October
2025

Seqwater

Irrigation RAB Review



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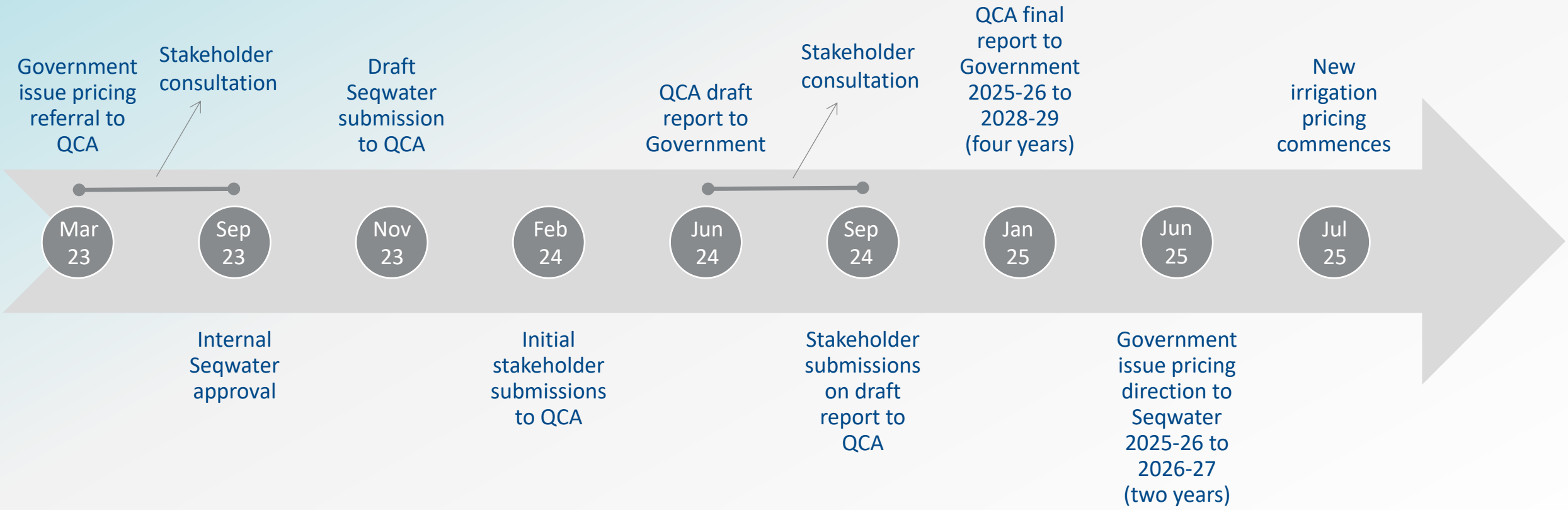
Recap of previous price review

