

1 May 2026

Joanne Chong
Commissioner- National Water Reform 2026 Inquiry
Productivity Commission

Via email: waterreform2026@pc.gov.au

Dear Commissioner Chong,

RE: National Water Reform 2026: Call for submissions

WaterNSW welcomes the opportunity to respond to the Productivity Commission's call for submissions for the National Water Reform 2026 inquiry.

This submission responds to Information Request Part B – secure, resilient and sustainable services – specifically Theme 1: Pricing and economic regulation. It focuses on whether current pricing and regulatory frameworks support efficient investment, transparent cost recovery and appropriate risk allocation, while managing affordability and maintaining long-term service resilience.

WaterNSW's central position is that national pricing settings should be refreshed to enable transparent identification of the efficient, long-term costs of service provision, prior and separate to decisions on affordability interventions such as price caps or subsidies. Where affordability outcomes are pursued through moderated prices, the resulting funding gap and policy rationale should be explicitly quantified and transparently funded.

The submission also draws out implications from recent price setting for rural and regional bulk water services in NSW, and proposes that national guidance be strengthened on cost sharing and transparency (including for broader public benefit obligations and multi-beneficiary activities), explicit treatment of affordability trade-offs, and the allocation of incremental costs associated with new and expanding water-intensive demand profiles.

As an operational business responsible for implementing a wide array of national and state water reforms, policies, and rule changes, WaterNSW has observed that the design of water regulation and policy is frequently not approached in an integrated or holistic way. This lack of coordination results in unnecessary complexity and regulatory inefficiency, making compliance increasingly challenging and unaffordable.

Thank you for the opportunity to make a submission to the inquiry. If you require any further information, please contact WaterNSW .

Yours sincerely,

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Chief Executive Officer

Attachment 1: WaterNSW response to the 'Call for submissions' paper

This submission responds to Information Request Part B – secure, resilient and sustainable services, specifically, Theme 1: Pricing and economic regulation. The Commission is examining whether the pricing and regulatory frameworks support efficient investment, cost recovery and appropriate risk allocation while balancing affordability and long-term resilience.

This submission addresses the Commission's questions on trade-offs in price setting, how affordability is handled, and implications for incentives and efficient investment, including where new and expanding water-intensive industries, such as data centres and Artificial Intelligence (AI) infrastructure, affect costs and risk.

WaterNSW reiterates its position in the 2024 inquiry (submissions dated 23 February 2024 and 2 May 2024): national pricing should be reconsidered to enable transparent identification of the real, long-term costs of service provision, prior and separate to, consideration of price caps or direct subsidies for managing affordability issues.

WaterNSW notes that under the 'Next Steps on the National Water Agreement' (December 2025), the Australian Government outlined it will refresh Australia's water policy with consultation in 2026 on 'Independent Economic Regulation and Water Services Pricing' as one of six streams of work to realise the objectives of the National Water Agreement. WaterNSW strongly supports this direction.

Water reforms under current settings lack integration, efficiency and affordability

Following a decade of implementing a wide array of National and State water reforms, WaterNSW has had to implement a growing range and volume of reforms that are frequently not approached in an integrated or holistic way. This lack of coordination results in unnecessary complexity and regulatory inefficiency, making compliance increasingly challenging and unaffordable.

For example, in Basin Plan program implementation, the Australian Government funds upfront capital and planning. However, the operating costs are borne by the States, which under the National Water Initiative Pricing Principles results in the costs being passed on to water users. That upfront capital for infrastructure is also treated as a grant to the State, which is not commercial for infrastructure operator like WaterNSW (as it does not contribute to the Regulator Asset Base (RAB)).

In many cases, regulatory reforms are developed and implemented without sufficient regard to their full, end-to-end cost impacts on delivery agencies and, ultimately, water users. Regulatory Impact Statements are not consistently undertaken or do not adequately assess ongoing operating and compliance costs beyond initial government funding. Once implemented, prescribed cost-recovery frameworks – such as those under the National Water Initiative – require these costs to be passed through to water users, regardless of affordability impacts. A more integrated and holistic approach to policy and regulatory design is required to avoid unintended affordability consequences.

