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Regulated Asset Base Irrigation Price review

Webinar series

24-28 November 2025

OVERVIEW OF TODAY'S SESSION

- Regulated Asset Base (RAB) Review purpose, scope and key dates
- A brief refresher on costs and pricing
- A brief refresher on the annuity and RAB methodologies
- QCA recommendations on RAB methodology
- The significance of closing annuity balances
- How to provide feedback
- Ways to access more information and next steps

Government has initiated a targeted review of the renewals cost recovery methodology used in price setting

THE RAB REVIEW, ITS SCOPE AND KEY DATES

Purpose	▪ Support / inform Government decision making on future irrigation prices charged by Sunwater
Scope	▪ Queensland Competition Authority (QCA) led review of methodology NOT costs ○ QCA to adopt costs it recommended for the irrigation pricing review that concluded earlier this year ○ CASPr project costs are to be returned (2025-26 and 2026-27) or removed (2027-28 and 2028-29)
Key deliverables	▪ The QCA will report on appropriate prices for 2027-28 and 2028-29 under both annuity and RAB approaches
Key outcome	▪ Government will make a decision on the methodology and set prices for 2027-28 and 2028-29
Key dates	27 Feb 2026 Sunwater proposal to QCA due *Opportunity for customer feedback to QCA* 30 June 2026 QCA Draft Report due to Minister *Opportunity for customer feedback to QCA* 30 Sept 2026 QCA Final Report due to Minister Late 2026 New pricing direction issued 1 July 2027 New prices to commence

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Before we go too far, a quick overview of the link between Sunwater's costs and irrigation prices is useful

HOW COSTS BECOME PRICES

- Prices are set according to a regulatory building block methodology
- Determined by the QCA and designed to allow Sunwater to recover prudent and efficient "allowable" costs
- Seeks to minimise year-to-year changes in prices

- Irrigation prices have two building blocks:
  - **Opex** – passes costs through to customer prices in the year the spend occurs
  - **Renewals** – smooths uneven expenditure

- *Sunwater currently uses an annuity methodology to smooth the recovery of uneven expenditure through prices but proposed a change to a RAB methodology at the recently concluded irrigation pricing review*

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Both methodologies smooth customer prices while providing Sunwater necessary income, but how do they work?

RECOVERING UNEVEN RENEWALS EXPENDITURE

	Annuity	RAB
Example	Health insurance premium	Home loan
Customer	▪ Customer pays premiums at a steady rate to cover future events ▪ Insurer pays for the cost of major health events when those future events actually occur	▪ Repayments cover both return of the loan amount (principal) and the opportunity or borrowing costs (interest) ▪ Bank lends the customer the money required to build / buy the house
Applied to Sunwater	▪ Requires 33 year forecast to set 4-years of prices ▪ Rolling indexed-annuity with 30-year term ▪ Weighted average cost of capital (WACC) applied annually to balance of annuity account – typically negative but can be positive ▪ Opening balance indexed annually	▪ Requires a 4-year forecast to set a 4-year price path ▪ Each asset has a separate allowance calculated based on the cost of the renewal work and its expected life ▪ WACC applied annually to balance of RAB account – always negative balance ▪ Opening balance indexed annually

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Sunwater proposed a RAB at the 2025 irrigation pricing review as it is a better and fairer way of recovering renewals costs from customers

RELATIVE MERITS OF AN ANNUITY AND A RAB

Insurance premiums are not steady because getting the annuity 'right' requires great foresight

- *when an event will happen*
- *how much it will cost when it happens*
- *over what period to calculate the annuity*

Forecasting for 4 years is far better and more focused than trying to forecast for 33 years

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Developing appropriate RAB-based prices requires us to address some QCA findings from the last pricing review

IMPROVEMENT FINDINGS

QCA wants Sunwater to:

- Seek customer feedback on the treatment of the closing annuity balances and how this affects prices over time

QCA also wants Sunwater to:

- Appropriately classify expenditure as opex or capex – via a new or revised capitalisation policy