Original QCA Price Review 2025 to 2029



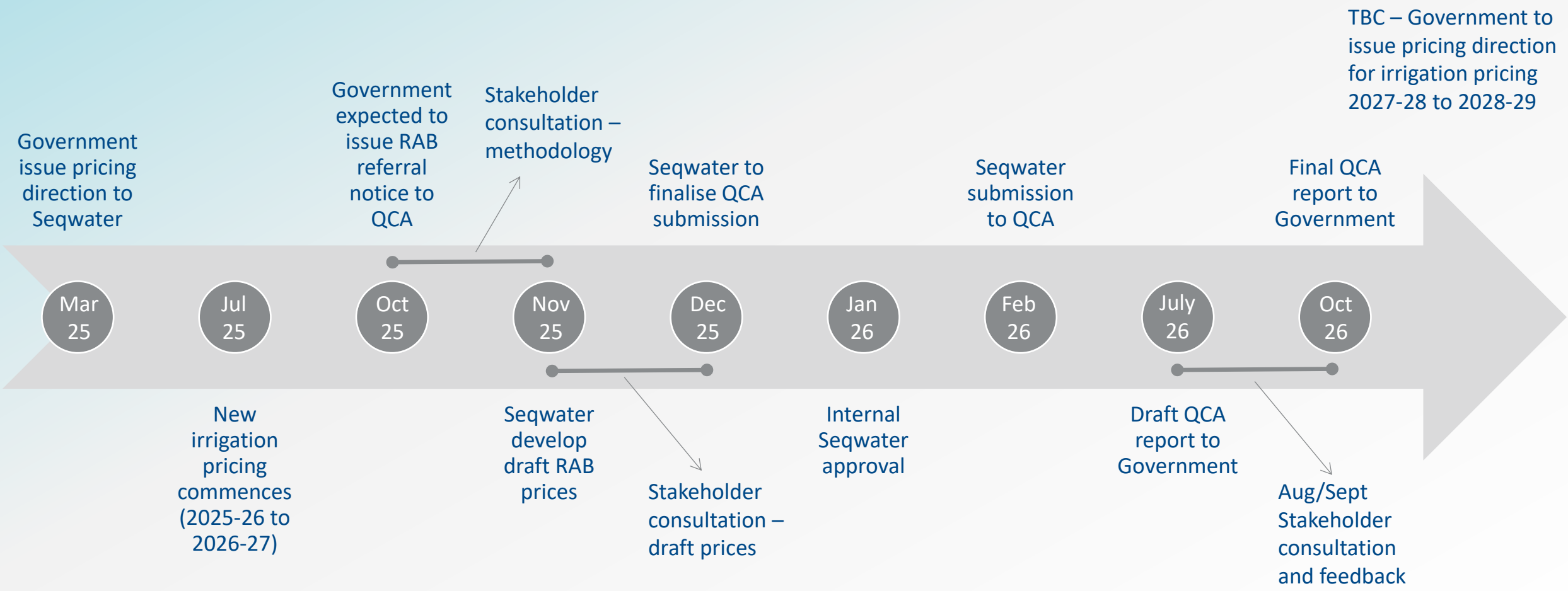
Regulated Asset Base (RAB) Price Review

Seqwater Irrigation Pricing Direction Notice 2025

- Pricing direction notice issued by Government in May 2025
  - Government chose to only adopt QCA prices for 2025-26 & 2026-27
  - QCA will be directed to investigate RAB pricing methodology, to apply from 2027-28 for Seqwater and Sunwater irrigation schemes
- QCA (and Seqwater) yet to receive formal referral notice from Government regarding proposed RAB pricing review. Preliminary advice is:
  - Limited in scope
  - Based on the costs from the 2025-29 price review. No ability to amend or use different costs other than those already provided.
  - Existing Government pricing principles will apply (lower bound pricing, a cap on how quickly prices can increase).

Proposed timeline for RAB review

QCA RAB Price Review 2027-28 to 2028-29



Seqwater’s position

Drivers for price review

- Utilities in Australia have been transitioning from Renewals Annuity to RAB. Seqwater (irrigation) is currently an exception still using a Renewals Annuity. Prices for Seqwater bulk (drinking) water are developed using a RAB.
- Direction for this review has come from Government, which has the support of Sunwater and Department of Local Government, Water and Volunteers.
- QCA reviews our expenditure and only expenditure it deems you should pay at a fair price is included in your water bill.
- Seqwater has no intention of making a profit from irrigation. Irrigation revenue accounts for only 0.4% of total Seqwater revenue.
- Seqwater has raised concerns regarding the scope and timing of the proposed review.
- **This review is NOT Seqwater led.** Seqwater will support the position of our customers and advocate on their behalf to Government.
- Once the review is finalised, Seqwater will work with Government, the Department, and customers to implement any changes to the price path.

Regulated Asset Base (RAB)

What is a RAB and what does it do?

Capital expenditure (Capex)
- Construction of new assets
- Refurbishment of existing assets

- Large expenditure.
- Needs to be converted to smaller, annual costs and recovered over time to minimise any price shocks.
- Renewals Annuity (current) and RAB are two different methods for smoothing large, lumpy capital expenditure.
- Review will compare prices using RAB vs Renewals Annuity.

Operational expenditure (Opex)
- Labour and materials
- Administrative overheads
- Utilities
- Insurance

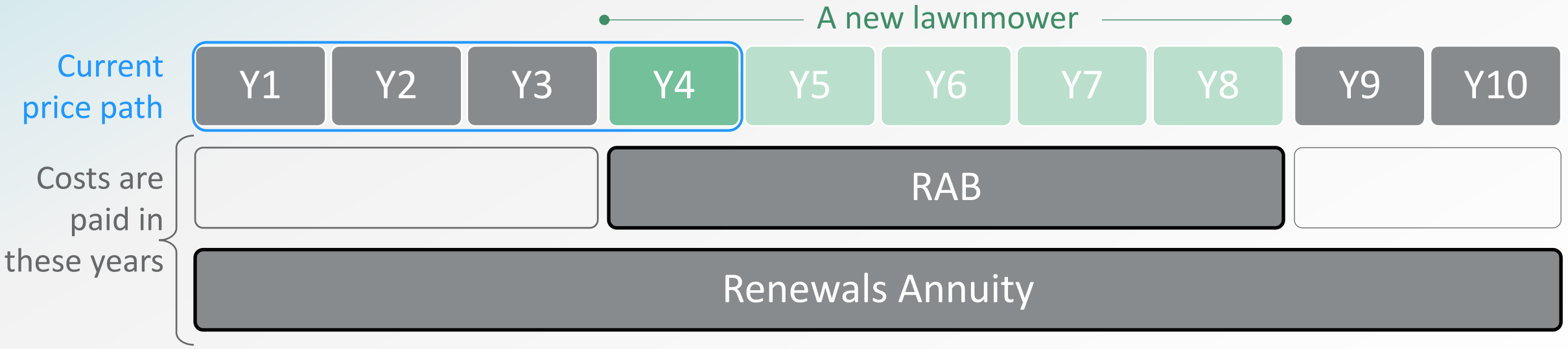
- Smaller expenditure.
- Recovered as costs in the year incurred.
- Not part of this review.

