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TasWater submission to the National Water Reform 2026 inquiry

Executive summary

TasWater supports the objectives of the National Water Reform 2026 inquiry and welcomes the Commission's focus on the long-term security, resilience and sustainability of Australia's water services industry. Tasmania's experience as Australia's only fully aggregated, state-wide urban water and sewerage utility provides a practical case study of both the benefits of reform and the emerging risks when short-term pressures overshadow long-term water and wastewater system needs.

Key points from TasWater's submission are summarised below:

- The original reform rationale remains valid. Prior to reform, Tasmania's water sector systematically under-provided for asset renewal, obscured the true cost of service provision and did not consistently incentivise compliance with public health and environmental standards. Structural reform, aggregation and independent economic regulation were therefore necessary and have delivered measurable improvements, particularly in drinking water quality and public health outcomes.
- The core reform architecture is sound. Independent economic regulation, clear separation between policy and service delivery, cost-reflective pricing frameworks and state-wide aggregation continue to provide a strong foundation for efficient, transparent and accountable water service provision.
- Growing investment needs represent a structural challenge for the sector. Ageing assets, historic under-investment, rising environmental and public health standards, climate resilience requirements and growth pressures mean that sustained, materially higher levels of capital investment are now required. For TasWater, this includes addressing a substantial legacy backlog in wastewater compliance, reducing high levels of water leakage and progressively bringing infrastructure up to modern service standards. These needs cannot be met through short-term pricing or incremental expenditure alone.

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- The primary emerging risk is short-term decision-making. Increasing emphasis on moderating prices in the short term is constraining timely investment in long-lived assets. Deferring prudent capital expenditure does not protect customers; it shifts costs into the future, concentrates risk and increases whole-of-life costs.
- Regulatory cycle risk reinforces under-investment. Short regulatory periods applied to assets with lives measured in decades create uncertainty around cost recovery and risk allocation, biasing decision-making toward deferral or incremental solutions.
- Inconsistent regulatory approaches add to investment risk. Differences in regulatory methodologies across jurisdictions, such as cost of capital settings, depreciation practices and treatment of capital works, add complexity and uncertainty. Improved national consistency, while preserving appropriate flexibility, would reduce regulatory risk and support long-term investment certainty.
- Financeability is a structural constraint. Where allowed revenues do not support sustainable borrowing capacity for a benchmark efficient utility, investment is deferred, operational risk increases and reliance on ad hoc funding arrangements grows.
- A clearer Commonwealth role is required to support the investment transition. The drivers of increased water infrastructure investment, such as housing supply, climate resilience, environmental protection and public health, are increasingly national in nature. Reliance on customer pricing and debt funding alone is unlikely to support timely and efficient delivery of required capital programs. Transparent, rules-based Commonwealth funding mechanisms, such as equity injections or co-funding arrangements, would complement economic regulation and improve financeability.
- Institutional trust is critical to sustainable services. Long-term outcomes depend on confidence that water businesses can plan and deliver long-lived infrastructure, and that regulatory frameworks will consistently support decisions made in the long-term interests of customers.

Collectively, Tasmania's experience highlights a lesson of national relevance: sustainable water reform requires independent economic regulation focused on long-term customer interests, cost-reflective pricing, targeted affordability support delivered through appropriate social policy instruments, regulatory settings that enable timely and efficient investment, and sufficient institutional trust for these arrangements to function as intended.

About TasWater

TasWater is Australia's only fully aggregated, state-wide urban water and sewerage utility. It provides water and wastewater services to approximately 470,000 people across metropolitan, regional, rural and remote communities in Tasmania. TasWater was established in 2013 following the consolidation of 29 council-managed water and sewerage operations, in response to widespread infrastructure non-compliance, historic under-investment and inconsistent service outcomes.

While Tasmania's operating environment is distinctive, TasWater's experience reflects challenges that are increasingly common across Australia's water sector. These include ageing assets, rising

regulatory and compliance expectations, climate variability, changing patterns of demand and a significant increase in required capital investment. Tasmania therefore provides a relevant and practical case study for the Commission's consideration of whether current regulatory, governance and pricing arrangements are fit for purpose in supporting a secure, resilient and financially sustainable water services industry over the long term.

