Submission to the Queensland Competition Authority

Review of RAB-Based Irrigation Prices (2027–29)

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1. Executive Summary

I am an irrigated cotton and grain farmer operating in the Central Highlands' Nogoa Mackenzie Scheme. My business relies on bulk water infrastructure operated by Sunwater to support a highly capital-intensive and climate-dependent farming system.

I support investment in water infrastructure to ensure long-term reliability. However, I have significant concerns regarding the proposed transition to a Regulated Asset Base (RAB) model.

In my view, the proposed model:

- Transfers long-term financial risk from the operator to irrigators
- Increases exposure to fixed costs in a highly variable industry
- Creates potential for higher total costs over time
- Does not impose sufficient accountability on infrastructure delivery and cost control

My position is that I support retaining the Renewals Annuity framework.

2. Background

My farming business operates in a highly variable environment, characterised by:

- Seasonal rainfall variability
- Fluctuating commodity prices
- Increasing volatility in input costs and availability
- Significant investment in on-farm infrastructure (storage, pumping, monitoring systems)

Water is a critical input. Pricing directly affects:

- Cropping decisions
- Farm profitability
- Risk management

Any change to pricing frameworks must reflect real operating conditions, not just theoretical models.

3. Fundamental Issue: Shift in Risk and Cost Structure

The transition to a RAB model is not simply a pricing adjustment. It fundamentally changes:

- How costs are recovered
- Who carries risk
- How prices behave over time

This is a structural shift with long-term consequences for farm businesses.

4. Long-Term Risk to Irrigators Under RAB

4.1 Transfer of Financial Risk

Under a RAB model:

- The operator receives:
  - Guaranteed cost recovery
  - A regulated return on capital
- Irrigators carry:
  - Climate risk
  - Production risk
  - Market risk
  - Infrastructure cost risk

This creates a clear imbalance where ‘revenue certainty’ sits with the operator, while ‘income variability’ sits with irrigators.

4.2 Fixed Cost Exposure and Price Behaviour

Farming income is inherently variable. In low allocation years:

- Water availability declines
- Income reduces significantly

NOTE – The Nogoa Mackenzie Scheme has experienced consistently less than 50% dam capacity in the last decade – See Appendix 1:

However, under RAB:

- Costs remain largely fixed
- Prices can increase following capital works

This creates:

- Reduced ability to plan
- Exposure to infrastructure timing decisions
- Increased financial pressure in low-income years

4.3 Intergenerational Cost Burden

Under a RAB structure:

- Defers cost recovery
- Applies a return on capital
- Extends cost recovery over long periods

For Irrigators, this results in:

- Higher cumulative costs
- Reduced flexibility
- Increased burden on future irrigators

This raises concerns about long-term affordability and sustainability for Irrigators.

5. Response to Sunwater Proposal

5.1 Short-Term Price Reductions

Sunwater highlights lower initial prices under RAB.

My view:

- These reductions come from deferring costs
- They do not reduce total cost
- They increase long-term financial exposure

Short-term savings should not come at the expense of long-term affordability.

5.2 “RAB Only Changes Timing”

Sunwater suggests the key difference is timing.

My view:

Timing directly affects:

- Total cost (through financing and returns)
- Price stability
- Risk exposure

Timing is not a minor issue, it is central to how costs impact farm businesses.

5.3 “RAB Removes Forecasting Risk”

Sunwater suggests RAB reduces uncertainty.

My view:

- Risk is not removed
- It is transferred to irrigators

Under RAB:

- Costs are locked in regardless of:
  - Water availability
  - Planting opportunities
  - Farm income

RAB replaces forecasting uncertainty with unavoidable cost exposure.

5.4 “RAB is More Equitable”

Sunwater claims RAB improves equity.

My view:

- Current irrigators benefit from lower early prices
- Future irrigators inherit higher costs

This creates intergenerational inequity, not fairness.

5.5 Lower Fixed Charges

Sunwater suggests lower fixed charges benefit irrigators.

My view:

- Farm income is variable
- Lower short-term costs are offset by higher long-term obligations

This does not reduce risk - it shifts it forward.

5.6 Capitalisation Approach

Sunwater proposes a high proportion of renewals as capital.

My concerns about this approach are:

- Increases the asset base
- Increases long-term cost recovery
- Risks over-investment

This creates a strong incentive for asset growth rather than cost discipline.

6. Response to Pricing Tools and Calculator

Sunwater's tools improve transparency, however the tools:

6.1 Focus on Calculation, NOT Impact

- Explains how prices are built, yet
- Does not address risk or real-world impacts

6.2 Understate Long-Term Cost Growth

- Focuses on annual prices
- Does not clearly show cumulative cost impacts

6.3 Fixed Cost Exposure

- Demonstrates high fixed cost recovery
- Does not reflect:
    - Low allocation years
    - Reduced farm income

6.4 Consultation Approach

Engagement focuses on implementation rather than whether RAB is appropriate.

