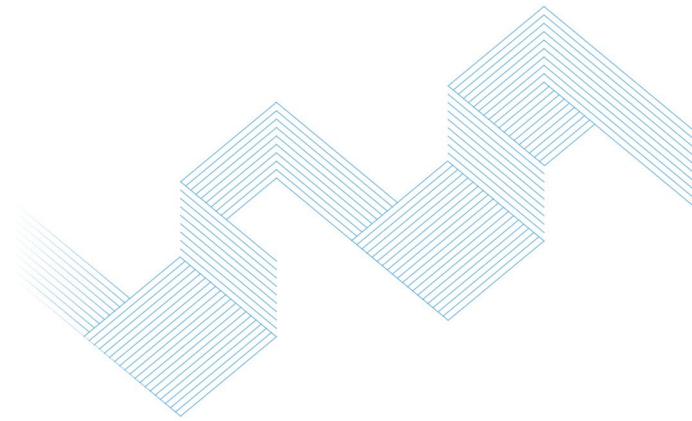




# Sunwater – RAB vs Annuity

Michael Murray – General Manager

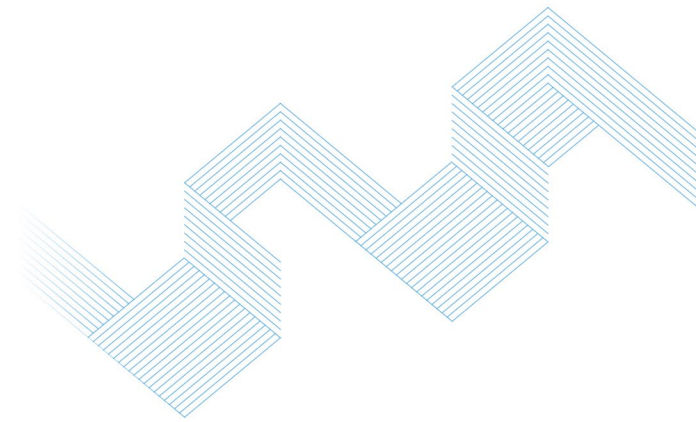


# Background

- Last year the Qld Competition Authority (QCA) prepared and recommended rural water charges for 4 years till 2028-29.
- These charges included the use of the Annuity method.
- The Govt accepted the recommendations for 2025-26, and 2026-27, and offered a 15% discount for genuine irrigators.
- However, the Government believes charges can be driven down by adopting the Regulated Asset Base (RAB) approach, and requested the QCA to review the two approaches and provide recommended charges for 2027-28 & 2028-29 using the RAB methodology.
- Full details of the Review can be found - <https://www.qca.org.au/project/rural-water/review-of-rab-based-irrigation-prices-2027-29/>



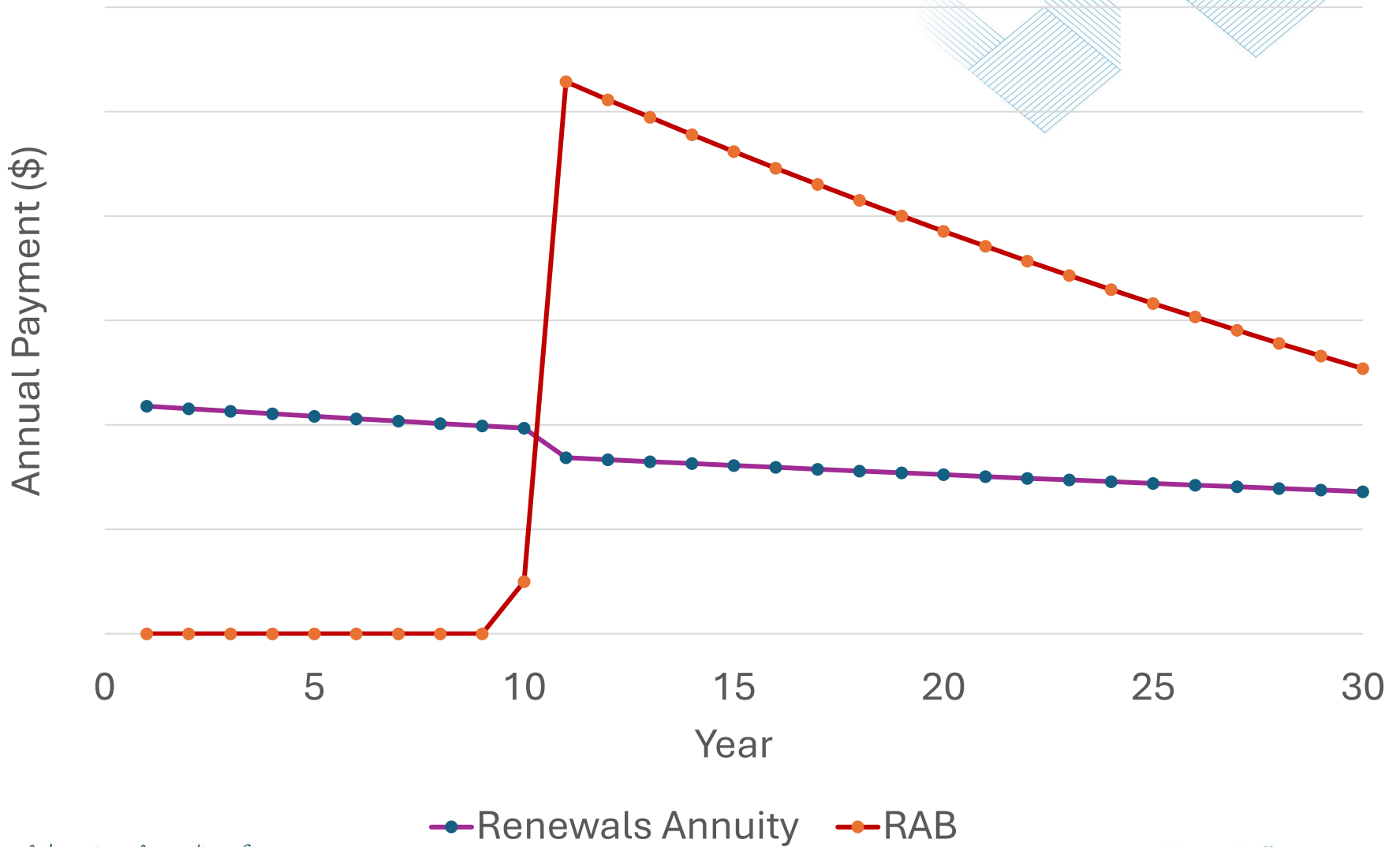
**THIS IS A QUOTE THAT CAN SIT  
OVER TWO LINES WITH AN ICON**