Context and background of Tasmania's water and wastewater service arrangements

Origins and rationale for current arrangements

Before 2009, responsibility for water and wastewater service delivery in Tasmania was fragmented across local councils and regional bulk water authorities. This structure led to wide variation in service standards, pricing practices and asset management outcomes. Over time, successive independent reviews found that the sector entered the reform period with significant structural, asset and regulatory weaknesses.

In practical terms, the decentralised model lacked the scale to plan and deliver major capital programs, the financial capacity to sustainably fund asset renewal and compliance, and regulatory settings that consistently supported cost-reflective pricing, sound asset stewardship and compliance with public health and environmental standards across the state.

The 2006 *Ministerial Water and Sewerage Taskforce Discussion Paper* identified widespread infrastructure ageing, low levels of compliance with drinking water and wastewater standards, poor asset condition information and systematic under-recovery of costs when realistic asset lives and renewal requirements were considered. The Taskforce concluded that addressing these issues would require substantial structural and regulatory reform, including stronger economic regulation, improved asset management practices and utilities of sufficient scale to plan and fund sustained investment.

These findings were reinforced by national assessments. Engineers Australia's infrastructure reviews in the mid-2000s, supported by the 2010 *Infrastructure Report Card*, ranked Tasmania's water and wastewater infrastructure as the weakest in Australia. These assessments highlighted that the risks associated with under-investment would increase where short-term financial constraints were prioritised over long-term asset stewardship.

Tasmanian reform objectives and institutional design

Against this backdrop, the Tasmanian Government implemented a comprehensive reform program from 2006, consistent with the National Water Initiative. This program culminated in the establishment of regional water and sewerage corporations in 2009 and the introduction of a modern economic and technical regulatory framework under the *Water and Sewerage Industry Act 2008*. As outlined in the Tasmanian Government's 2010 submission to the Productivity Commission, the reforms were based on established micro-economic principles for monopoly infrastructure, including:

- clear separation between policy, regulation and service provision;
- independent price regulation supported by transparent pricing principles aligned with the National Water Initiative;

- mandatory customer service standards and public performance reporting; and
- stronger obligations relating to asset management, planning and regulatory compliance.

The reform pathway ultimately led to the establishment of TasWater as a single, state-wide water and wastewater service provider in 2013. Importantly, the framework acknowledged that benefits would be delivered progressively and that revenues would need to rise to levels sufficient to fund compliance and asset renewal, while managing affordability and avoiding price shock.

Early reform experience and subsequent reviews

Parliamentary and audit reviews conducted after implementation confirmed both the need for reform and the scale of challenges inherited from pre-reform arrangements. The 2012 House of Assembly Select Committee found that poor asset condition, environmental non-compliance and funding constraints would require sustained capital investment well beyond the initial transition period. The inquiry also noted that consolidation and increased scale were likely to improve long-term service outcomes through more consistent service delivery, stronger asset planning and better access to capital funding.

In the years following aggregation, TasWater made significant progress in addressing critical public health risks, improving consistency of service delivery and establishing the foundations for better asset management, capital planning and regulatory compliance across the state. Under the current arrangements, TasWater has invested $2.3 billion since its inception in 2013. Notably, TasWater achieved the removal of all permanent public health alerts and boil water alerts across Tasmania (a total of 28 removed). TasWater now has a strong record of drinking water quality compliance.

The Tasmanian Audit Office's 2017 assessment concluded that the reforms had delivered measurable improvements in drinking water quality and public health outcomes, including a substantial reduction in permanent boil water alerts. However, it also found that wastewater environmental compliance had improved more slowly and that asset renewal remained a significant long-term challenge. The report cautioned that continued deferral of renewal and compliance investment would increase future service, environmental and financial risks, even where short-term performance indicators appeared satisfactory.

Over time, these pressures have affected public confidence, underscoring the importance of ensuring that pricing decisions, investment outcomes and service performance remain clearly aligned.

In response, some pressures have been addressed through targeted government measures. In 2019, a Memorandum of Understanding between TasWater and the Tasmanian Government provided $200 million in direct funding support, together with a price cap extending through to the end of the 2025-26 financial year. While this approach assisted with near-term affordability and delivery pressures, it did not resolve the underlying challenge of aligning short-term price outcomes with the funding required to sustainably manage long-lived water and sewerage assets.

