 QCA'S ROLE

Cotton Australia does acknowledge that the QCA is being asked to make a difficult call. It in effect must adjudicate two very different views on which pricing model best drives rural water prices down and encourages prudence and efficiency from the water providers.

Cotton Australia genuinely wants the best long-term pricing model for its irrigators and based on the available evidence that is not the RAB approach.

However, Cotton Australia is prepared to work with both the Qld Government and the QCA in particular, if they can clearly demonstrate that an RAB will deliver best in the long-term.

Cotton Australia understands that it is possible the water minister will host a roundtable to openly scrutinise the assumptions used in the various models that parties have based their submission on, and is open to reconsidering its position if material evidence warrants it.

4. Conclusion

Cotton Australia appreciates the opportunity to contribute to the Review of RAB-Based Irrigation Prices for the 2027–29 pricing period. As the peak body representing Queensland cotton growers who are materially affected by irrigation water prices, Cotton Australia has a strong interest in ensuring that the chosen pricing framework delivers sustainable, efficient and equitable outcomes for irrigators over the long term.

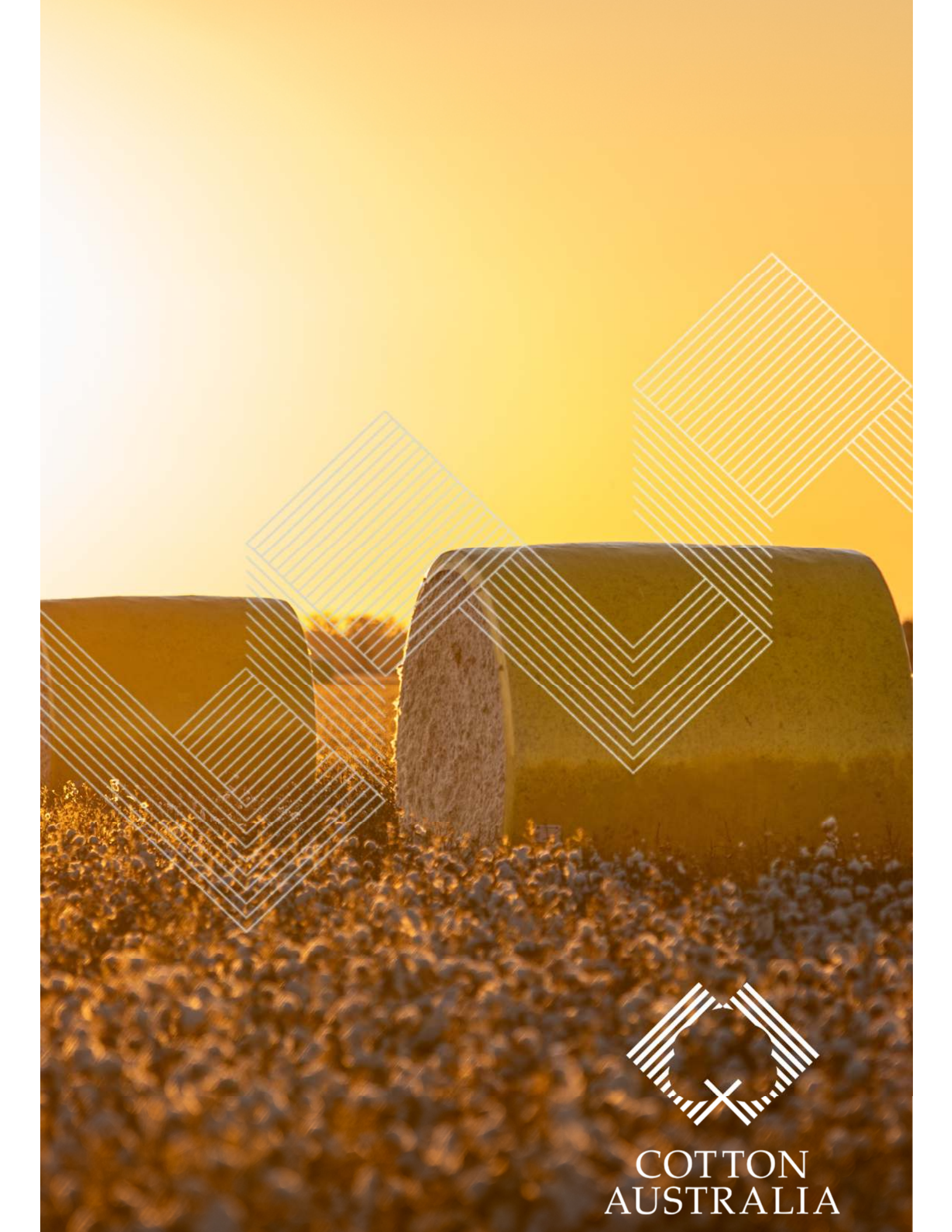
Having carefully considered the merits of both renewal expenditure recovery approaches, Cotton Australia is not persuaded that a shift to a Regulated Asset Base model would deliver superior long-term outcomes for irrigators. While RAB-based pricing may reduce charges in the short to medium term and lessen forecasting requirements, available evidence demonstrates that over time it results in greater price volatility and higher charges than those determined under the Annuity model. It also risks facilitating returns on capital that are inconsistent with the Queensland Government's commitment to lower bound pricing for rural water users.

Cotton Australia therefore strongly supports the continuation of the Annuity method for the recovery of renewal expenditure. The Annuity approach better delivers price stability, predictability and intergenerational equity—outcomes that are critically important for capital-intensive agricultural businesses operating in highly variable climatic and market conditions.

More broadly, Cotton Australia cautions against viewing any pricing framework as a substitute for genuine efficiency reform. Sustainable price relief for irrigators will only be achieved where service providers are required to demonstrate that all expenditure is prudent and efficient, and where the Queensland Competition Authority is appropriately resourced and empowered to rigorously test costs and drive continuous efficiency improvements.

Cotton Australia remains committed to working constructively with the Queensland Government, the QCA, Sunwater and Seqwater throughout this review process. Should compelling evidence emerge demonstrating that an alternative approach would deliver better long-term outcomes for irrigators, Cotton Australia is open to reconsidering its position. However, based on current evidence, retaining the Annuity model remains the most appropriate and defensible option for irrigation pricing over the 2027–29 period and beyond.

For further information please contact Cotton Australia General Manager Michael Murray – 0427 707 868 or michaelm@cotton.org.au



COTTON
AUSTRALIA