RAB vs Renewals Annuity

Key difference – time profile of costs

Example: New lawnmower purchased in year four (Y4). It has a stated asset life of 5 years.

- Renewals Annuity breaks expenditure into repayment costs over a fixed period (Seqwater uses 30 years)
- RAB only makes repayment costs over the life of the asset.
- Both methods are NPV neutral – over the long term the costs for both methods are the same
- Current price path – RAB only includes costs that will occur in the next four years (i.e. Y4 only). If lawnmower needed repairs in Y6, these wouldn't be included until next price path.



RAB vs Renewals Annuity

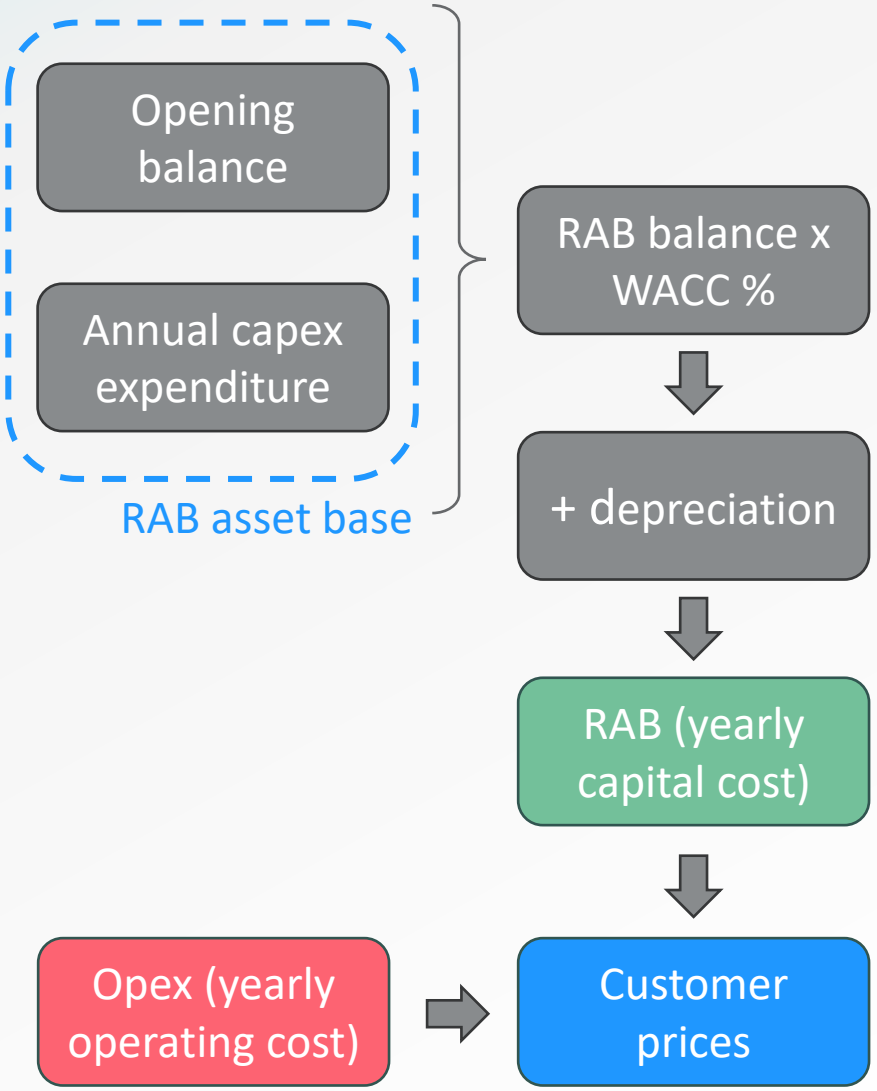
Key differences

	Renewals Annuity	RAB
Time profile	Requires Seqwater to develop a 30-year forecast of asset expenditure (low confidence).	Only requires asset expenditure over the current, four-year price path period (high confidence).
Alignment	Customers pay for future expenditure that may not be realised for up to 30 years.	Customers only pay for asset expenditure that falls within the current price path.
Customer engagement	Seqwater and customers asked to consider future asset expenditure many years away.	Seqwater and customers can focus on making decisions regarding expenditure / projects in the short term.
Price volatility	Good at smoothing large cost over a longer period.	Can be more susceptible to price shocks, depending on how asset planning is done.
Lower bound	Lower bound pricing policy will apply to both – meaning that they will only recover QCA approved Seqwater costs, with no profit being made by Seqwater.	