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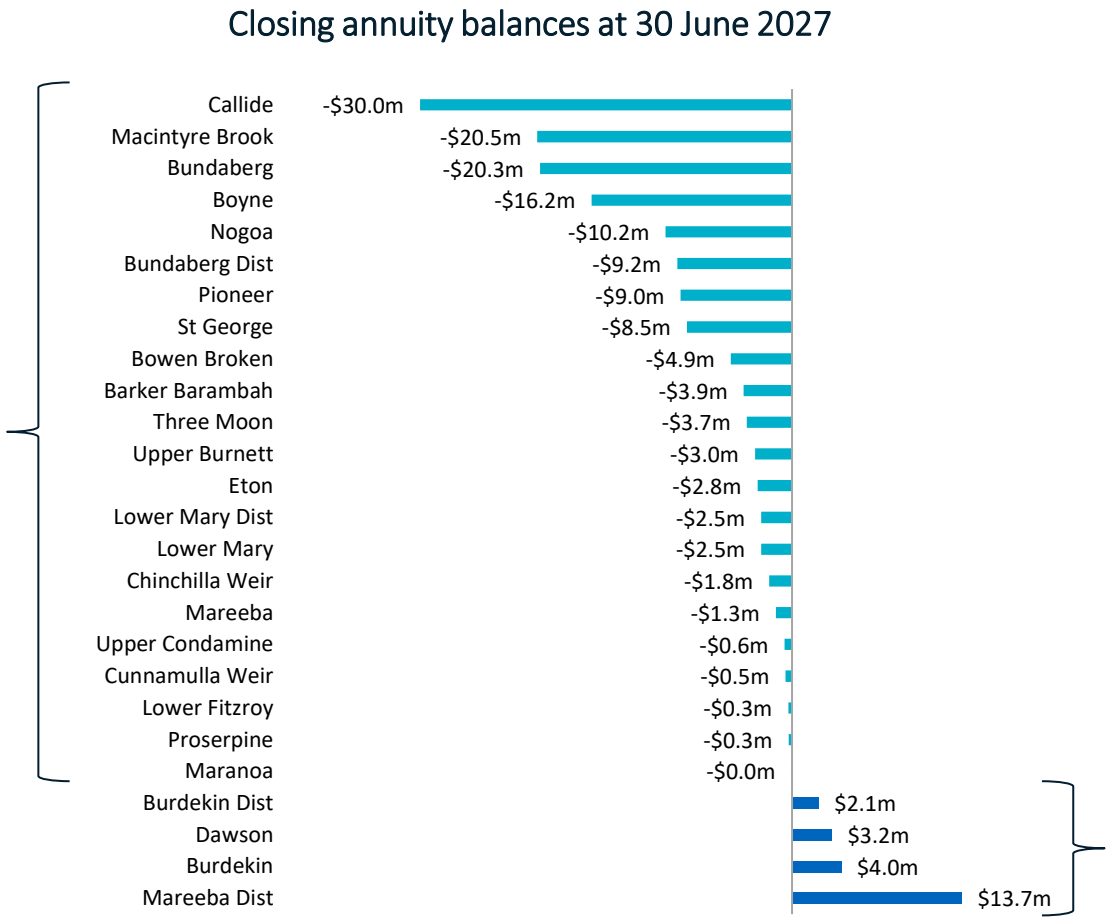
Transition requires converting closing annuity balances into opening RAB balances

HOW THE TREATMENT OF CLOSING ANNUITY BALANCES AFFECTS PRICES

- Propose to recover negative balances from customers over an appropriate period



- Propose to return positive balances to customers over an appropriate period

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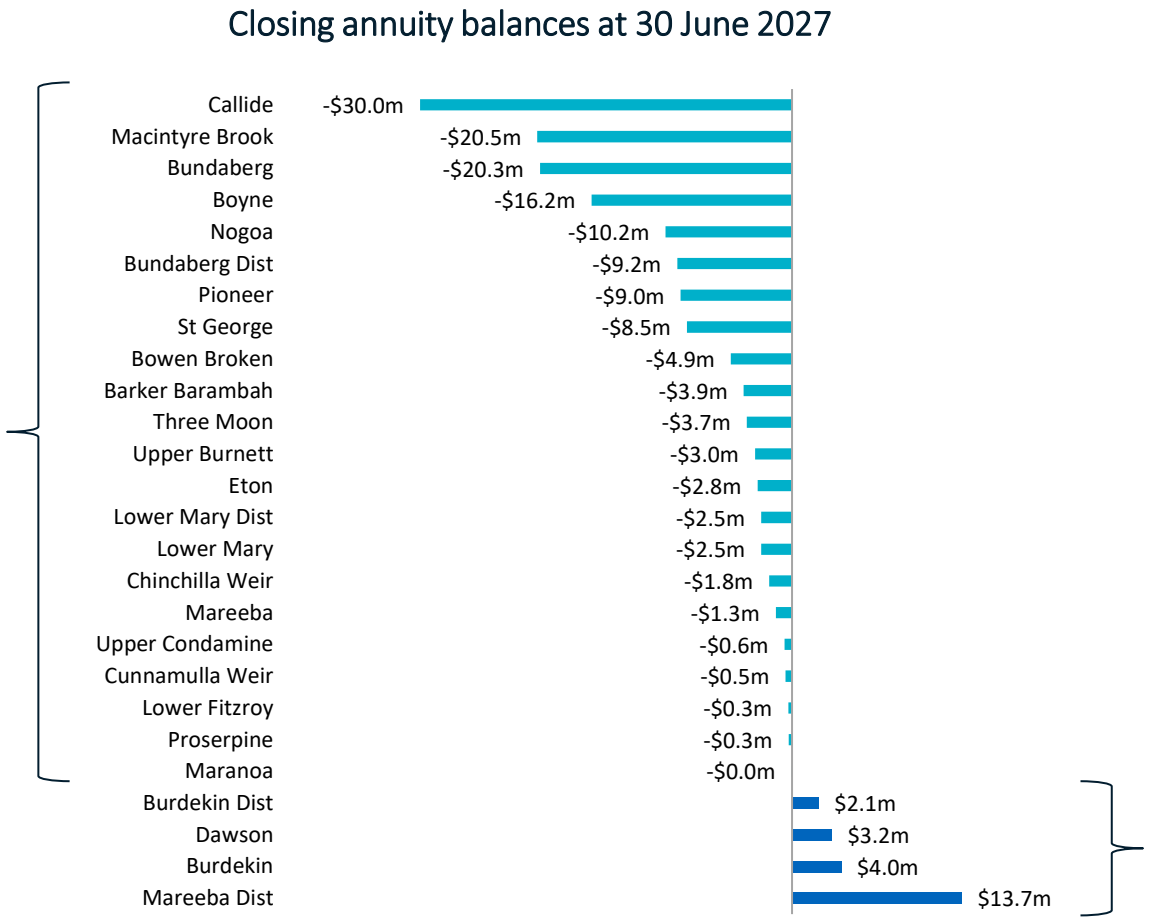
We want to understand what outcome you would like us to prioritise in any transition to a RAB methodology