Increasing investment requirements and the scale of the challenge

TasWater faces a significant and enduring investment backlog to bring large parts of its water and wastewater infrastructure up to contemporary service, environmental and public health standards. This reflects the cumulative impact of decades of under-investment prior to reform and the scale of compliance and renewal challenges inherited at aggregation. Fewer than 10 per cent of TasWater's sewage treatment plants currently meet their environmental licence obligations, and water losses remain the highest among comparable Australian utilities, underscoring the depth of legacy asset condition issues that must be addressed. This is exacerbated by increases in input costs and increases in the cost of capital.

These challenges cannot be resolved through incremental or short-term expenditure. Sustained capital investment over multiple decades is required to progressively improve wastewater compliance outcomes, reduce leakage, strengthen resilience to climate variability and restore assets to a condition consistent with modern regulatory and community expectations. In this context, regulatory or policy approaches that prioritise short-term price moderation risk constraining timely and efficient investment. Deferring prudent capital expenditure does not protect customers; it shifts costs into the future, concentrates operational and environmental risk and increases whole-of-life costs. Effective reform therefore requires regulatory and funding frameworks that explicitly support steady, financeable investment pathways aligned with long-term customer interests.

Section 1 – What the reform evidence shows

Clear evidence of the legacy problem

Across all major reviews, there is consistent evidence that pre-reform arrangements systematically under-provided for asset renewal, obscured the true cost of service provision and failed to create strong incentives for compliance with health and environmental standards. Asset condition was repeatedly identified as the main constraint on performance. In practice, revenues collected for water and wastewater services were insufficient and did not consistently reflect the full cost of maintaining and renewing infrastructure.

Demonstrated benefits from reform – but unevenly realised

The available evidence shows that under the current arrangements TasWater has delivered tangible improvements where it has been able to make adequate and sustained investment. Notably, material improvements in drinking water quality and compliance demonstrate that the existing institutional framework can deliver strong outcomes when funding is sufficient, predictable and sustained over time. These outcomes illustrate the benefits of aggregation, clearer accountabilities and independent economic regulation when they are supported by appropriate investment.

More recently, TasWater's increased focus on asset renewals has begun to translate into measurable network performance improvements. Improved financial capacity and delivery capability have enabled a stronger emphasis on water main renewals, contributing to a sustained reduction in water main break rates. As a result, TasWater has improved its relative network

performance from among the weakest in the sector to closer to the industry median over successive years of increased investment.

By contrast, wastewater compliance and broader environmental outcomes have improved more slowly. This reflects the scale and complexity of the inherited challenge and the practical reality that TasWater has not, at any point in time, had the financial and delivery capacity to address all identified risks simultaneously. Progress has therefore depended on prioritisation within constrained funding envelopes, reinforcing the importance of regulatory and funding frameworks that support sustained, long-term investment rather than short-term cost containment.

Ongoing indicators of long-term system risk

A recurring theme across the 2006 Taskforce, national infrastructure assessments, parliamentary review and the 2017 Audit Office report is the long-term risk associated with constraining infrastructure investment to manage short-term price outcomes. Identified risks include accelerating asset deterioration, delays in meeting environmental standards, a higher likelihood of service failures or regulatory non-compliance, and erosion of public confidence when problems emerge after extended periods of constrained investment.

Taken together, the evidence indicates that while Tasmania's reform framework is sound, its long-term success depends on maintaining a sustained focus on asset stewardship and intergenerational outcomes, rather than using short-term price suppression as a proxy for customer benefit.

Section 2 – Which elements of current water service arrangements are working effectively?

Building on the reform evidence outlined above, TasWater's experience suggests that several core elements of the current water service framework are operating as intended and provide a strong foundation for long-term service delivery. These strengths reflect deliberate structural reform, independent regulation and the progressive application of nationally consistent pricing principles.

Independent economic regulation

Independent economic regulation remains a central element of the current water service arrangements in Australia. When applied effectively, it provides transparency, accountability and discipline around investment, efficiency and service outcomes, while helping to maintain public trust during periods of rising prices.