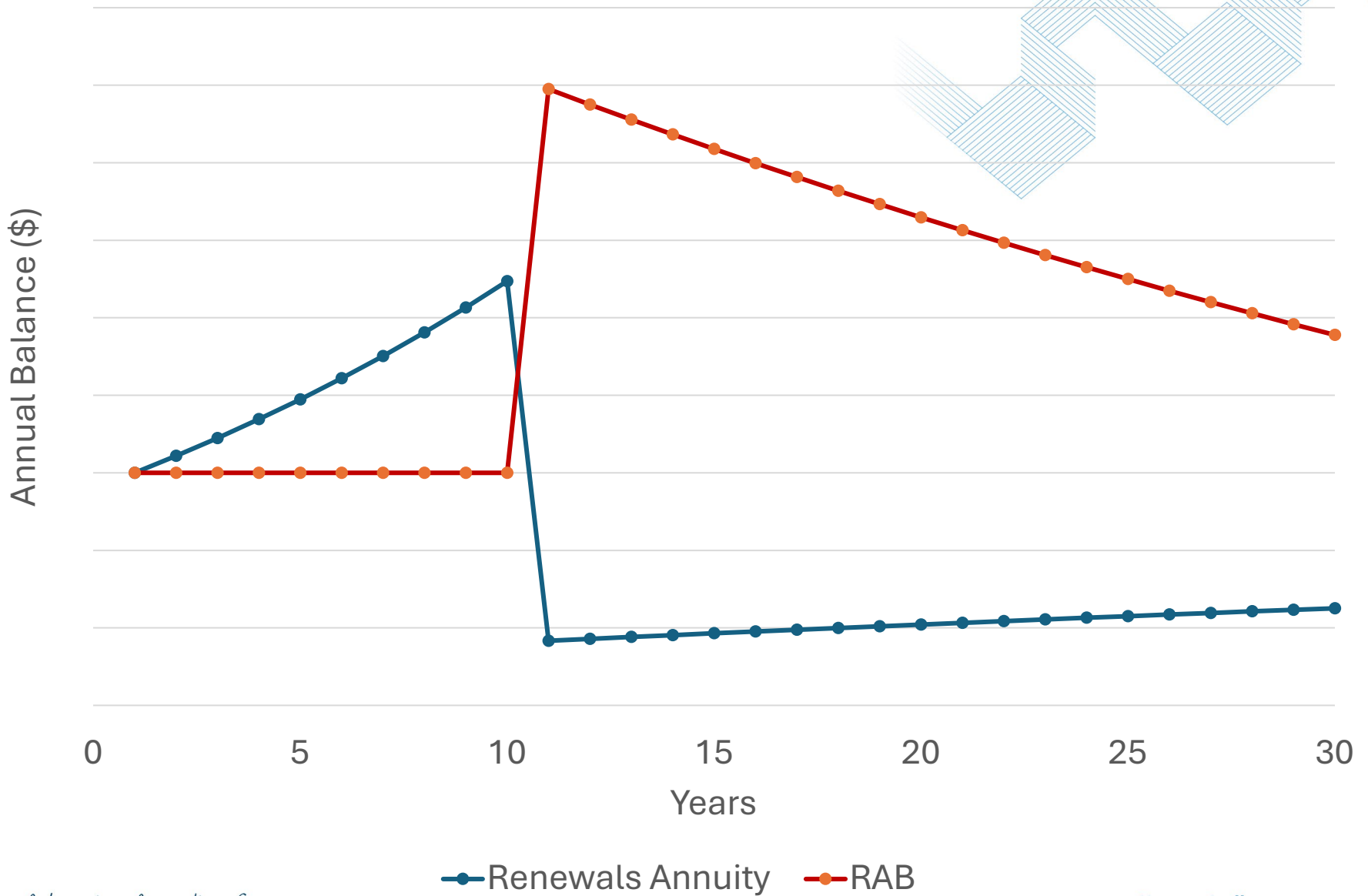
# Background

- The following resources are available:
  - QCA Consultation Paper
  - Sunwater proposal
  - Sunwater dedicated webpage that includes a pricing calculator -  
<https://www.sunwater.com.au/projects/regulated-asset-base/>
- Submissions to the QCA close on April 7
- Queensland Farmers Federation (QFF) with Qld Govt funding engaged Highlander Consulting for an independent assessment.

