WATER SERVICES
ASSOCIATION OF AUSTRALIA

Water in transition

WSAA submission to Essential Services Commission on Melbourne Water's price review

December 2025

1.0 Summary

The Water Services Association of Australia (WSAA) is the peak body representing the water sector. Our members provide water and wastewater services to over 24 million customers in Australia and New Zealand and many of Australia's largest industrial and commercial enterprises.

We welcome the opportunity to provide a submission to the price review of Melbourne Water. We have provided a similar submission to the North East Water price review. These price reviews take place at a pivotal point in the water industry and North East Water's and Melbourne Water's proposals for a significant increase in investment should be seen in a national context.

Melbourne Water is proposing to increase investment in water, wastewater and drainage services over the next determination by 62 per cent to a total of $7.9 billion over the next 5 years. Melbourne Water has been able to significantly manage the price impacts flowing from this investment. It is proposing flat real prices in 2026-27 and increases of 1.5 per cent before inflation from 2027-28 to 2030-31. These increases are modest compared to those taking place across the sector.

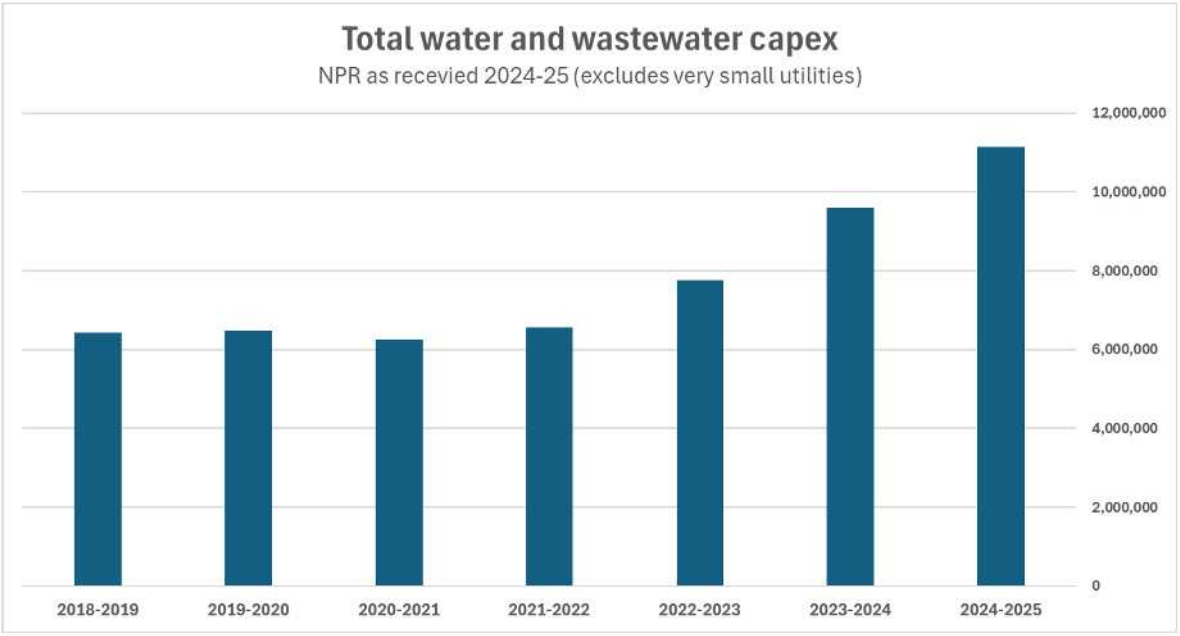
The core message of this submission is that Melbourne Water's increase in capital expenditure is fully aligned with the national trends across Australia.

For a number of years WSAA has been pointing out the need to fund higher levels of investment in the water industry to meet the challenges of population growth, ageing assets and the need for water security in a changing climate. Changes in the regulatory environment are also driving higher costs.

In relation to population growth, all governments have ambitious housing targets to manage Australia's housing crisis. New water connections are a critical component of any new development. In addition, Government's view AI data centres as central to Australia's productivity growth. Data centres are energy intensive but also create a potentially large new source of demand for water that has only emerged in the last few years. WSAA has released a paper on data centres and water which can be accessed here.