FEEDBACK OPPORTUNITY

Customer outcome

Just like our home loan analogy:

- A short life will result in higher repayments (impact on irrigation prices) – but the loan will be paid off faster
- A longer life will result in lower repayments (impact on irrigation prices) – but the loan will be paid off more slowly



Customer outcome

We proposed a period of 4 to 8 years at IPP25

- A short rebate term meaning more off your bill for a short period
- A longer rebate term meaning less off your bill but for longer

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We have developed a tool to help you better understand what RAB-based prices might look like for your tariff group

IRRIGATION CUSTOMER INVOICE CALCULATOR

This calculator is based on:

- Expenditure approved by the QCA at the 2025 irrigation pricing review – exception of CASPr costs which have been removed
- 30 years of renewals expenditure only approved by the QCA
- To make a fair comparison with RAB we are comparing the annuity against the RAB for the same 30 years of renewals expenditure – means this is not a rolling annuity
- For the same 30 years of expenditure, the:
  - annuity method will fully recover the expenditure in 30 years
  - RAB method will NOT fully recover the expenditure in 30 years
- We have modelled two separate recovery periods to help you respond to our question around customer outcome preferences for annuity closing balances

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NEXT STEPS

- Continue engagement at CACs and via online sessions (right)
- Visit the webpage: www.sunwater.com.au/projects/regulated-asset-base/
- Read the Fact Sheet
- Explore the Irrigation Customer Invoice Calculator
- Complete the survey between in early 2026

Questions

- Email: customerengagement@sunwater.com.au
- Phone: 13 15 89

On-line sessions	
Monday 24 November	5-6 pm
Tuesday 25 November	10-11 am
Wednesday 26 November	5-6 pm
Friday 28 November	10-11 am

Survey

To help address how we propose to recover / return closing annuity balances customers will be asked to complete a brief survey:

- for service contracts where a negative balance needs to be recovered
  - would you prefer higher repayments for a shorter period of time, or lower repayments but for a longer period of time?
- for the Burdekin Haughton (bulk and distribution), Dawson Valley and Mareeba Distribution service contracts where a rebate would be provided
  - would you prefer to receive your rebate over a four- or eight-year period?

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RELATIVE MERITS OF THE TWO APPROACHES

Feature	Annuity approach	RAB approach
Forecasting	Uses a 33-year forecast	Uses a four-year forecast
Price alignment	Costs and prices do not match well	Costs and prices match closely
Confidence in forecasts	Sunwater is confident about the first four years, but things get uncertain after that	Sunwater is confident about what it will do and spend over the four-year period, which is all it needs to set prices for that period
Effort required	A lot of time is needed to plan long-term forecasts, which often change before projects start	Focuses effort on short-term planning and delivering projects
Transparency	As it is calculated annually on a rolling basis, it is hard for customers to see how their payments match the assets that are supporting their service today	Customer prices are designed to pay for assets that are supporting their irrigation service today
Fairness	Customers may either benefit from an asset they have not paid for or may end up paying for assets that might not every be renewed	Customers benefiting from the asset today pay for the asset