The consequences of the aforementioned approach also carries significant costs. In the context of our operations within the Murray–Darling Basin, these costs are predominantly shouldered by a shrinking base of water users. These users are finding it difficult to afford even the most basic levels of service, let alone manage the additional financial burden imposed by ongoing and increasing reform requirements.

Cost transparency should occur first; affordability second

Transparency of efficient costs is essential to support informed conversations between customers, infrastructure providers, regulators and government regarding valued service outcomes, asset maintenance and renewals, efficient costs and trade-offs. This is linked to affordability, but the primary objective is to define the efficient service levels and costs in the long-term interests of customers and consumers. Only once the target state (and transition to that state) is clearly defined can informed decisions be made about how to address affordability.

Economic regulators have limited direct tools to address affordability. One is deferring investment to meet the optimal target state, which carries real costs through foregone economic and community outcomes, increased service and asset lifecycle risk and equity issues with future generations having to pay for under investment. The other is price capping, which sets prices below efficient cost recovery and cannot be sustained without government filling the funding gap. If affordability outcomes are pursued through price suppression, the size and purpose of the funding gap should be explicitly calculated and transparently communicated.

NSW Independent Pricing and Regulatory Tribunal's (IPART's) draft decision illustrates the challenge

The IPART Draft Report released in March 2026 for WaterNSW's rural and regional bulk water services demonstrates the importance of applying a building block framework to assess the efficient costs to meet customers' long-term needs and interests. Following its initial deferral of consideration of efficient costs, IPART separately considered affordability and proposed a 10% price cap (plus inflation) on annual price increases to all valleys. As a result, around half of the valleys would not recover the efficient costs of bulk water services, requiring a material NSW Government contribution to fund the gap.

Deferring expenditure to constrain 'efficient' prices over short-term determination periods does not deliver long-term customer benefit. Across all infrastructure sectors, failure to invest when required typically results in higher and sustained investment needs later, while increasing asset and service risk for customers and service providers.

In their 1 July draft determination for WaterNSW Rural Valleys Bulk Water customers, IPART observed:

"...IPART is concerned about the long-term sustainability of the rural and regional water sector. WaterNSW's costs have increased and are forecast to continue to increase, while the scope to recover these costs from customers is constrained. Ongoing cost pressures and price increases may have significant implications for customers, water security and the long-term viability of the sector.

*IPART's recent reviews highlight that the costs of providing regional and rural bulk water services have increased to a level that is increasingly difficult for customers to afford. IPART has responded by limiting price increases and assuming an ongoing contribution from the NSW Government. These measures are necessary to protect customers in the short term, **but they do not resolve the underlying challenges facing the rural bulk water sector.**" (emphasis added).*

Emerging risks require planned investment and earlier cost discovery

To meet future challenges, underlying cost drivers – including ageing assets, climate-change pressures, a shrinking customer base (in part due to structural adjustments as a result of buy-backs) and the need for renewed and expanded investment – must be understood by those designing water policy and regulation.

More comprehensive cost discovery supports more orderly, long-term planning, regulation setting, policy design – all leading to smoother and more predictable price paths and reducing reliance on short-term or reactive responses.

Reactive responses reduce transparency in identifying the cost to serve and can embed perceptions of recurrent and unanticipated price increases, prompting further ad-hoc regulatory or policy intervention. Over time, this erodes the public trust in the sector, its governance and institutions.

Pricing for concentrated demand: consumption, capacity (entitlements) and reliability

A defining characteristic of infrastructure operators is that they are typically fixed cost businesses, which creates challenges for economic regulators in setting economically efficient prices and price structures, particularly where demand profiles shift materially or become more concentrated, including from new high-volume users such as data centres and AI infrastructure.