There can now be no doubt that the water industry is in a fundamental transition. The latest data from the National Performance Report shows that capital expenditure in water and wastewater was $11.2 billion in 2024-25 (figure 1). This is an almost doubling from only three years before.

Figure 1 Total water and wastewater capex, National Performance Report



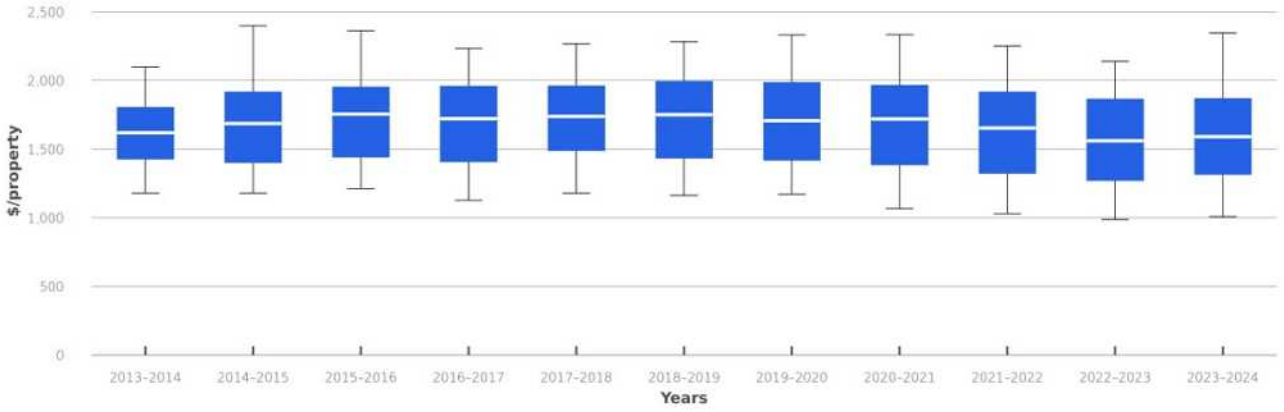
WSAA expects significant further increases in investment across Australia over the next decade. These increases have been underway over the last decade and represent a step change rather than a once off peak.

By contrast, consumer bills have been flat for the last 11 years (see figure 2).

Consumers have been largely shielded from the price rises through a combination of efficiency gains by the sector, a falling cost of capital (interest rates) and additional borrowings in lieu of revenue increases.

However, price increases are inevitable if the industry is to remain viable.

Figure 2 Typical national water and wastewater bills flat for 11 years



Source: National Performance Report, Part A 2023-24

Economic regulators have an important role to play in the water transition. They can provide assurance to the public that utilities are investing prudently and wisely. They can play a positive role in navigating the industry through the water transition and assist maintaining customer trust.

On the other hand, attempts to maintain flat prices in the face of strongly rising costs would be counter to the long-term interests of customers. As WSAA has discussed in other publications a lack of investment would lead to the to the type of water crises that we have witnessed in the UK and NZ (see WSAA article Sleepwalking into a water crisis)[1].

2.0 The water sector is in a transition

As noted above, Melbourne Water is proposing to invest $7.9 billion. This is spread across its water, wastewater and drainage operations. Melbourne Water's submission sets out the expenditure is to meet its key challenges:

- A growing population
- A changing climate
- Household and business costs

[1] As well as higher penalties for Water Utilities that do not meet standards, as part of the restructuring of the of the way the UK water is regulated the Cunliffe review recommended the abolition of the economic regulator Ofwat and the formation of a single regulator for the water industry covering the environment, health and price regulation.

- Ageing assets
- More interconnected networks.

The drivers of a greater volume of investment in Melbourne are the same as those facing all utilities. As set out in figure 3, across Australia all utilities are meeting the challenges of ageing assets[2], population growth and climate change in different combinations. Changes in the regulatory environment — many of which are legitimate — are also driving higher costs.

Figure 3 Drivers of increased investment

The recent price determinations by the Independent Regulatory and Pricing Tribunal (IPART) for Sydney Water and Hunter Water are both a reflection of these drivers across the industry, and confirmation of the forecasts that WSAA and the industry have been making for several years.

For Sydney Water, IPART approved $13.2 billion in capital expenditure. This is much higher than investment in previous determinations and IPART has approved around a 35 percent real bill increase over the five year period.