7. Need for Strong Standards on Sunwater

If RAB is adopted, stronger accountability is essential. It must include:

- Strict controls on asset base growth and capital expenditure
- Enforceable project management and delivery standards
- Performance-based penalties for service failures
- Pricing structures that reflect seasonal and climate variability

7.1 Capital Discipline

- Independent review of major projects – Not at the expense of Irrigators
- Demonstration of efficiency
- Benchmarking

7.2 Project Management Standards

Sunwater should be accountable for:

- Cost overruns
- Delays
- Scope changes

Costs should not automatically be passed to irrigators.

7.3 Performance-Based Regulation

Introduce:

- Service reliability targets
- Maintenance standards
- Response times

Failure should result in:

- Financial penalties
- Revenue adjustments

7.4 Transparency

Require:

- Clear reporting of cost drivers
- Breakdown of capital vs operating costs
- Accessible customer information

8. Recognising the Nature of Irrigated Agriculture

Pricing must reflect:

- Seasonal variability
- Climate risk
- Income volatility

There should be:

- Flexibility in low allocation years
- Reduced exposure to fixed costs

9. Conclusion

The proposed RAB model represents a significant shift in how costs and risks are allocated.

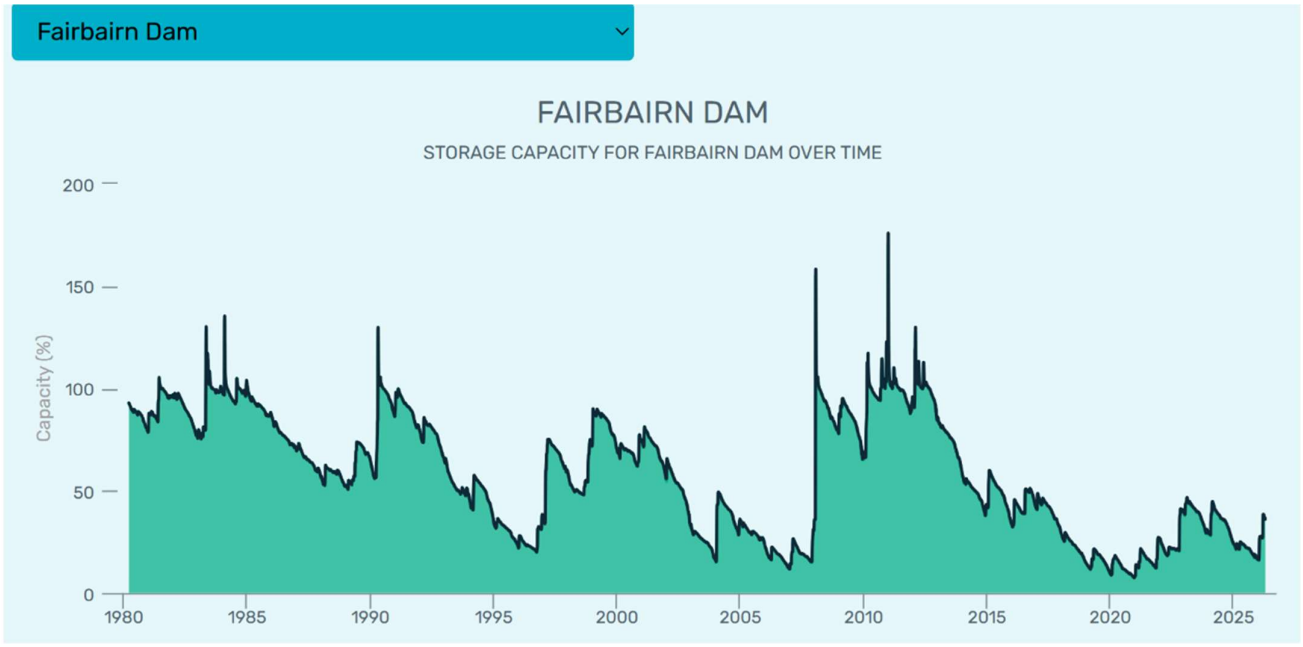
While it may provide short-term pricing benefits, it introduces:

- Higher long-term costs
- Increased financial risk to Irrigators
- Reduced flexibility
- Intergenerational inequity

In conclusion, I urge the Queensland Competition Authority to ensure that any adopted framework:

- Balances risk fairly
- Maintains cost discipline
- Reflects the realities of irrigated agriculture

APPENDIX 1



Source: *https://www.sunwater.com.au/water-data/historical-dam-capacity/*