COTTON AUSTRALIA

Review of RAB-Based irrigation prices 2027-29

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Advancing Australian Cotton

Review of RAB-Based irrigation prices 2027-29

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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 respond to the Queensland Competition Authority's (QCA) draft report, Review of RAB-based irrigation prices from 1 July 2027: Sunwater (the draft report), released in June 2026. This response follows Cotton Australia's initial submission of April 2026 on Sunwater's and Seqwater's pricing proposals for this review, and should be read together with that submission.

Having carefully considered the draft report, Cotton Australia maintains its opposition to the introduction of a regulatory asset base (RAB) approach for recovering renewals expenditure from irrigation customers. Our position is unchanged for a straightforward reason: the draft report does not, on the whole, present any substantial argument or evidence that a RAB approach would provide irrigators a long-term pricing advantage over the existing renewals annuity approach.

To the contrary, the QCA's own long-term modelling points the other way. Across the 43 tariff groups examined in the draft report, the median difference in total price targets in the long term (2056–57) is 0.8% higher under a RAB approach than under the annuity approach, with 11 tariff groups more than 5% higher and only 7 more than 5% lower. The QCA itself concludes that "neither approach clearly dominates in terms of longer-term pricing outcomes and price target stability," and that the differences between the two approaches "primarily reflect the timing of cost recovery, rather than differences in the underlying renewals expenditure to be recovered." On the QCA's own figures, the typical irrigator is no better off, and quite possibly worse off, in the long run under a RAB approach.

The affirmative case the QCA does make for a RAB approach rests almost entirely on theoretical claims about investment incentives and risk allocation, not on any demonstrated dollar benefit to irrigators, and the QCA repeatedly qualifies these claims as contingent on regulatory safeguards that do not yet exist in Queensland. At the same time, the QCA's own analysis confirms there would be no material operating cost savings from adopting a RAB approach, and acknowledges the risk that a return on capital under a RAB approach could encourage capital bias and over-investment.

Given the absence of any demonstrated long-term advantage for irrigators, and the real risk of higher and more volatile prices for some schemes, Cotton Australia does not consider the case for such a fundamental change in irrigation pricing methodology has been made. Cotton Australia continues to strongly support the retention of the annuity method for recovering renewals expenditure.

2. Recommendations

2.1. That the Queensland Government does not proceed with a shift to a regulatory asset base (RAB) approach for recovering renewals expenditure from Sunwater's and Seqwater's irrigation customers, and instead retains the renewals annuity approach for prices applying from 1 July 2027.

2.2. That, in its final report to government, the QCA clearly acknowledges that its own modelling in the draft report does not establish a long-term pricing advantage for irrigators under a RAB approach.

2.3. That, consistent with Cotton Australia's initial submission, the Queensland Government and the QCA continue to focus on driving genuine prudency and efficiency improvements in Sunwater's and Seqwater's cost bases, with the QCA appropriately resourced to rigorously test and determine prudency and efficiency, rather than relying on a change in cost-recovery methodology to deliver price relief.

2.4. Should government nonetheless decide to progress a RAB approach, transitional arrangements include robust safeguards against capital bias and specific protection for schemes with low or negative initial RAB balances from disproportionate price increases.

2.5. That should the government nonetheless decide to progress a RAB approach, positive annuity balances are returned to the irrigators immediately, in a single tranche.

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 QCA's Irrigation Price Investigations since 2011 and made an initial submission on this review in April 2026.

This response focuses on the QCA's draft report and, in particular, on whether the QCA has established that a RAB approach would deliver a long-term advantage to irrigators. Cotton Australia continues to work closely with the Queensland Farmers' Federation (QFF) on this review, and expects QFF's submission on the draft report, informed by updated analysis from Highlander Consulting, to address the modelling issues in more technical detail. This submission should be read alongside that submission.