For Hunter Water, IPART approved $1.6 billion in capital expenditure over the 5 year determination, or around a 20 per cent real bill increase over the period.

Further price reviews are underway, all of which are consistent with the national trends:

- Central Coast Water in NSW is proposing to invest $578 million. This represents an increase of around 52 per cent compared to the amounts IPART used to set prices in the previous determination. Approximately $324 million is to service growth and $254 million for renewals and compliance expenditure.
- TasWater lodged its submission on 30 June 2025 and has proposed capital expenditure of $1.7 billion over the five year period, an increase of 77 per cent over the previous period. TasWater is proposing to increase prices by 8.8 per cent a year for the

[2] Figure 1 notes an intergenerational equity impact of ageing assets. Many assets are reaching the end of their useful life. These assets were built, and paid for in full, generations ago. Because they had been paid for they were implicitly not included in the Regulatory Asset of the utility. This means, the current generation has been receiving the benefit of these assets for free. (In technical terms because of the line in the sand RAB valuations regulatory depreciation is less than actual depreciation). When these assets are replaced the full value enters the RAB and the utility earns a return on the new assets. This is one reason why utilities face pressure to increase prices even to maintain existing levels of service. We can no longer stand on the shoulders of previous generations and must start paying our way.

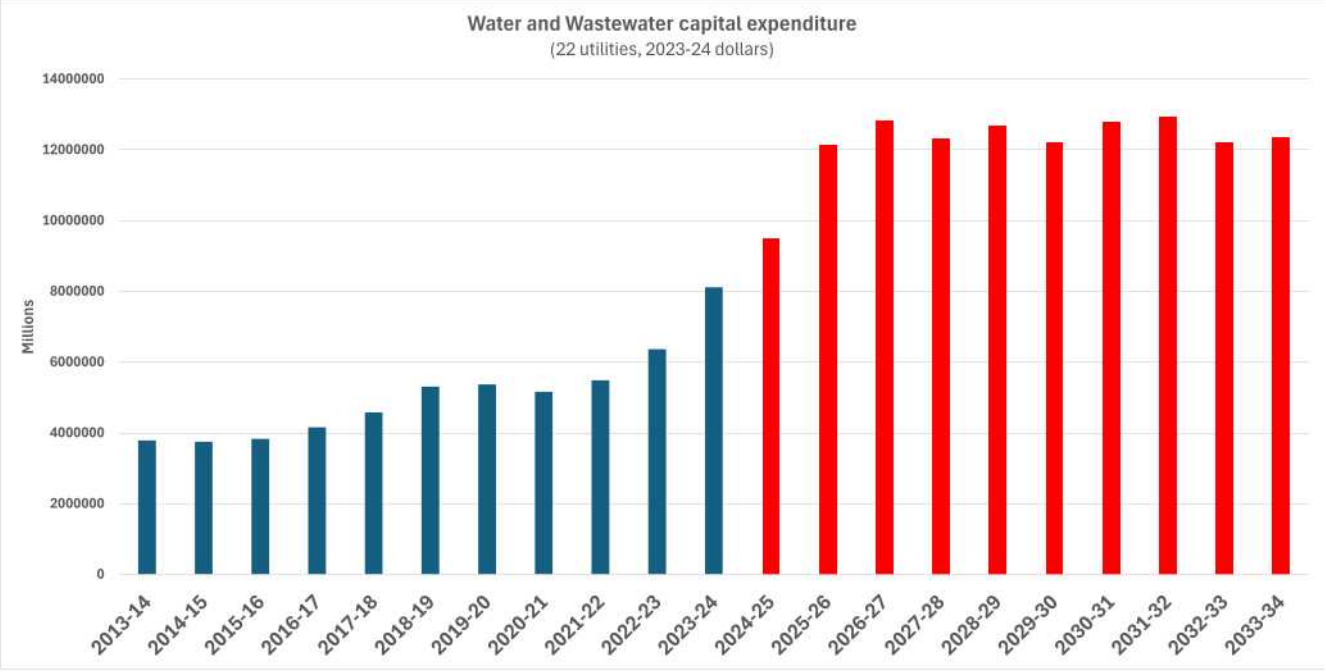
next 5 years then 5.4 per cent a year in the subsequent five years.

