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BURDEKIN RIVER IRRIGATION AREA IRRIGATORS LTD (BRIA)

Response to the Queensland Competition Authority

Draft Review of RAB – Based Irrigation Prices in Sunwater Schemes

7th August 2026 Manager – Russ McNee

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EXECUTIVE SUMMARY

BRIA Irrigators Ltd. (BRIA) appreciates the opportunity to respond to the Queensland Competition Authority's (QCA) Draft Review of RAB – Based Irrigation Prices in Sunwater Schemes.

BRIA remains unconvinced that transitioning from a Renewals Annuity to RAB based irrigation pricing will be beneficial over the longer term for Sunwater's irrigation customers. Our calculations and independent modelling indicate that under a RAB framework, water charges will be significantly higher in the longer term than the QCA review suggests, and customers will be subjected to unpredictable compounding increases in charges as Sunwater renews assets. Price affordability, stability and transparency are essential for Sunwater's customers' ability to forward plan and budget, as they are competing in volatile world commodity markets and cannot absorb the price increases and instability that RAB based water charges will introduce.

We are concerned that generational equity will not be maintained under a RAB framework and question whether a RAB approach strengthens incentives for cost control and places risk with the Sunwater business, when it is customers who are forced to pay the principal and interest on locked in debt incurred by Sunwater.

Shifting from a renewals annuity to a RAB framework changes the scheme from a pre-funded model to a debt and interest model and the most expensive way of financing any asset is by borrowing the total amount and servicing the debt with long- term principal and interest repayments.

Pricing Transparency, Affordability and Stability

The QCA draft review acknowledges that a rolling annuity provides visibility of planned expenditure and forward price paths and avoids fluctuating prices by reflecting updated information and incorporating it in the next price review with the impact spread over thirty years rather than being reflected immediately in price targets.

BRIA is of the view that this summarises the distinct advantages, from a customer's perspective, of a Renewals Annuity when compared to a RAB. Transparency and visibility of planned expenditure and forward price paths are of immense benefit to Sunwater's customers.

While prices will reduce initially under a RAB, as a result of starting with an asset base valued at zero, renewals expenditure is expected to escalate sharply in the Burdekin Haughton Water Supply Scheme (BHWSS) where the oldest infrastructure is over 70 years old and the newest almost 40 years.

The underlying renewals expenditure may not differ under either approach, however customer water charges are likely to increase significantly and unexpectedly under a RAB as large capital expenditure is incurred. At best this makes budgeting and forward planning difficult for customers and at worst may make their business unviable if steep increases in water charges coincide with a prolonged downturn in commodity prices.

The QCA acknowledges that a RAB approach can result in price target instability and suggests that tools such as adjusted depreciation profiles are available for generating smoother price targets. BRIA is not supportive of this approach as extending depreciation profiles also extends the repayment period and increases the total interest paid to Sunwater and therefore the total cost of asset renewals to the customer.

Rate of Return – Tax Allowance

BRIA remains concerned that transitioning to a RAB has a regulatory framework that requires these two building blocks to be recovered through water charges. Under a RAB asset replacements are capitalized and Sunwater has indicated that 96% of renewals will be classified as capital expenditure in the BHWSS. We note that the QCA states that they allow for these building blocks under both models, however the rate of return (WACC) provides a credit not a debit for schemes with a positive annuity balance and therefore need not be recovered through water charges and to date a tax allowance has not applied.

Sunwater is a Government Owned Corporation (GOC) and is required to pay Tax Equivalents to the State Government when the business generates a profit. Currently the Authority is not required to recover a tax allowance through water charges as it assesses Sunwater on a total scheme basis. However, Sunwater's submission preferred an individual scheme approach where a scheme recovering in excess of efficient costs would be liable to pay a tax allowance.

Longer term implications under a RAB are that a tax allowance will potentially apply to schemes with a positive annuity balance when historical tax losses run out and they are fully recovering efficient costs and generating a profit driven by a rate of return (WACC).

Generational Equity

BRIA does not share the QCA'S interpretation of generational equity as presented in the draft report. We maintain that the current generation should be contributing to the future renewal of existing assets that they are receiving benefit from and that contribution should be equal to estimated depreciation of those assets. This is achieved with the current rolling annuity.

Under the proposed RAB the current generation of irrigators will not contribute any further to existing assets until they need renewing ten to twenty years hence when irrigators at that time will incur the full cost of asset renewal and a significant increase in charges.

Efficiency and Accountability

It is difficult to comprehend how transitioning to a RAB will increase Sunwater's efficiency, provide incentives for cost control or place risk with their business under a RAB framework. We believe it is likely to reduce the need for long-term asset management plans and allow Sunwater to make expedient capital expenditure decisions knowing that customers will be required to pay a return of and return on debt incurred by Sunwater.

In the absence of close scrutiny by the regulator (QCA), a RAB could provide incentive to overspend when a rate of return will apply to all capital expenditure and generate a profit. Sunwater has already indicated that under a RAB, virtually all asset renewals will be classified as capital expenditure and attract a rate of return. In our view the only risk Sunwater faces is the regulator determining that the capital expenditure was not prudent or efficient.

Conclusion

The Queensland Government's decision to adopt only the initial two years of the QCA's 2025-2029 Price Path raises concerns that they want to standardize all Government owned monopolies under a commercial RAB building block and eliminate annuity reserves. It appears that the Government is attempting to influence the QCA and is prepared to risk compromising the Authority's independence to achieve that aim as they would prefer a pricing model that requires Sunwater to borrow from State Treasury and pay a dividend via tax equivalents from profits generated by a rate of return on Sunwater's capital expenditure.

The great majority of assets in an irrigation scheme are long life assets and renewals should be reasonably stable and predictable, with any difference to forecasts incorporated into the rolling annuity balance. Therefore, BRIA agrees with Saha's advice to the QCA in 2010 that "A renewals annuity approach applies best where there is a dominance of renewable long-life assets such as dams and earthen channels and/or where the expected asset life is greater than that of its components."

Recommendation

BRIA Irrigators recommend that the QCA advise the Queensland Government to continue the renewals annuity framework for financing Sunwater's asset renewals program, and we further recommend that the QCA investigate the circumstances under which Sunwater has allowed some schemes to operate with large and long- standing negative annuity balances.