# Comparison of annual payments under a renewals annuity vs RAB framework



# Annual balances of renewals annuity and RAB



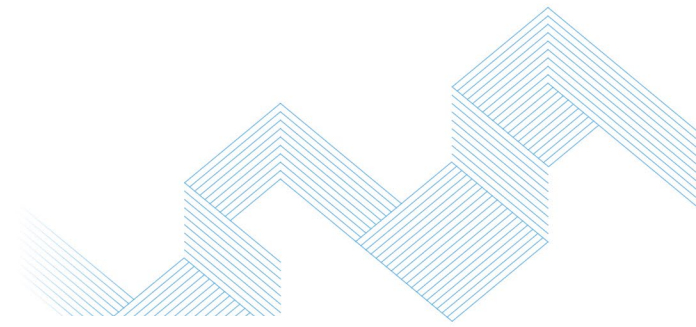


Table 12: Renewals annuity vs RAB balance behaviour

Characteristic	Renewals annuity balance	RAB asset value
Balance profile	Cyclical (build and drawdown)	Progressive growth over time
Early period	Accumulation of reserves	Low initial asset base
Later period	Drawdown to fund renewals	Large / growing asset base with ongoing returns
Prices	Smoothed over time	Linked to timing of capex / can be volatile
Price impact	Gradual and predictable	Step change increases in the long terms especially following major capex
Transparency	Forward-looking (30-year forecasts)	Backward-looking (realised expenditure)
Intergenerational equity	Treats each generation the same	Favours early and penalises later generations

## QFF Independent Review Insights - DRAFT

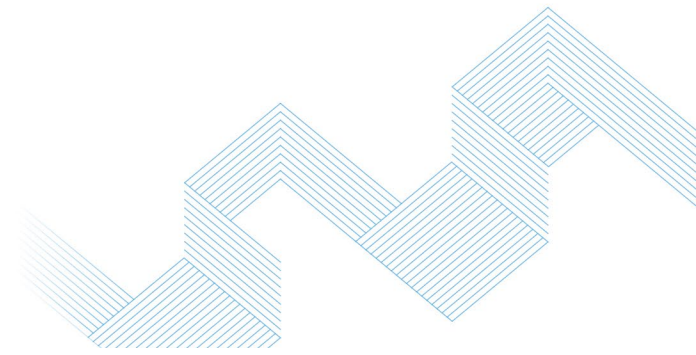
### Consistent Result Across All Schemes

- Independent QFF analysis used actual historical data (since 2012) and forward forecasts from Sunwater and Seqwater
  - ✓ Data included forward capital and operating forecasts from Sunwater & Seqwater
  - ✓ Same data applied across both pricing frameworks
- QFF's report demonstrates the same outcome across every scheme assessed
- RAB is cheaper early, but more expensive over time
- Renewals Annuity delivers lower long-term prices and alignment with Lower Bound Pricing Principals



## Key differences

1. **Price stability:** The renewals annuity produces stable and predictable price paths through smoothing of lumpy capex. The RAB produces step-changes in prices as capital enters the RAB.
2. **Long-term affordability:** Total costs for irrigators are materially higher under a RAB due to the compounding effect of asset growth and the introduced return on capital.
3. **Transparency:** The renewals annuity requires 30-year capex forecasts, providing forward visibility. Under RAB, irrigators observe past expenditure, with potentially less visibility of future estimates.
4. **Investment incentives:** The RAB introduces a structural incentive to increase capex, as it earns a regulated return. This creates the risk of over-investment and capitalisation of maintenance costs.
5. **Intergenerational equity:** The renewals annuity allocates costs evenly across generations, while the RAB transfers costs to future irrigators as the asset base grows, favouring current customers.



Scheme	Renewals annuity (\$M)	RAB (\$M)	Multiple
Bundaberg Distribution	2.2	11.3	5.1x
Burdekin Distribution	2.4	13.7	5.8x
Eton Bulk	0.7	2.7	3.7x
Upper Condamine WSS	0.6	2.1	3.6x
Central Lockyer WSS	0.5	1.0	2.0x
Lower Lockyer WSS	0.5	1.2	2.3x

