

Submission to the Productivity Commission

National Water Reform 2026: Water services reform directions (Interim update 1)

Submitted by: Zena Williams

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In response to: Interim update 1, June 2026

SUMMARY

This submission raises a gap in the interim update's framing of secure, resilient and sustainable water services: the pricing and planning discussion treats rising costs, water security risk and affordability largely as a retail-customer problem, to be managed through household pricing, concessions and utility financeability. It does not yet address how large-scale, high-intensity industrial and commercial water users — including mining, resource processing and, increasingly, data centres — affect the water resources that utilities draw on, and how the costs of that impact are currently allocated.

The core recommendation is straightforward: where a large-scale industrial or commercial user materially draws down or degrades a water resource that a community and its utility rely on, the full cost of maintaining secure, resilient and sustainable services from that resource — including the cost of supply-side responses such as desalination, new bores, or advanced treatment — should be recovered from that user, not defaulted onto residential ratepayers or taxpayers. This is consistent with, and a natural extension of, the National Water Initiative's existing but under-applied principle of recovering environmental externalities (NWI cl. 66), and with the interim update's own recognition that community and industry water use interact within a single water system.

1. The interim update's framing leaves a gap

Section 1 of the interim update correctly states that “catchment and river health and the sustainability of water resources determine water and wastewater treatment requirements,” and that water efficiency, resource management and infrastructure decisions are interdependent (p. 1). Section 2 also notes that data centres are becoming a significant driver of investment in water and wastewater infrastructure (footnote 8, p. 7), and Information Request 2 explicitly asks how economic oversight and pricing arrangements can address “coordination challenges across water services planning... data centre development, stormwater and wastewater planning, and/or broader regional water resource planning.”

However, the reform directions that follow are almost entirely about retail pricing, developer charges for housing growth, and utility financeability. There is no equivalent reform direction addressing the water resource impact of large-scale extractive or high-intensity commercial users — mining and mineral processing operations that draw on or degrade groundwater systems, and data centres whose cooling demand can rival or exceed a small community's total water use. This is a significant omission given the terms of reference explicitly ask the Commission to have regard to “the sustainable development of new industries, including data centres” (Appendix B).

2. Why this matters: the United States experience

Australia is at an early stage of a data centre investment wave that the United States has already lived through several years of, and the results there are a clear warning rather than a hypothetical risk.

Water depletion and contamination

US data centres directly consumed an estimated 17.4 billion gallons of water in 2023, a figure the US EPA projects could rise to between 38 and 73 billion gallons by 2028.

In Texas, a Houston Advanced Research Center study estimated data centres would use 49 billion gallons in 2025, rising as high as 399 billion gallons by 2030 — equivalent to drawing down Lake Mead by more than 16 feet in a single year — in a state where reservoirs and groundwater are already drying up.

In Morgan County, Georgia, residents living near a newly constructed data centre reported their well water turning visibly discoloured and undrinkable; residents were forced onto bottled water for drinking and cooking, and nearby water bills were expected to rise by roughly 33 per cent (US House Oversight testimony, May 2026). In Fayette County, Georgia, and Tucson, Arizona, residents reported reduced water pressure linked to nearby data centre withdrawals. Google's data centre operations in The Dalles, Oregon (population 16,000), consumed 355 million gallons in 2021 — around a quarter of the entire town's water use that year.

Electricity costs shifted to households

Between March 2021 and March 2026, average US residential electricity prices rose 94 per cent in Washington DC, 74 per cent in Maryland, 73 per cent in Maine and 58 per cent in New York — regions with high data centre concentration — against a national five-year average increase of 42 per cent.

Virginia's state regulator found data centre-driven grid upgrades justified a \$16-a-month base rate increase for the average residential customer in 2026, on top of existing increases, prompting the state to create a new large-load pricing class specifically to stop those costs defaulting onto households.

Independent analysis in Virginia found that even after that reform, 61 per cent of grid-upgrade costs would still fall on ordinary ratepayers once a data centre's 14-year contract term expired. The common thread across both the water and electricity evidence is the same: without an explicit, binding cost-allocation principle, the costs created by large new industrial and data-driven loads default onto the general customer base, and communities can be left drinking contaminated water or paying for desalination while the user that caused the depletion or contamination pays little or nothing extra.

Reporting also shows regulatory response in the US has been slow, reactive and fragmented — more than 200 state bills on data centre water and energy impacts were introduced in 2025 alone, most only after visible community harm had already occurred (Climate XChange, 2026; ITIF, 2026). Australia has the opportunity to build the cost-allocation principle into the water services framework proactively, before the equivalent build-out here reaches that scale, rather than legislating in response to contaminated bores and desalination bills after the fact.

3. Recommendations

In response to Information Requests 1 and 2, this submission recommends the Commission's final report include a reform direction, additional to those already proposed, covering the water-resource impact of large-scale industrial, extractive and data-centre water use.

Specifically:

- Extend the existing NWI Pricing Principle that environmental externalities be recovered (cl. 66) into an explicit, binding requirement - not only guidance - that applies to large-scale industrial, mining and data-centre water users, so the full future cost of maintaining secure supply from an affected resource (including desalination, new bores, advanced treatment or resource substitution) is priced into that user's water access, not absorbed by retail customers or government.
- Establish a distinct “large water user” cost-recovery and reporting class for industrial, mining and data-centre users above a defined water-use threshold, analogous to the large-load electricity rate classes now being adopted across US states (for example Virginia's GS-5 class and Ohio's minimum-take provisions), so these users' contribution to infrastructure and resource-security costs is transparent, separately reported and does not cross-subsidise from residential bills.
- Require mandatory public disclosure of water source, volume and discharge/contamination risk for large-scale industrial and data-centre users as a condition of connection or licensing mirroring proposed US state measures (for example Illinois SB 2181, California AB 2619) - so communities and regulators can assess cumulative impact on a shared resource before, not after, approval.
- Direct that integrated water planning (Information Request 2) explicitly model cumulative demand from mining, resource processing and data centre growth alongside housing growth, so that decisions about new supply-side infrastructure — including any move to desalination - identify and attribute cost to the users driving the need for it.
- Ensure any national Basic Level of Service or affordability framework developed under this inquiry treats cost-shifting from large industrial users onto residential customers as a transparency and accountability failure in its own right, not merely a financeability or bill-smoothing question.

4. Conclusion

The interim update rightly identifies that water services sit within a broader water system, and that data centre growth is already a recognised driver of new investment need. The final report has the opportunity to close the gap between that observation and the reform directions that follow, by ensuring the principle of full and transparent cost recovery applies as firmly to large industrial, mining and data-centre water users as it is proposed to apply to households and developers. The US experience over the past two years shows plainly what happens when that principle is left implicit: contaminated bores, strained supplies, and rising bills for the people least able to influence the decisions that caused them.

Thank you for the opportunity to comment on this interim update.