Central Highlands Cotton Growers & Irrigators Association
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To Queensland Competition Authority (*By online submission form)*

RE: CHCG&IA Response to the QCA's Review of RAB-based Irrigation Prices (2027-2029)

Please see the Central Highlands Cotton Growers and Irrigators submission.

Regards

Alexandria Doyle
CHCG&IA President

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2 CENTRAL HIGHLANDS COTTON GROWERS AND IRRIGATORS ASSOCIATION

2.1 ABOUT CHCG&IA

The Central Highlands Cotton Growers & Irrigators Association (CHCG&IA) is an incorporated association established under the *Associations Incorporation Act 1981 (Qld)* and is the principal representative body for irrigated agriculture in the Central Highlands. The Association represents growers, irrigators and associated agricultural businesses operating throughout the Nogoa, Comet, Belyando and Mackenzie River catchments.

CHCG&IA's membership includes family-owned and corporate farming enterprises producing cotton, grains, pulses, oilseeds, citrus and grapes, together with a broad network of agribusinesses, including agronomists, consultants, contractors, merchants, bankers, researchers, input suppliers and cotton ginners.

Collectively, CHCG&IA members are major customers of the Nogoa-Mackenzie Water Supply Scheme, making the long-term affordability, reliability and sustainability of irrigation water services critically important to the region's agricultural future.

2.2 REGIONAL PRODUCTION

The Association represents a significant proportion of the irrigated agricultural production supported by the Nogoa-Mackenzie Water Supply Scheme. Irrigated agriculture is a cornerstone of the Central Highlands economy, with approximately **32,000 hectares of irrigated farmland** supporting the production of cotton, grains, pulses, citrus, grapes and other high-value crops. Cotton is the region's principal irrigated crop, generating between **$60 million and $100 million annually** and accounting for approximately **10 per cent of Queensland's cotton production**. The Nogoa-Mackenzie Water Supply Scheme currently supplies **191,664 megalitres of agricultural water entitlements** and delivered **165,243 megalitres of water to irrigators during 2023-24**, highlighting its critical role in supporting regional agricultural productivity, employment and economic activity.

3 EXECUTIVE SUMMARY

The Central Highlands Cotton Growers & Irrigators Association (CHCG&IA) strongly urges the Queensland Competition Authority (QCA) to recommend retention of the existing Renewals Annuity framework and reject the proposed transition to a Regulatory Asset Base (RAB) pricing methodology for the Nogoa-Mackenzie Water Supply Scheme.

The evidence presented throughout this review process has failed to establish a compelling case that a RAB framework will deliver long-term benefits to irrigators. On the contrary, both the Queensland Farmers' Federation (QFF) analysis and the QCA's own draft report demonstrate that the primary impact of a RAB model is to alter the timing of cost recovery rather than reduce costs. The result is lower prices in the short term but potentially higher and more volatile prices for future irrigators

For cotton growers and irrigators in the Nogoa-Mackenzie scheme, price predictability, affordability and transparency is critical. Water is a foundational business input and irrigation pricing should support long-term investment in agricultural production rather than introduce additional uncertainty and risk.

Accordingly, CHCG&IA recommends that:

1. The Queensland Government retain the Renewals Annuity approach for irrigation pricing.
2. The QCA reject the proposed transition to a RAB methodology for the Nogoa-Mackenzie scheme.
3. The QCA place greater focus on improving expenditure efficiency, forecasting accuracy, and customer transparency within the existing framework to stabilise pricing.
4. The QCA acknowledge shortcomings in stakeholder engagement and ensure any future reform process is genuinely balanced and evidence-based.

4 No Demonstrated Long-Term Advantage for Irrigators

The strongest reason to reject the transition to a RAB framework is that the QCA has not demonstrated a clear long-term benefit to irrigation customers.

Cotton Australia has correctly observed that the QCA's own modelling shows no clear pricing advantage under a RAB framework. Across the 43 tariff groups assessed, the median long-term outcome was slightly worse under RAB, with long-term price targets averaging 0.8% higher than under the renewals annuity approach. The QCA itself concluded that neither approach clearly dominates in terms of long-term price outcomes or price stability.

The QFF-commissioned Highlander Consulting review reached a similar conclusion. Using a 50-year modelling horizon across representative Queensland schemes, the review found that renewals annuity pricing consistently produced lower long-term costs, smoother price paths and stronger intergenerational equity than a RAB framework. By FY2062, prices under a RAB model were estimated to be between 13% and 40% higher depending on scheme characteristics.