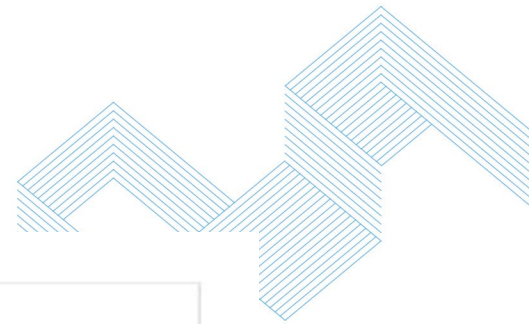
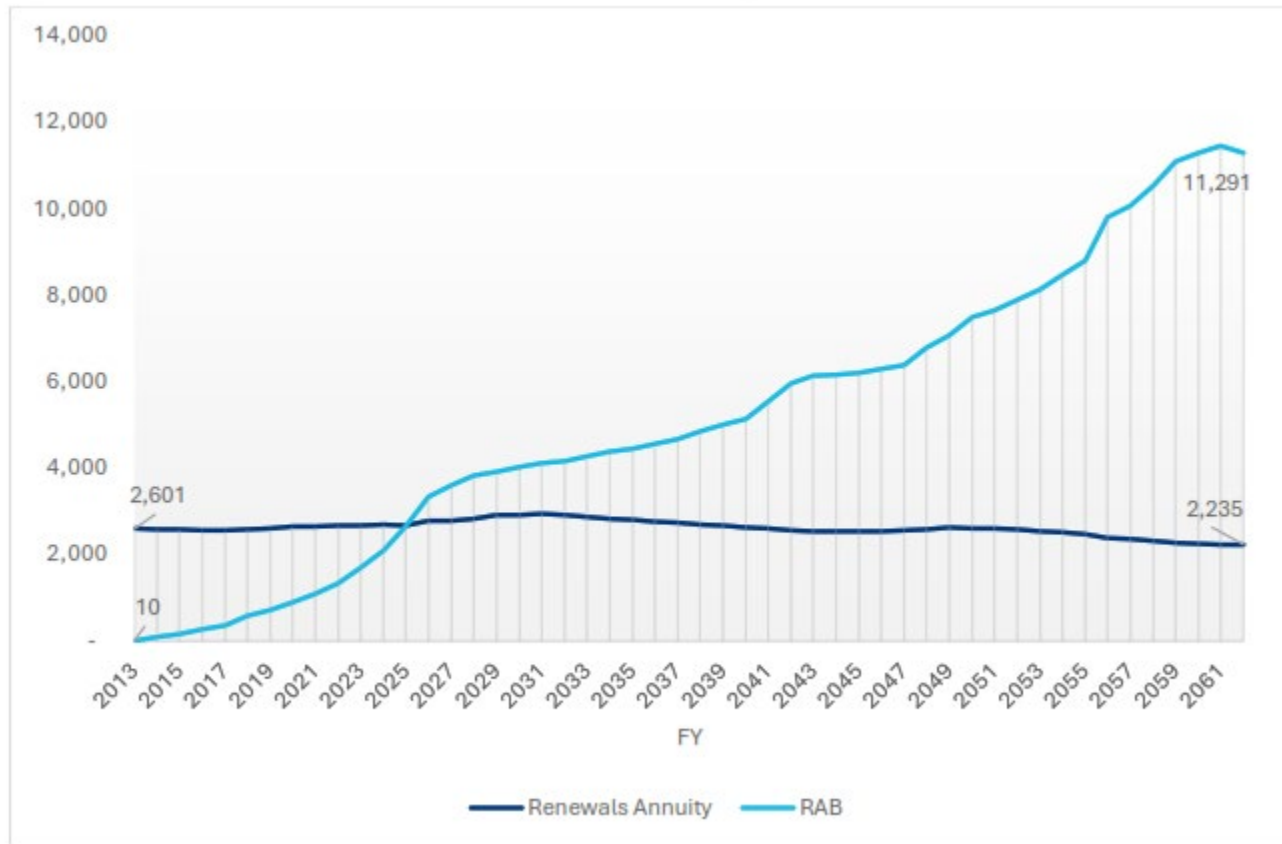


Figure 2: RAB capital revenue vs renewals allowance – Bundaberg Distribution (\$'000 pa)



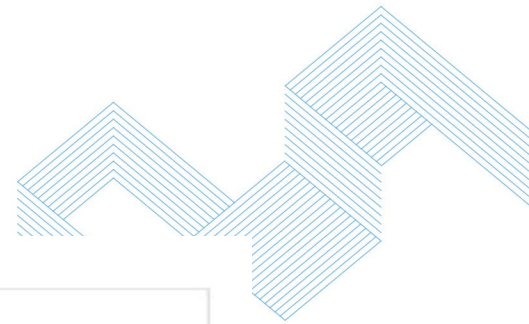
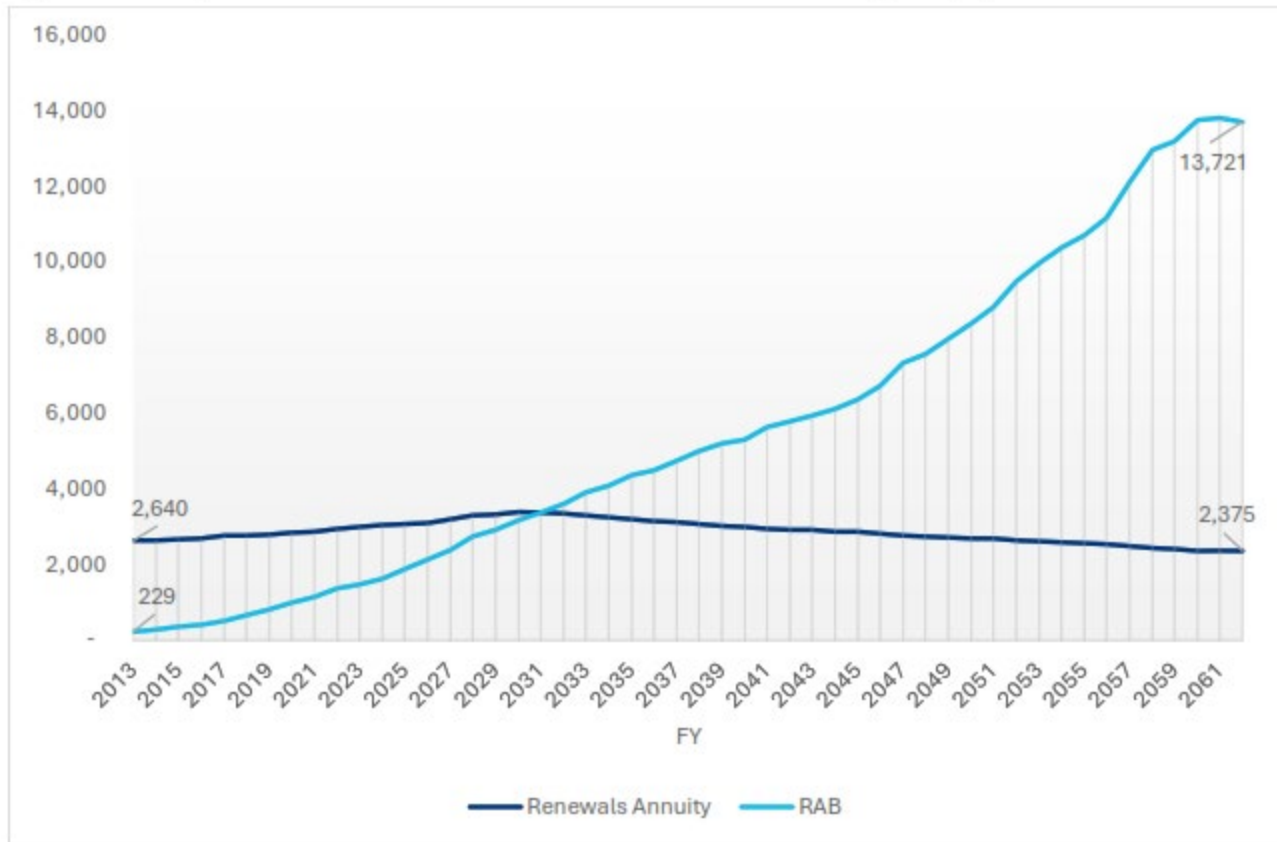


