BUNDABERG REGIONAL IRRIGATORS GROUP

REPRESENTING MEMBER IRRIGATORS IN THE BUNDABERG IRRIGATION AREA

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Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Online: www.qca.org.au/submissions

Dear Sir/Madam

**Re: RAB vs Renewal Annuity (RA)**

Access to affordable irrigation water is extremely important to the Bundaberg Region.

Intensive irrigated agriculture accounted for $1.241 billion dollars of gross value in the Bundaberg regional council area in 2023/24 or 11.6% of the total production for the region.

Value adding by food and beverage manufacturing added a further $660 million or an additional 6.2%.

For the total Bundaberg economy worth $10.692 billion dollars, irrigated agribusiness contributed almost $2 billion. (https://economy.id.com.au/rda-wide-bay-burnett/output-by-industry?sEndYear=2019&WebID=100)

SunWater accounts for around 65% of the irrigation water applied to farms in our region and we consider SunWater to be a critical supplier to our various production functions.

Because of the importance to our businesses, we have allocated considerable time and money over the past 25 years to understanding the Bundaberg SunWater Scheme and can demonstrate that knowledge down to a pump station level.

Our involvement has included the Local Management Arrangement Investigations, various regulated price path reviews undertaken by Queensland Competition Authority (QCA), Service and Performance Plans, Irrigation Advisory Committees and, more recently, the RAB vs Renewals Annuity process.

Our group is also represented on the QFF WEPC committee and has been kept informed of the details contained in the Highlander Consulting Independent review of rural water pricing frameworks.

We have met with and workshopped and agreed the contents of this submission with around 90,000 ML or around 60% of the nominal allocation by volume in the scheme.

**Lower Bound Cost Recovery**

In the BRIG submission made to QCA on 29 February 2024 we made the following comments….

> *In the past 20 years we have been seeking to achieve the elusive concept of lower bound. This is partly because the definition of lower bound tends to change from price path to price path and does not seem to match NWI or productivity commission definitions.*
>
> *The forecasts for our scheme indicate that lower bound for Parts A, B, D will be met very early in this price path and that it may make sense to target the CSO exclusively to Part C.*
>
> *We request QCA to further investigate.*

We were extremely disappointed to discover that the definition as to how lower bound cost recovery was changed in 2019/20 to enable a rate of return on capex post 2000 (See Table 1 Highlander Report).

Whilst we were suspicious, we were unaware and not informed of this very underhanded, sneaky and in our view dishonest definitional change.

We request that the Pre 2019/20 definition be reinstated which explicitly excludes a rate of return on assets.

**RAB Vs Annuity**

Our group is opposed to changing to a Regulatory Asset Base (RAB) approach to recover renewal and refurbishment costs.

The key reasons being:

- A RAB will cost irrigators more as the scheme will always be in debt and the interest charges applied by the WACC provide a margin from what SunWater pays the QTC and what irrigators are charged. Highlander has identified the RAB cost in the Bundaberg Distribution Scheme will be $9.1 million in the FY 2062 or a multiple of 5.1 times the cost of a Renewals Annuity.

- There are inter-generational equity issues with a RAB. This generation can use and wear out an asset without contributing, leaving the next generation to fully fund the replacement/refurbishment of that asset. With the current annuity methodology, funds are available for repair/replacement when the need arises.

- With a RAB, the contribution required will result in prices rising sharply from price path to price path as high value assets are refurbished. QCA indicate that this lumpiness can be managed through their price path review process, however, it is clearly better managed with a Renewals Annuity.

- SunWater have flagged "A fourth tax allowance building block" as a component of the RAB. Irrigators do not want to be paying a tax to the State Government through our water charges.

Under a Renewals Annuity, expenditure is treated as operational and is fully tax deductable.

Under a RAB, expenditure is treated as Capital, meaning that a tax liability may exist.

Whilst Government Owned Corporations (GOCs) do not pay tax to the Federal Government, the same amount of tax is paid to the State Government as a tax equivalent and in our view is a rate of return.

There is also the risk that this system will encourage gold plating of the schemes by SunWater given the guaranteed return via the WACC.

- In 2010 QCA engaged SAHA consultants to review both options. In their opinion:

  "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".

  We suggest QCA revisit this report for detail.

## Consultation Process

The SunWater, and to a lesser extent the QCA consultation, was very confusing and focussed on the short-term concept that cost may be lower under a RAB. (Which it isn't in the Bundaberg Irrigation Area)

BRIG gives SunWater a B + for looking like they were trying to engage and a D – in engaging.

*SunWater:*
The review of RAB based irrigation prices from 1 July 2027 by SunWater was provided to WEPC on 02/03/2026.

In that document SunWater claimed that the irrigators were in support of the transition, stated (page 25) "Most customers were either broadly supportive of, or agnostic to, the change from the annuity approach to the RAB approach, as evident from customer preferences reflected through voting on an independent platform (Go vote)".

BRIG strongly disputes this claim as it is inaccurate and misleading when 57% of all WAE has voted against changing to a RAB. Three schemes - Burdekin 40% WAE, Bundaberg 14% and Pioneer River 3% - voted against it.

*QCA:*
At the meeting held in Bundaberg on 16 March 2026 QCA was requested to:

- Provide a worked example in writing of a switchboard with a cost of $10 million and a life of 10 years being reassessed as having a life of 15 years at year 8 on prices paid by irrigators.
- Advise on how a RAB protects irrigators from gold plating.
- To identify any OPEX cost savings from implementing a RAB.

To date these requests are outstanding.

BRIG's position reflects the view that a Renewals Annuity approach:

- Provides more stable and predictable pricing outcomes
- Supports long-term planning and transparency
- Aligns more closely with Lower Bound Pricing principles
- Promotes a more balanced sharing of costs between current and future irrigators
- Supports intergenerational equity by avoiding the deferral of costs to future irrigators, helping maintain long-term productivity and regional growth in alignment with Prosper 2050.

In conclusion, we wish to acknowledge the Highlander Consulting report as it has very eloquently and accurately identified the many misgivings that we have on the concept of applying a RAB to the Bundaberg Irrigation Scheme.

Please call should you require further information or clarification.

*Dale Holliss*
Director