Levers available to shape price review

Key components of a RAB

- **Opening balance**
  - Will need to consider current Renewals Annuity balance
  - Can be proposed by Seqwater and Customers
- **Capex expenditure** (next four years)
  - Need to use existing Opex and Capex.
  - Significant level for irrigators in future years.
- **Weighted Average Cost of Capital (WACC)**
  - A return on capital for the asset
  - Can provide feedback but likely set by QCA
- **Depreciation**
  - Capex expenditure divided by the useful life of asset
  - Depreciation rate is set by the QCA
  - Asset life can be proposed by Seqwater and Customers
- **Review period** – how long should Seqwater forecast prices for?



Opening RAB lever

- Regulatory Asset Base (RAB) is the value of the assets (like pipes, pumps) that the QCA allows Seqwater to earn a return on but does not make a profit
- Think of it as the book of assets used to deliver irrigation services, valued for pricing purposes
- Any pre-July 2000 assets must be excluded from the RAB
- What is your preferred approach? It doesn't have to be the ones listed

Zero balance

- Set opening RAB at $0
- Pros: Simple, avoids price shock, removes legacy costs
- Cons: No return on past investments, undermines continuity and fairness

Annuity balance

- Set opening RAB as the existing annuity balance
- Pros: Fairness as focuses on only what's been paid, smooth transition, transparency
- Cons: May understate true asset value, clear linkage from reg to accounting

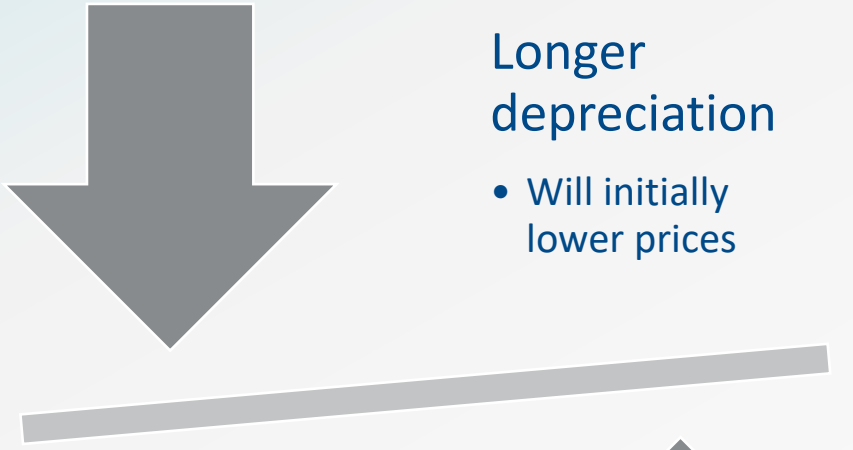
DORC

- Revalue all post July 2000 assets on the cost to build today with depreciation
- Pros: Fair, modern value for old assets
- Cons: Often results in higher asset values thus prices, not reflected of actual spend

Likely cheapest to most expensive prices

Depreciation lever

- Recovers the cost of an asset over a defined period to allow Seqwater to replace assets in the future. Time period does not need to be aligned to expected depreciation.
- We can use depreciation to smooth prices over time. Do we want to change the duration of depreciation to ensure price stability from the transition from an Annuity to a RAB?



Longer depreciation

- Will initially lower prices

Shorter depreciation

- Will initially raise prices



Summary of approach

Preferred approach

- A light-touch submission approach is preferred, as Seqwater irrigation revenue is small and does not justify the cost of a full submission in delivering customer outcomes

Methodology

- Take the prudent and efficient Annuity values the QCA just approved e.g. opex, forecast renewals, Renewals Annuity balances.
- Create the opening RAB and inputs to be used in the RAB model

Desired pricing outcome – price stability and NPV neutral comparison

- Over the long-term, prices should be the same. For FY28 & FY29 prices may differ due to the use of different models.
- Return of capital (depreciation) is likely to be the greatest influence

Unknowns

- Understanding the QCA's expectations and required level of detail.
- Scope and timing limits what can be reviewed.
- Customer submissions are critical. Need to ensure involvement and understanding. Limited time to achieve.

Next steps

Preparing for Seqwater submission

- **Initial consultation (throughout Oct 2025)**
  - Background & information
  - Levers for Seqwater to investigate
- **Seqwater to develop draft prices (Nov 2025)**
  - Option to develop a longer price forecast than current price path period
- **Second consultation (Dec 2025)**
  - Online
  - CRG / whole of scheme
- **Finalise draft report (Jan 2026)**
- **Seqwater approvals (Feb 2026)**
- **Seqwater submission (26 Feb 2026)**

End

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