Figure 5: RAB capital revenue vs renewals allowance – Burdekin Distribution (\$'000 pa)



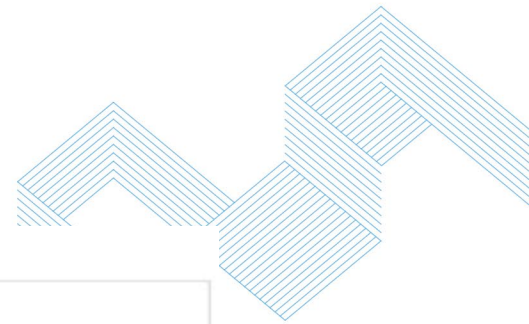
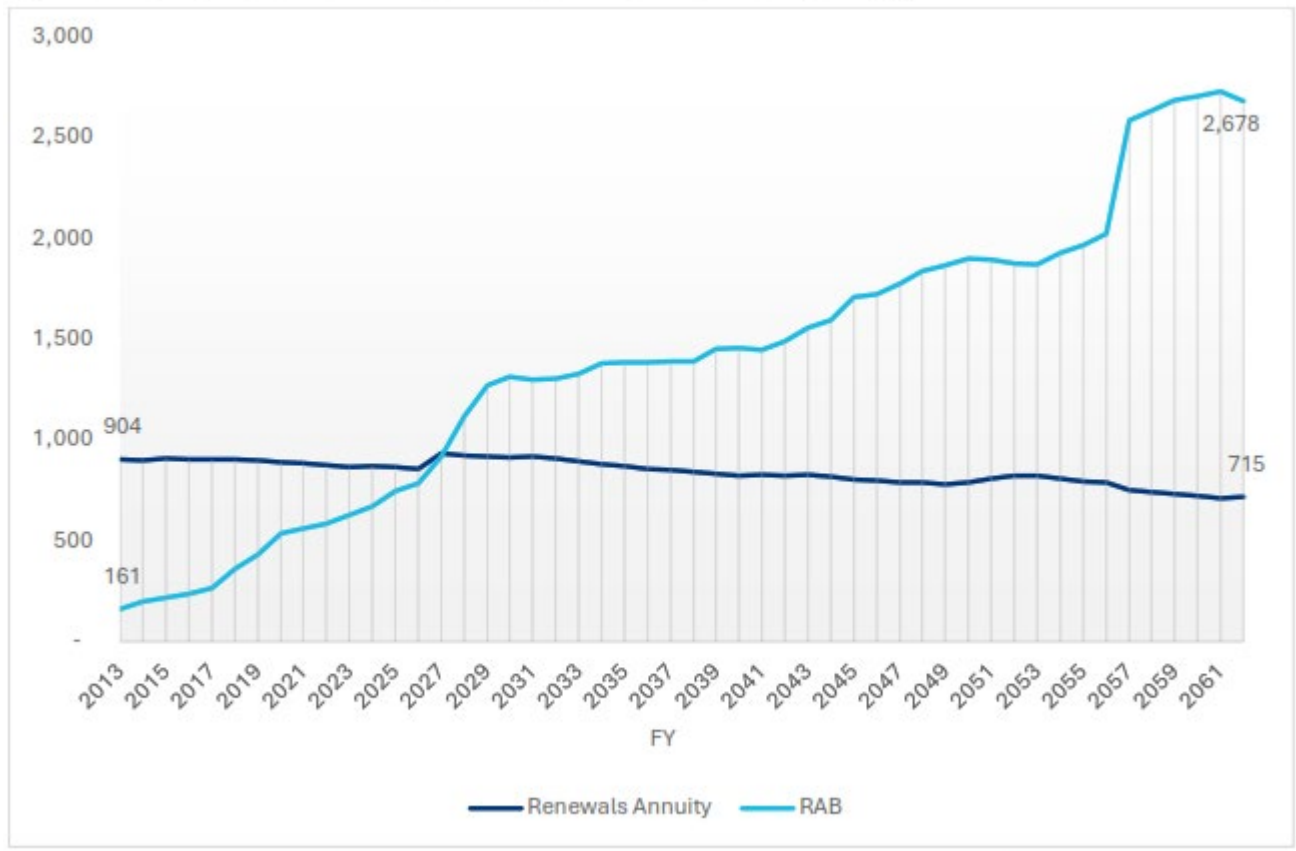


