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D25/53059

Ms Kirsten Shelly
Deputy Secretary Water and Catchments Group
Department of Energy, Environment and Climate Action
8 Nicholson Street
EAST MELBOURNE VIC 3002

27 November 2025

Dear Ms Shelly,

REGULATORY IMPACT STATEMENT FOR THE PLUMBING AMENDMENT (WATER EFFICIENCY) REGULATIONS 2026

I would like to thank your staff at the Department of Energy, Environment and Climate Action (the Department) for working with the team at Better Regulation Victoria to prepare a Regulatory Impact Statement (RIS) for the proposed Plumbing Amendment (Water Efficiency) Regulations 2026 (the proposed Regulations).

The Commissioner for Better Regulation provides independent advice on the adequacy of the analysis provided in all RISs in Victoria. A RIS is deemed to be adequate when it contains analysis that is logical, draws on relevant evidence, is transparent about any assumptions made, and is proportionate to the proposal's expected effects. The RIS also needs to be written clearly so that it can be a suitable basis for public consultation.

I am pleased to advise that the final version of the RIS received by us on 25 November 2025 meets the adequacy requirements set out in the *Subordinate Legislation Act 1994*.

Background and problems

In the RIS, the Department explains that without further actions being taken, demand for potable water (referred to hereafter as 'water') could exceed the supply of water in Greater Melbourne by the end of the decade (based on modelling for the Central and Gippsland Region Sustainable Water Strategy and Greater Melbourne Urban Water Strategy). Demand for water could also exceed supply in several regional areas of Victoria in coming years. To reduce the risk of shortfalls, supply needs to increase and/or demand needs to decrease.

The Department notes that the two main options for reducing water use in buildings are installing rainwater tanks (or using recycled water) and water efficient fixtures. Until recently, Victoria required the installation of either a rainwater tank plumbed to all toilets or a solar hot water system for new Class 1 dwellings[1]. The Department explains that removing this requirement has provided the opportunity to consider the most appropriate requirements going forward. It explains that water efficiency measures are the most cost-effective way to boost the supply of water or reduce demand.

The Department also discusses cost of living pressures and notes that many households struggle to pay water and energy bills. Improving water efficiency can reduce water use and energy use through using less energy to heat water.

The proposed Regulations focus on improving water efficiency, by setting higher water efficiency standards for all fixtures (including taps, showerheads, toilets and, in non-residential buildings, urinals). At present, the Plumbing Code of Australia (PCA) requires 3-star showerheads, taps and toilets, and 2-star urinals. The Department notes that these standards do not reflect technological advances over the past 15 years.

Options and Impact Analysis

The Department uses cost-benefit analysis (CBA) to determine its preferred option, drawing on a CBA from the Institute of Sustainable Futures. It explains that a range of regulatory and non-regulatory options, such as rebates for more efficient fixtures, were considered before three options were shortlisted:

1. **Option 1**: 4-star residential fixture requirements (showerheads, toilets and all taps) and 4 to 6-star non-residential fixture requirements (4-star showerheads, toilets and kitchen and laundry sink taps, 5-star urinals and 6-star bathroom sink taps).
2. **Option 2**: 4 to 5-star residential fixture requirements (4-star showerheads, toilets and kitchen and laundry sink taps, and 5-star bathroom sink taps) and 4 to 6-star non-residential fixture requirements (the same as Option 1).
3. **Option 3:** a voluntary showerhead replacement program where households could have 1, 2 and 3-star showerheads replaced with 4-star showerheads at no cost.

Options 1 and 2 would require more efficient fixtures to be installed for new buildings and when fixtures are replaced in existing buildings.

The Department analyses the costs and benefits of the three options and estimates that over a 20-year period:

1. Option 1 has a net present value (NPV) of $1.8 billion and a benefit-cost ratio (BCR) of 14.4;
2. Option 2 has an NPV of $1.9 billion and a BCR of 9.0; and

[1] Class 1 dwellings are residential buildings that are not apartments.

3. Option 3 has an NPV of $530 million and a BCR of 3.5.

Option 2 is the Department's preferred option. The Department explains that although Option 1 has the higher BCR and is simpler to comply with as all residential buildings will be required to meet 4-star fixture requirements, Option 2 has the highest water savings over 20 years and the highest net benefit (benefit less costs, or NPV). In comparison, Option 3 is voluntary, and therefore has greater risks, such as low program uptake.

The NPV of the preferred option over 20 years ($1.9 billion) is comprised of:

- $1.4 billion in energy savings;
- $726 million from water savings (including both reduced household bills and system augmentation costs);
- greenhouse gas emission reductions valued at $63 million (associated with energy savings); and
- less $238 million for the additional cost of water efficient fixtures.

In terms of impacts on individual dwellings, the Department estimates that Option 2 will have upfront costs of $318 for a two-bathroom house, but these upfront costs will be offset within two years by savings of $193 per household per year on water and energy bills.

Sensitivity to assumptions

Sensitivity analysis has been undertaken by the Department to test the sensitivity of the estimated costs and benefits to changes in assumptions.

Assumptions were varied for water prices, electricity prices, carbon prices and fixture prices, generating a range of scenarios. The BCR of the preferred option is above five in all scenarios, indicating that the estimated benefits are at least five times the costs.

Implementation and Evaluation

In the RIS, the Department explains that the proposed Regulations are intended to come into effect either in late 2026 or early 2027, and that requirements would not be retrospective. It also explains that there are several steps to implement the preferred option:

- the Department will work with the Building and Plumbing Commission (BPC) to support practitioners to understand the new requirements through guidance materials and communications; and
- exemptions will apply in certain circumstances where it is not reasonably practical to meet the preferred option requirements – for example, rare instances where existing buildings have plumbing systems that are unlikely to function with more efficient fixtures.

In the RIS, the Department explains that it will be responsible for monitoring the impact of the new requirements, and that it will work with the BPC and the water industry during this process. This monitoring will include:

- evaluating whether the preferred options meet their objectives to increase water efficiency;
- assessing the impact of the preferred options on potable water demand;
- analysis of any compliance issues raised in BPC audits;
- assessing whether provisions under the *Building Act 1993* should be amended to better support the preferred options; and
- reviewing the effectiveness of compliance certificates in collecting the data needed to monitor the implementation of the preferred options.

The Department commits in the RIS to evaluating the Regulations in 2028 as that is when the Plumbing Regulations 2018 are due to sunset.

Should you wish to discuss any issues raised in this letter, please do not hesitate to contact Better Regulation Victoria on (03) 7005 9772.

Yours sincerely,

Katrina McKenzie
Commissioner for Better Regulation