In Tasmania, oversight by the Tasmanian Economic Regulator has supported a more transparent and disciplined decision-making framework. In practical terms, this has enabled robust assessment of prudent and efficient costs, explicit consideration of long-term customer interests, structured engagement with customers and stakeholders, and a clear separation between policy development, ownership and service delivery roles.

Independent regulation is particularly important as water utilities are required to materially increase capital investment to address compliance, resilience and climate-related risks. While strong scrutiny of efficiency is essential, effective economic regulation must also appropriately

balance scrutiny of efficiency with the management of longer-term investment risk associated with long-lived infrastructure.

Frequent regulatory resets and policy shifts can increase investment risk, particularly in water and wastewater services, where asset lives commonly extend well beyond a single regulatory period. Improving regulatory arrangements to better manage regulatory cycle risk, including through clearer long-term signals on investment recovery, expenditure treatment and risk allocation, would strengthen incentives for prudent, efficient investment while remaining consistent with the long-term interests of customers.

State-wide aggregation and governance reform

TasWater's state-wide aggregation has delivered clear improvements compared with the former fragmented, council-based model of water and sewerage provision. Consolidation has supported more consistent service standards across the state, greater transparency in pricing, improved asset planning and capital delivery capability, and clearer accountability for compliance and service performance.

Importantly, aggregation has allowed Tasmania to begin addressing legacy under-investment that smaller councils were not well placed to resolve. This experience is relevant nationally, particularly in jurisdictions where non-aggregated providers continue to face structural constraints on capability and investment.

Cost-reflective pricing frameworks (in principle)

Existing pricing frameworks remain sound in principle. Two-part tariffs with fixed and variable charges, consumption-based pricing and the gradual removal of opaque cross-subsidies provide a coherent basis for efficient and transparent price setting.

When applied consistently, these frameworks support appropriate demand signals, long-term financial sustainability and clearer understanding of the true cost of service provision. Tasmania's current program of tariff reform reflects these principles and is broadly aligned with national best practice.

Under economic regulation in Tasmania, water and wastewater prices have been harmonised across the state and two-part tariffs introduced where in some cases, they did not exist. TasWater's current tariff reform agenda is to ensure that variable prices are at an economic level that and its regulated tariffs continue to support cost reflectivity.

Section 3 – Where do current arrangements create material risks, inefficiencies or misalignments?

A growing bias toward short-term price outcomes

A material risk emerging across current water service arrangements is an increasing emphasis on short-term price moderation at the expense of timely investment in long-lived assets. This risk does not stem from any single regulatory decision, but from the cumulative effect of pricing outcomes that place greater weight on near-term bills than on long-term service performance, resilience and compliance.

While price restraint may appear to benefit customers in the short term, deferring prudent and efficient capital investment leads to predictable and compounding consequences. These include a higher likelihood of asset failure, declining service reliability, prolonged environmental and public health non-compliance and higher whole-of-life costs ultimately borne by future customers. In practice, the costs and risks are not avoided, but deferred and concentrated.

TasWater's experience managing a historically under-invested and decentralised asset base demonstrates that once investment falls materially behind system needs, recovery becomes significantly more expensive.

Regulatory cycle risk and long-term investment certainty

A related source of long-term risk is the reliance on short regulatory cycles to make decisions about investments in assets with lives measured in decades. Where pricing and expenditure decisions are revisited frequently, without clear long-term signals on cost recovery or risk treatment, utilities can face heightened uncertainty about whether efficient investments will be recoverable over time.

This form of regulatory cycle risk does not typically prevent investment outright, but it can bias decision-making toward deferral or incremental solutions that fit more comfortably within a single determination period. Over time, this can dampen incentives for timely, whole-of-life efficient investment and increase financing costs, as capital providers price in greater uncertainty. Strengthening regulatory mechanisms that provide longer-term certainty - while retaining appropriate efficiency scrutiny - would reduce these risks and better align regulatory incentives with the long-lived nature of water and sewerage infrastructure.

In such circumstances, capital deferral does not improve efficiency; instead, it increases operational complexity, accelerates asset degradation and limits the options available to utilities and regulators.