Figure 8: RAB capital revenue vs renewals allowance – Eton Bulk WSS (\$'000 pa)



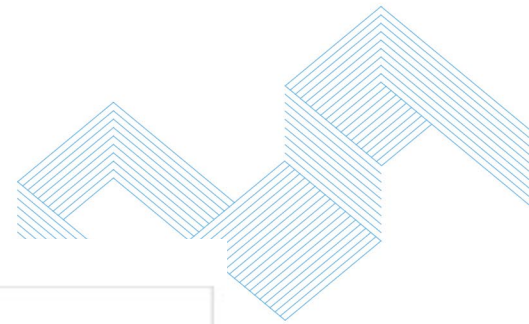
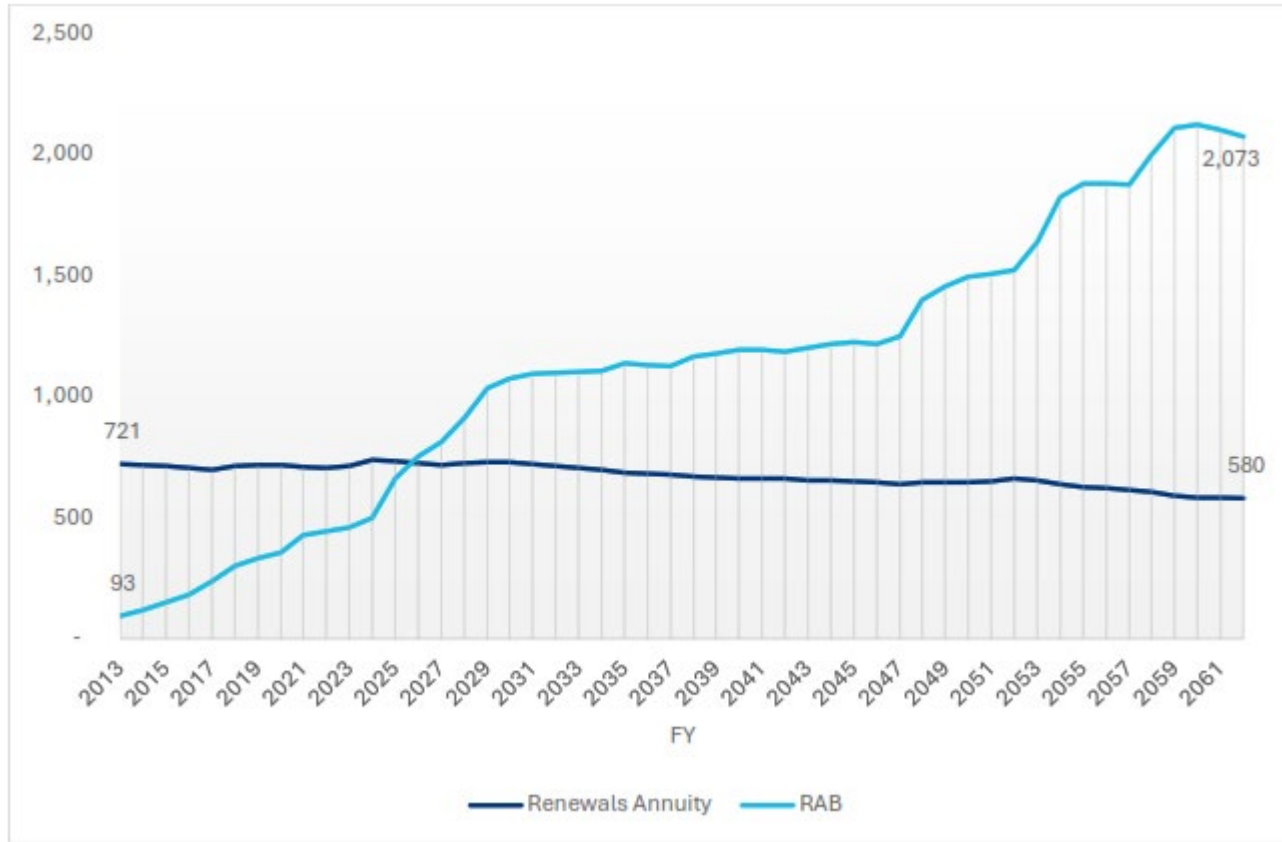


Figure 11: RAB capital revenue vs renewals allowance – Upper Condamine WSS (\$'000 pa)