These challenges are sharper when the service is finite and inherently unreliable. WaterNSW has seen shortfalls in the forecast outturn water releases of up to 70%. High variability in the chargeable units against largely fixed costs exposes both customers and service providers to significant risk. Pricing and regulation therefore need an appropriate balance of fixed and variable charges, supported by effective risk-management tools within the framework.

The increasing fixed cost of water policy and regulations is having to be absorbed by water businesses, in between economic regulatory pricing cycles. This means other services are having to be reduced or stopped in order to absorb the cost of regulation, which impacts customer and community services.

Service reliability must also be reflected to ensure allocative efficiency. In regional NSW there are general and high security customers, with high security customers (water for human need, councils and possibly data centres into the future) having priority when allocating water availability. These customers pay a premium in recognition of the increased reliability, and a theoretically higher capacity to pay in constrained availability periods compared to general security customers.

Implications for national guidance on cost sharing and transparency (who pays, and why)

Pricing and economic regulation settings require clearer guidance on cost sharing between government and users, to improve transparency about the basis for cost recovery and when subsidies are required to meet broader public policy objectives or affordability constraints. This is particularly relevant in three areas:

a) The expansion of obligations and service provision:

Obligations on water utilities have become more complex since 2004. Price determinations increasingly include efficient costs associated with activities beyond core water delivery and access, including environmental mitigation (for example fish passage), land management, climate resilience or net zero measures, dam safety, and recreational access. Where drivers and benefits extend beyond water access licence holders, national guidance should support transparent identification of these broader obligations, and clearer principles for allocating costs between beneficiaries, including where government contributions are appropriate.

b) Multi-beneficiary activities and defining the 'user':

National pricing guidance does not sufficiently define who the relevant 'user' is for pricing and cost recovery purposes when an activity delivers benefits to multiple parties. In practice, 'users' may be interpreted as water access licence holders even where benefits extend to the wider community and the environment. National guidance should define key terms and require a practical method for identifying beneficiaries, distinguishing core delivery and access services from broader public benefit activities, and apportioning costs where there are multiple beneficiaries. It should also require transparency about when and why government contributions are applied, including where recovery from water access licence holders alone is inequitable or unaffordable.

c) Affordability and explicit trade-offs:

Affordability is a cross-cutting issue in price setting and should be treated explicitly, rather than implicitly embedded in cost structures or addressed only through limited mechanisms. National guidance should require a clearer examination of the drivers of escalating costs in water services, including climate variability, regulatory requirements, renewal of aging assets, and evolving community expectations, and explain how these pressures flow through to bills over time.

Water infrastructure is also changing with climate resilient infrastructure being built, reducing the utilisation of dam infrastructure with resulting price and asset valuation impacts.

Affordability pressures can worsen when demand or usage patterns shift and largely fixed costs must be recovered from fewer (or different) paying customers. Where efficient cost recovery from water access licence holders is constrained, national guidance should support explicit government contributions where recovery from water access licence holders alone would be inequitable or unaffordable.

d) New and expanding water-intensive industries – data centres and AI infrastructure:

Data centres and the associated infrastructure for AI can create very large, locally-specific water demand. In constrained systems, meeting that demand can bring forward or expand investment in capacity and drought resilience, and increase operational risk and planning complexity for service providers. These impacts are not proportionate to typical incremental industrial growth and can tighten trade-offs for other users and service outcomes if costs are not clearly assigned.

National pricing guidance should therefore provide clearer, more direct mechanisms for allocating the efficient incremental costs of this demand profile to the proponents that drive it, including augmentation and connection contributions where new demand triggers new or upgraded capacity, and charges that better reflect supply security and local capacity impacts. Specifically, consideration should be given to whether project proponents should bear the efficient incremental system costs they trigger, including any additional storage, release, conveyance and operational requirements to maintain supply security for existing users.

This reduces cross-subsidy risk, supports efficient investment signals, and protects long-term service resilience for existing customers while enabling sustainable development of new industries. These settings should be underpinned by transparent reporting obligations placed on project proponents, with compliance and monitoring requirements set through relevant regulatory and approval processes, to support cumulative impact assessment and long-term planning.