Limited national consistency in economic regulatory frameworks

A further opportunity to improve economic regulation lies in strengthening national consistency in both the design and application of regulatory frameworks across jurisdictions. Differences in regulatory methodologies, approaches to risk allocation, treatment of capital works, depreciation practices and interpretation of efficiency can introduce unnecessary complexity and uncertainty for water businesses operating under otherwise similar policy objectives.

For utilities with long-lived asset bases and rising capital requirements, inconsistent regulatory approaches can elevate compliance and transaction costs, complicate long-term planning and weaken investment signals. Greater alignment - while preserving appropriate jurisdictional flexibility - would improve transparency, reduce regulatory risk and support more efficient capital allocation across the sector.

Over time, improved national consistency would also strengthen confidence among customers, governments and capital providers that economic regulation is being applied in a predictable, durable and comparable manner, consistent with the long-term interests of customers.

These regulatory design challenges also reinforce the tendency toward capital deferral, particularly where uncertainty accumulates across pricing decisions, investment approval processes and cost-recovery mechanisms.

Capital deferral undermines efficiency and resilience

Deferral of compliance-driven or risk-based capital works is sometimes described as an efficiency outcome. In practice, it often produces the opposite effect. When known investment needs are deferred, utilities are pushed into a reactive operating mode, relying on emergency repairs, interim workarounds and unplanned interventions. These responses are typically more costly, more disruptive to communities and less effective at managing long-term risk.

This dynamic is especially pronounced in systems with ageing assets, dispersed infrastructure and high environmental sensitivity - characteristics shared by many regional and remote water systems across Australia.

Financeability as a structural concern

A further misalignment in current arrangements is the limited and uneven consideration of financeability within economic regulation. Although regulatory frameworks aim to allow recovery of efficient costs in theory, they do not always test whether allowed revenues are sufficient in practice for an efficient utility to raise capital, deliver approved investment programs and retain resilience to credible operational shocks.

Where allowed revenues constrain borrowing capacity, utilities are left with a choice between deferring investment, accepting higher operational risk or seeking ad hoc interventions outside the regulatory framework. Over time, this weakens the effectiveness of independent regulation and increases long-term costs to customers. These financeability pressures are amplified where short regulatory cycles and uncertainty over future determinations increase the perceived risk of cost recovery, raising the cost of capital and further discouraging timely investment.

The need for Commonwealth funding to support the investment transition

A material misalignment in current water service arrangements is the limited and unclear role of the Commonwealth in supporting the scale of investment now required across the urban water sector. While states and territories retain responsibility for regulation and service delivery, the drivers of increased investment—housing supply, regional development, climate resilience, public health and environmental protection—are increasingly national in nature.

TasWater's experience illustrates the limits of reliance on customer pricing and debt funding alone. The scale of legacy under-investment and the breadth of contemporary compliance and resilience obligations mean that required capital programs cannot be delivered solely through regulated prices without placing undue pressure on affordability and intergenerational equity. At the same time, short regulatory cycles and constrained revenue allowances limit borrowing capacity and increase the risk of investment deferral, even where long-term needs are well-defined.

In other infrastructure sectors, governments have recognised that major investment transitions of this scale cannot be efficiently managed through user prices alone, and have complemented

economic regulation with direct equity and capital contributions. Water and wastewater services perform an equally essential role in supporting national economic and social objectives, yet lack access to similarly structured Commonwealth funding pathways.

Without a clearer and more durable federal role, there is a risk that investment will continue to be deferred or delivered reactively, increasing whole-of-life costs and weakening long-term service outcomes. A more coherent approach would involve transparent, rules-based Commonwealth contributions—such as equity injections or targeted co-funding—designed to complement economic regulation, improve financeability and support an orderly investment transition in the long-term interests of customers.

Section 4 – How do current arrangements manage trade-offs between reliability, sustainability and affordability?

Trade-offs are unavoidable - but are not being managed transparently

Trade-offs between affordability, service reliability and long-term financial sustainability are inherent in water service provision. However, current arrangements too often attempt to manage these trade-offs primarily through regulated prices.

TasWater's experience indicates that using price suppression as a substitute for broader affordability policy undermines service resilience and environmental performance, while failing to adequately protect customers most in need of support. In contrast, targeted affordability measures - such as hardship programs, concessions and payment assistance - can support vulnerable customers without distorting price signals or weakening the financial foundations of essential services.