3.1. THE DRAFT REPORT DOES NOT ESTABLISH A LONG-TERM ADVANTAGE FOR IRRIGATORS

The QCA was directed to assess the relative merits of the RAB and annuity approaches and to recommend prices under both for 2027–28 and 2028–29. Chapter 6 of the draft report goes further and compares long-term price targets under both approaches out to 2056–57, described by the QCA as "a representative year when transitional effects have largely unwound."

The results do not support a shift to a RAB approach. Of the 43 tariff groups examined, the median difference in total price targets is 0.8% higher under the RAB approach than under the annuity approach. Only 25 of the 43 tariff groups are within 5% of the annuity-based price target; 11 are more than 5% higher, and just 7 are more than 5% lower. The QCA describes these outcomes as reflecting "scheme-specific factors" rather than a uniform impact, and states plainly that “the differences between the approaches primarily reflect the timing of cost recovery, rather than differences in the underlying renewals expenditure to be recovered.”

This is a materially different picture from the one that lower short-term prices under a RAB approach might suggest. Individual schemes illustrate the risk clearly: on the QCA’s own modelling, long-term total price targets are 19.1% higher for Cunnamulla, 13.2% higher for Burdekin-Haughton and 12.9% higher for Maranoa River under a RAB approach, while other schemes such as Callide Valley and the Lower Mary (Mary Barrage) are around 13.8% lower. This variability means that, far from delivering a uniform long-term benefit, a RAB approach could leave a substantial number of irrigators paying materially more over the long term than they would under the current annuity method – with no way of knowing in advance which side of that ledger any particular scheme will fall on.

Cotton Australia acknowledges the QCA’s criticisms of the Highlander Consulting modelling commissioned by QFF, particularly around its treatment of historical forecast risk and long-term renewals assumptions. However, the QCA’s own, methodologically distinct modelling reaches a similar conclusion to Highlander’s “crossover point” finding for a material number of tariff groups: RAB-based prices are not reliably lower than annuity-based prices over the long term, and for many schemes they are higher. Two independent lines of analysis pointing in the same direction should carry weight.

On this basis, Cotton Australia does not consider the QCA has presented any substantial argument, on the whole, that a RAB approach provides a long-term advantage to irrigators. The apparent short-term price relief identified in the draft report is a function of when costs are recovered, not a reduction in the underlying costs irrigators must ultimately pay.

3.2. QCA’S STATED BENEFITS OF A RAB APPROACH REMAIN UNPROVEN AND CONDITIONAL

Having found no clear long-term pricing advantage, the draft report’s affirmative case for a RAB approach rests on two claims: that it strengthens incentives for efficient investment, and that it improves the allocation of risk between businesses and customers by shifting financing and delivery risk to the business.

Cotton Australia does not dismiss these as legitimate considerations, but notes that the QCA itself treats them as contingent rather than established. The draft report states that a RAB approach is “likely” to provide stronger incentives for efficient investment “on balance,” but only “subject to robust safeguards to avoid capital bias and ensure only prudent and efficient expenditure is recovered,” and that its effectiveness “depends on the presence of clear capitalisation rules, robust prudency and efficiency reviews, and ongoing scrutiny to constrain capital-bias risks.” None of these safeguards currently exist for Queensland’s irrigation schemes; at best, they are a design task for a future full price review.

At the same time, the draft report directly rebuts one of the central efficiency claims made in support of a RAB approach. In response to stakeholder requests that the QCA identify any operating expenditure savings from the change, the QCA states plainly that it does “not consider there would be material savings in operational activities from moving to a RAB approach.” If a RAB approach delivers no identified opex savings, no demonstrated long-term price advantage, and a return on capital that several stakeholders – including Cotton Australia – consider inconsistent with lower bound pricing principles for rural water users, it is difficult to identify a substantial net benefit to irrigators that would justify the change.

Cotton Australia also shares the concern, which the QCA itself acknowledges “can arise in theory,” that a return on capital under a RAB approach creates an incentive for capital solutions over lower-cost operating solutions. The draft report's response is that this risk depends on the strength of future governance arrangements – not that the risk is absent.