- North East Water, a regional Victorian utility, is proposing capital expenditure of $279.7 million and real price increases of 5.25% per annum for the period 2026-31.
- We understand that Water Corporation in Western Australia is also proposing to increase investment by the same order of magnitude as Sydney Water and Melbourne Water.

Collectively investment across Australia constitutes a major industry transition.

Figure 4 splices historical data from the National Performance Report with WSAA projections for 22 large utilities in Australia. The roughly doubling of annual capital expenditure in real terms between 2013-14 and 2023-24 would be significant enough on its own terms. However, combined with WSAA projections of expenditure rising another 50 per cent, to over $12 billion a year in 2026-27 confirms the step change underway in the industry. For the first time, WSAA used member data to project forward for 10 years. This shows that the current increase is not a temporary peak, but a permanent increase in the investment that will be required.

Figure 4 A step change in investment in water and wastewater



Source: National Performance Report data, WSAA projections

Note: Preliminary data, final data will not differ materially. The NPR collects data from over 100 utilities and total expenditure is therefore higher than presented for this selection of utilities.

In this context, the level of investment proposed by Melbourne Water is aligned with the general trends across the industry. While price rises are not welcomed by customers, they understand they are necessary if Australia is to continue to enjoy the level of water services to which it has become accustomed. To assist customers Melbourne Water has introduced its first ever hardship package to complement those offered by the retail water corporations.

3.0 Operating costs are also increasing

Melbourne Water's total operating costs are reducing over the determination. This is due to a combination of factors including a significant cost efficiency target, and reductions in non-controllable operating costs.

At the same time some components of Melbourne Water's operating costs are increasing. Controllable operating costs are proposed to increase from a baseline of $519 million in 2024-25 to $566 million in 2030-31. Increases in operating costs are to be expected in a growing industry.

While all utilities are making ongoing cost efficiencies, often around 0.9 to 1 percent a year, these cannot outweigh the growth in operating costs driven by the underlying increase in investment. This is the case for Melbourne Water and is also the case for the recently completed NSW determinations:

- For Hunter Water IPART approved operating expenditure of $978.8 million over the 2025 determination period. This is $2.7 million (1.4%) higher per year, on average, than the allowance IPART to set prices in 2020.
- For Sydney Water IPART approved around $1.9 billion a year in operating costs which is $179 million a year or 11% higher than IPART used to set prices in 2020.

4.0 Regulators have a positive role to play

Economic regulators have an important role to play in the water transition. They can provide assurance to the public that utilities are investing prudently and wisely. The role of the independent regulator can assist in maintaining customer trust during a period of rising costs and prices.

In an environment where compliance costs are increasing it is important that the legitimate needs of health and environment regulators are met at the least cost to the community.

During a period of transition the independence of economic regulation is more important than ever before. Governments are naturally concerned about the cost of living and short-term impacts of utility price rises. Economic regulators are mandated to stand as a force for the long-term interests of consumers which includes ensuring that the investment needs of the industry for the long term are supported. As WSAA has previously stated deferring investment is not a sound strategy to handle cost of living pressures. The experience in the UK demonstrates it is likely to result in poor levels of service and potentially unsustainable price shocks. In the case of the recent NSW determinations the state government initially wrote to IPART, among other things, seeking it examine deferring investment to assist with the cost of living. It only became apparent during the course of the review to the government and other stakeholders just how critical Sydney Water's capital program is to the future health and prosperity of Sydney, and the potential costs of deferring investment such as upgrades to water treatment plants to ensure a safe water supply. Melbourne Water's capital and operating program are equally as important to the future of Melbourne.

Transparent regulatory processes remain key to good regulatory outcomes. We recognise that increasing costs puts pressure on the regulatory system. Many economic regulators have not had to set higher prices for over a decade and this can condition expectations. WSAA has seen regulatory processes fail under cost pressure. For example, IPART's Review of Water NSW bulk water prices represented a breakdown in the regulatory process where the initial draft report lacked transparency and rigour (see here for more details).

By contrast the outcomes for Hunter and Sydney Water illustrates that independent regulation remains important for delivering sound long-term outcomes for customers and the community.

Contact

WSAA welcomes the opportunity to discuss this submission further.

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