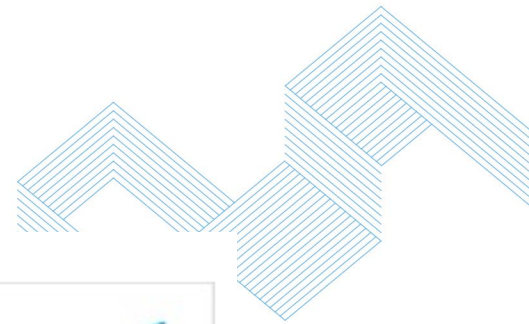
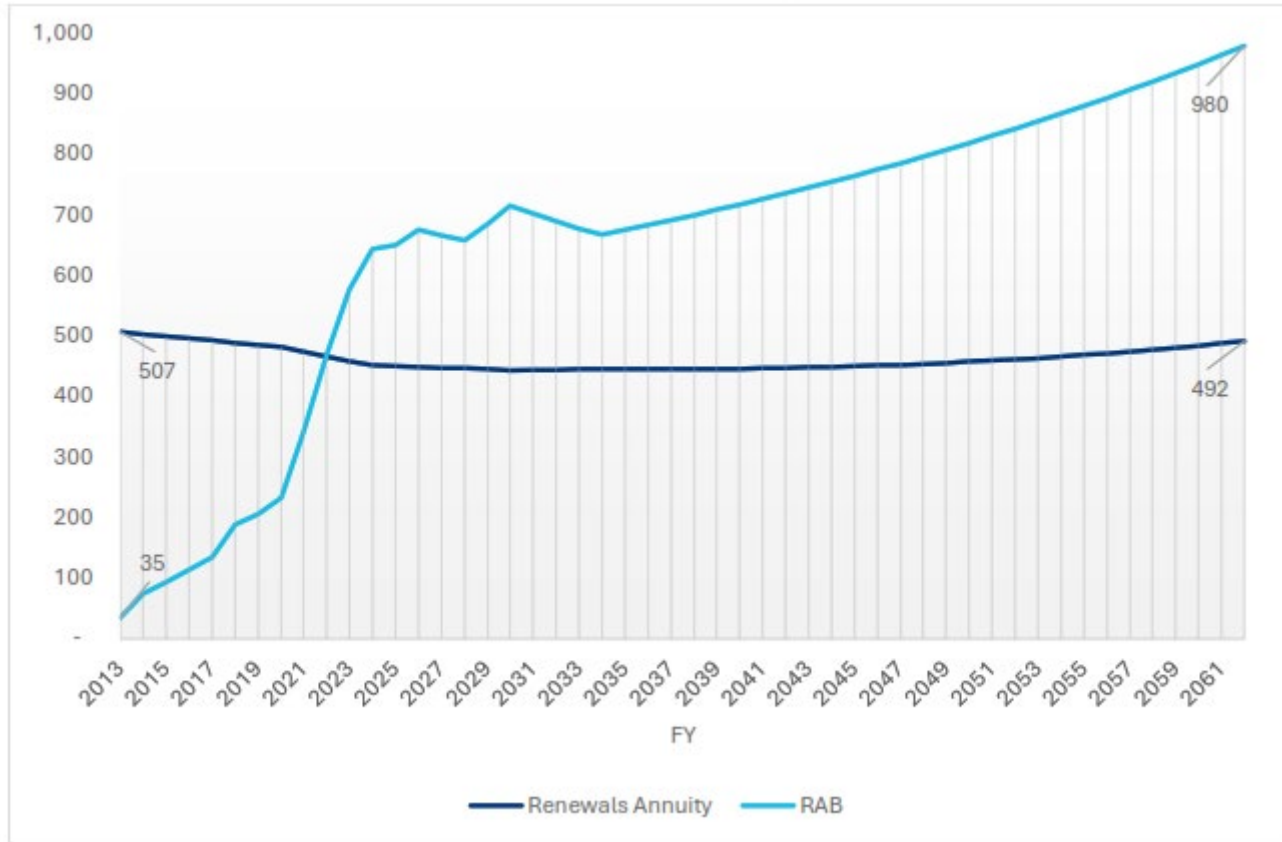


Figure 14: RAB capital revenue vs renewals allowance – Central Lockyer WSS (\$'000 pa)