3.3. PRACTICAL AND TRANSITIONAL RISKS REINFORCE THE CASE FOR CAUTION

The draft report confirms that the impact of a RAB approach is likely to be most pronounced during the transition, particularly for schemes with low or negative initial RAB values, where new renewals capex can represent a large proportion of the RAB and place significant upward pressure on price targets. This is precisely the kind of scheme-specific volatility that concerns Cotton Australia's members, many of whom operate in schemes without the scale to absorb lumpy capital projects smoothly.

The draft report also confirms that Sunwater's customer engagement on the proposed transition, while reasonable in structure, provided only "limited assurance that customers had a well-informed understanding of the pricing impacts and trade-offs associated with the transition," and that it is "unclear to what extent customer feedback meaningfully informed the design of transition options." A change of this significance, with the demonstrated potential for some schemes to face materially higher long-term prices, warrants a higher standard of engagement and evidence than has so far been achieved.

Cotton Australia also notes that other stakeholders have drawn attention to expert commentary, referred to in the draft report, that a renewals annuity approach "applies best where there is a dominance of renewable long-life assets such as dams and earthen channels" – a description that fits the great majority of Sunwater's and Seqwater's irrigation infrastructure. The QCA's response does not dispute this characterisation; it simply notes that the annuity approach's effectiveness depends on the reliability of long-term forecasts. That is a reason to improve forecasting practice, not a reason to abandon an approach that, on the QCA's own evidence, remains at least as favourable to irrigators over the long term.

3.4. QCA'S ROLE AND THE NEED FOR GENUINE EFFICIENCY REFORM

Cotton Australia's position, as set out in its initial submission, remains that real and sustainable price relief for irrigators will come from a genuine focus by Sunwater and Seqwater on ensuring all costs are demonstrably prudent and efficient, supported by a QCA properly resourced to test and drive efficiency improvements. Nothing in the draft report changes this view. If anything, the QCA's finding that a RAB approach would not deliver material opex savings reinforces it: the accounting mechanism used to recover renewals expenditure is not, on the evidence presented, the source of any efficiency dividend for irrigators.

Cotton Australia remains willing to engage constructively with the Queensland Government, the QCA, Sunwater and Seqwater on this review, including through the stakeholder workshops to be held in July 2026. If compelling evidence emerges that a RAB approach would deliver a genuine, demonstrable long-term benefit to irrigators, Cotton Australia is open to reconsidering its position, consistent with the approach taken in its initial submission.

3.5 TREATMENT OF POSITIVE ANNUITY BALANCES

Should the Queensland Government choose to implement the RAB approach, then Cotton Australia contends that the positive annuity balance held by the four schemes should be returned to the irrigators in those schemes as a single payment, in the first year. This is money that under this arrangement has been "pre-paid" and should be immediately returned.

Irrigators in those schemes should have the right to deploy those funds as they see fit and not have them held by Sunwater and returned over time.

4. Conclusion

Cotton Australia appreciates the opportunity to respond to the QCA's draft report on RAB-based irrigation prices for 2027–29. As the peak body representing Queensland cotton growers who are directly affected by irrigation water prices, Cotton Australia has a strong interest in ensuring that the pricing framework ultimately adopted delivers genuine, sustainable benefits for irrigators over the long term.

Having reviewed the QCA's own analysis in detail, Cotton Australia is not persuaded that a shift to a RAB approach would deliver superior long-term outcomes for irrigators. The QCA's own modelling shows price outcomes that are, at best, mixed, and at the median, marginally worse for irrigators over the long term. Any short-term price relief under a RAB approach reflects only a deferral of cost recovery, not a genuine reduction in the costs irrigators will ultimately bear.

Cotton Australia therefore strongly supports the continued use of the annuity method for recovering renewals expenditure, and looks forward to participating in the QCA's stakeholder workshops in July 2026. Should the QCA's final report, or subsequent analysis, demonstrate compelling evidence of a genuine long-term benefit to irrigators, Cotton Australia remains open to reconsidering its position. On the evidence in the draft report, however, retaining the annuity model remains the most appropriate and defensible approach for irrigation pricing from 1 July 2027 onward.

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