Nature-based Solutions

TasWater is advocating for the use of Nature-based Solutions to offset nutrient loads from sewage treatment plants, as a cost-effective means to reduce nutrients, for as little as 10 per cent of advanced engineering approaches. Such approaches are well-accepted in other jurisdictions through specific legislation (e.g. Queensland) or enabled within existing legislative frameworks. Co-benefits include improved health of waterways, increased biodiversity and carbon sinks. Such approaches facilitate growth and development that is otherwise constrained, or treatment plants exceed design parameters, risking environmental harm. TasWater believes that it is incumbent on regulators to positively consider Nature-based Solutions where economic and environmental benefits are demonstrated, ideally using nationally endorsed approaches.

Risks to public confidence and trust

A critical, and often under-recognised, consequence of prolonged under-investment is erosion of public confidence in water institutions. When service failures accumulate, compliance outcomes deteriorate or environmental impacts become visible, community expectations can change quickly. Once trust is lost, restoring confidence often requires far more disruptive and costly interventions than would have been needed through steady, planned investment.

Over time, a further and related risk can emerge: reduced confidence in the capacity of regulated water businesses themselves to plan, prioritise and deliver prudent long-term

investment. Economic regulation is predicated on regulators, governments and customers being able to rely on utilities to develop credible asset management strategies and to act in the long-term interests of customers. Where that confidence is weakened - for example through persistent challenge to approved investment programs or reluctance to accept utilities' forward-looking assessments - decision-making can become increasingly short-term and risk-averse.

If regulated water businesses are not ultimately trusted to undertake their core function of planning and delivering long-lived infrastructure, the underlying rationale for devolved service provision and independent economic regulation becomes progressively harder to sustain. In such environments, necessary investment is more likely to be delayed until risks crystallise or failures occur, at which point responses are typically more expensive, more disruptive and more visible to customers than would have been the case under a regime of steady, well-signalled investment.

Maintaining trust therefore requires not only transparency and accountability, but a regulatory environment that supports informed judgement about long-term needs and affords appropriate weight to utilities' expertise in managing complex, asset-intensive systems.

International experience illustrates this risk. In jurisdictions where prices were suppressed and investment deferred over extended periods, eventual asset failures and environmental incidents have led not only to sharp price adjustments, but also to significant loss of trust in both utilities and regulators. The experience of the United Kingdom water sector is instructive in this regard.

Australia's water sector continues to enjoy high levels of public trust by international standards. Maintaining that trust requires regulatory decisions that clearly support safe, reliable and environmentally responsible services over the long term, not just short-term price outcomes.

Intensifying pressures over the medium to long term

The trade-offs facing regulators and utilities are expected to become more acute over time due to:

- climate variability and more frequent extreme weather events;
- rising environmental and public health standards;
- dam safety, cyber-security and critical infrastructure obligations; and
- population change and emerging industrial demand profiles.

Current arrangements are unlikely to manage these pressures in a sustainable way if price suppression continues to be relied upon as the primary tool for managing affordability.

Closing comment

TasWater supports the objectives of the National Water Reform 2026 inquiry and welcomes the Commission's focus on the long-term security, resilience and sustainability of Australia's water services industry.

Tasmania's experience highlights a clear lesson with growing national relevance: prices that are artificially low in the short term do not protect customers over time. Instead, they defer costs, concentrate risk and increase the likelihood of disruptive system failures that ultimately require sharper price adjustments and undermine public trust.

Sustainable reform requires independent economic regulation that is firmly centred on the long-term interests of customers, transparent and cost-reflective pricing, targeted affordability support delivered through appropriate social policy instruments, and regulatory settings that enable utilities to invest prudently in the assets and capabilities needed to serve current and future generations. Ultimately, durable reform will also depend on maintaining confidence across the system. Confidence that water businesses can exercise sound judgement in planning long-lived infrastructure, and that regulatory frameworks will consistently support those decisions in the long-term interests of customers.

Should you have any questions or require further clarification, please contact Hayden Moore, Head of Commercial and Pricing, at hayden.moore@taswater.com.au.

Yours sincerely,

Chief Financial Officer