If the QCA's own modelling cannot establish a clear long-term customer benefit, there is no justification for introducing a fundamentally different pricing regime.

5 Price Stability is Critical for the Nogoa-Mackenzie Scheme

Irrigators operate in an environment characterised by extreme variability.

Businesses must already manage:

- Seasonal and climate risk.
- Variable water allocations.
- Commodity price volatility.
- Escalating input costs.
- Labour shortages.
- Interest rate fluctuations.

The existing renewals annuity framework helps offset these risks by providing a stable and predictable water pricing path. CHCGIA members consistently identify pricing certainty as more valuable than temporary short-term reductions in charges

Renewals annuities smooth major capital expenditure across multiple generations of customers, while RAB pricing introduces step changes whenever substantial capital expenditure enters the asset base. This creates a more volatile pricing trajectory and makes long-term business planning significantly more difficult.

For Nogoa-Mackenzie irrigators making investments in irrigation infrastructure, water efficiency systems and farm expansion, long-term pricing certainty is essential.

6 A RAB Framework Shifts Costs to Future Irrigators

A core concern for CHCGIA is the intergenerational transfer of costs.

The renewals annuity model spreads costs across current and future users by building provisions for asset replacement before expenditure occurs. In contrast, a RAB framework progressively accumulates an asset base that earns a return on capital over time, resulting in future irrigators carrying a greater share of costs.

This approach not only shifts costs to future generations but also creates uncertainty around future water prices. Irrigated agriculture relies on long-term investment decisions, and the prospect of significant future price increases may discourage investment in on-farm infrastructure, agricultural expansion and new enterprises. Investors and lenders are less likely to commit capital where future water costs are uncertain and subject to potential price shocks.

For a region such as the Central Highlands, where irrigated agriculture underpins substantial economic activity and regional growth, water pricing frameworks should support long-term business confidence and investment certainty rather than defer costs to future customers.

7 Increased Risk of Capital Bias and Over-Investment

CHCGIA is concerned that a RAB framework introduces incentives for increased capital expenditure.

Under a RAB model, expenditure added to the asset base earns a regulated return throughout its asset life. This creates an inherent incentive to prefer capital solutions over lower-cost operational or maintenance alternatives. QCA itself acknowledged that capital bias can occur unless extensive regulatory safeguards are implemented.

Importantly, those safeguards do not currently exist.

Before any change to pricing methodology is considered, the QCA would need to demonstrate robust governance arrangements capable of preventing over-capitalisation and ensuring only prudent and efficient expenditure is recovered from customers.

No such framework has yet been established.

8 THE REAL ISSUE IS EFFICIENCY, NOT PRICING METHODOLOGY

Changing the cost recovery mechanism does not reduce underlying costs.

CHCGIA agrees with Cotton Australia that genuine price relief will come from:

- Improved forecasting.
- Stronger expenditure discipline.
- Greater scrutiny of operating costs.
- Transparent asset management practices.
- Independent assessment of prudency and efficiency.

The QCA itself acknowledged there would be no material operating expenditure savings arising solely from a shift to a RAB methodology.

Consequently, changing the pricing framework risks distracting from the more important task of ensuring Sunwater delivers efficient services at the lowest reasonable cost.

9 STAKEHOLDER ENGAGEMENT HAS BEEN INADEQUATE AND PERCEIVED AS BIASED TOWARD RAB

CHCGIA has significant concerns regarding the stakeholder engagement process undertaken during this review.

The QCA's role is to provide independent, balanced and evidence-based advice to Government. However, many irrigators have formed the view that consultation materials, presentations and workshop discussions have been disproportionately focused on explaining the benefits of RAB pricing rather than objectively evaluating both options.

This perception has undermined confidence in the review.

CHCGIA submits that:

- Stakeholder engagement should not be used to build support for a preferred regulatory outcome.
- Consultation must present both models on an equal footing.
- Customer concerns regarding long-term affordability and intergenerational equity were not given sufficient weight.
- Future engagement should be independently facilitated and supported by scheme-specific modelling relevant to customers.
- Lack of submissions to the review process does not constitute agreement and should not be considered as endorsement of any change to the status quo.

Given the absence of a proven long-term customer benefit, any perception of advocacy by the regulator is particularly concerning.

The QCA's final report must remain objective, present all evidence fairly, and avoid recommending a predetermined outcome.

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