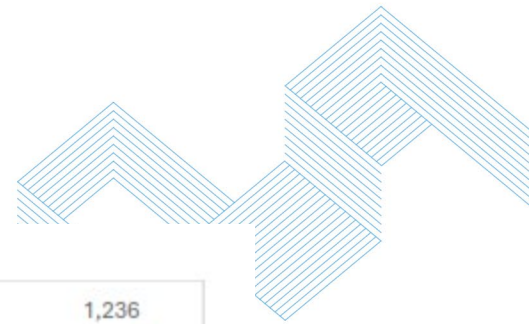
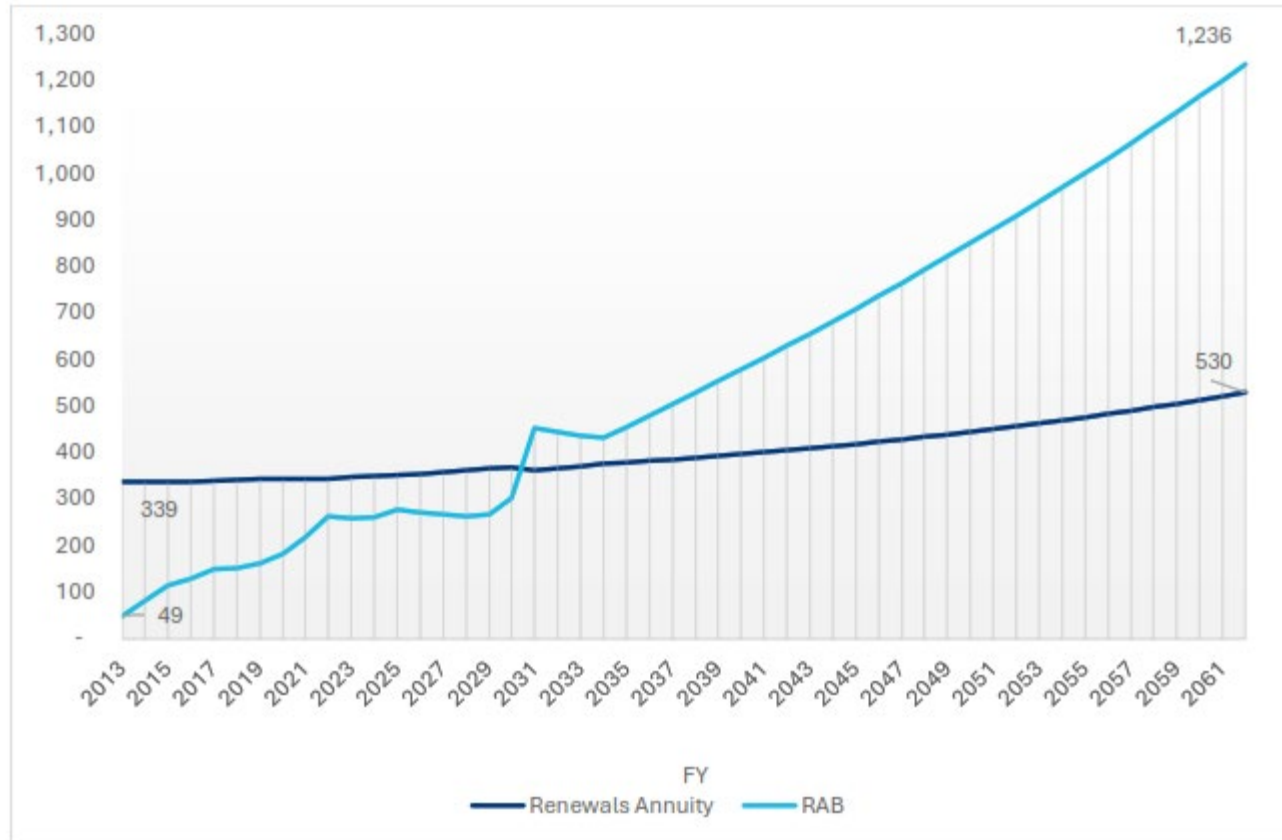


Figure 17: RAB capital revenue vs renewals allowance – Lower Lockyer WSS (\$'000 pa)

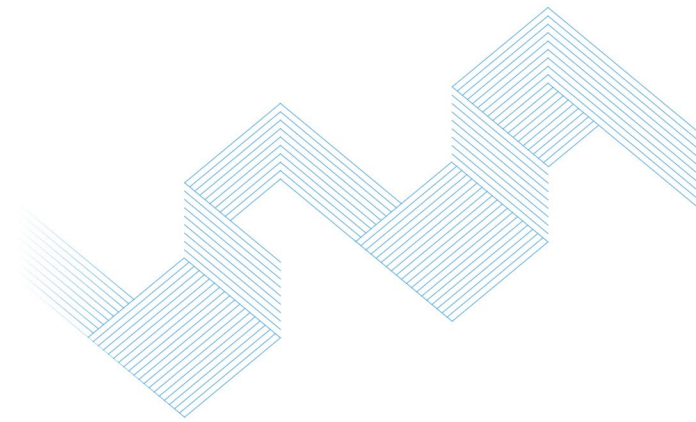


Renewals annuity increases gradually from around \$339,000 to approximately \$530,000 over the

Table 10: Indicative tariff outcomes in FY2062

Scheme	Framework	Fixed (\$/ML)	Variable (\$/ML)	Total (\$/ML) <sup>^</sup>	Difference (\$/ML)	Difference (%)
Bundaberg Distribution	Renewals	164	159	322		
	RAB	201	195	395	73	23%
Burdekin Distribution	Renewals	94	72	166		
	RAB	117	90	206	41	25%

Scheme	Framework	Fixed (\$/ML)	Variable (\$/ML)	Total (\$/ML) <sup>^</sup>	Difference (\$/ML)	Difference (%)
Eton Bulk	Renewals	62	50	111		
	RAB	86	69	155	44	40%
Upper Condamine WSS	Renewals	124	82	207		
	RAB	158	105	264	57	35%
Central Lockyer WSS	Renewals	162	123	285		
	RAB	184	139	323	37	13%
Lower Lockyer WSS	Renewals	188	340	529		
	RAB	239	432	671	143	27%



# Key Messages

- Cotton Australia recommends rejecting a move towards a RAB-based approach because:
  - Independent modeling commissioned by the Queensland Farmers Federation (QFF) showed it was a significantly more cost-effective model in the medium to long-term.
  - The Annuity model provides greater price path certainty and has an inbuilt smoothing effect.
- Cotton Australia calls on the QCA to critically examine the underlying models used by both Sunwater and the QFF consultants to determine whether there are any fundamentally flawed assumptions that have caused such a wide variance of results.