

31 August 2026

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Tēnā koe Jamie

Purpose of this letter

1. This letter sets out the Commerce Commission's assessment of Watercare's report on forecast pricing for the financial year ending 30 June 2027 (FY27).

Context

2. Interim economic regulation under the Charter started on 1 April 2025.¹ The price path in the form of a Maximum Allowable Revenue (MAR) for water and wastewater tariff revenue, and a minimum increase in Infrastructure Growth Charges (IGCs), started to apply from 1 July 2025.
3. Under the Charter, in relation to the price path Watercare is required to report:
 - before the start of the financial year, how the regulated prices it sets for the upcoming financial year are forecast to comply with the Charter (clause 22); and
 - after each financial year, actual revenues earned, including revenue from regulated prices, IGCs and other revenue (clause 23).
4. In this letter we address Watercare's report in relation to clause 22 covering pricing for FY27. We are writing to:
 - inform you of our view that Watercare has complied with the requirements in clause 22 of the Charter; and
 - note that Watercare, by opting to not include a \$41.6m wash-up amount from the financial year ending 30 June 2026 (FY26) in its revenue calculation for FY27, cannot recover this amount from its customers in either FY27 or FY28 through the Charter's wash-up mechanism.²

¹ [Local Government \(Water Services Preliminary Arrangements\) \(Watercare Charter\) Order 2025](#).

² The treatment of any wash-up balances remaining at the end of the Charter will be determined as part of the PQP28 decision.

Our assessment of forecast revenue and pricing for FY27

5. FY27 is the second year that the Charter price path applies. It is therefore the first year that a wash-up amount from the previous financial year is recoverable through tariffs paid by customers.
6. Any wash-up amount accounts for the difference between the revenue earned by Watercare in a financial year and its actual allowable revenue for that year.³ The wash-up is calculated in accordance with the Charter and is included in the calculation of actual allowable revenue for the subsequent financial year. The wash-up amount could be either a positive dollar amount, which increases the revenue recoverable through tariffs in the next year, or a negative amount, which reduces the revenue recoverable through tariffs in the next year.
7. On 30 June 2026, Watercare published its report stating how:⁴
 - forecast revenue from water and wastewater tariffs for FY27 complies with the Charter;
 - IGC increases for FY27 comply with the Charter;
 - Watercare is rebalancing its forecast revenue away from charges for water services provided and towards IGCs; and
 - Watercare was entitled to recover a wash-up amount of \$41.6m in prices for FY27, but on management’s recommendation the Watercare Board agreed to forgo recovery of that amount.
8. In our role as Crown monitor to Watercare we have assessed Watercare’s published report. We found that Watercare:
 - expects to earn revenue of \$919.22m from water supply and wastewater tariffs in FY27;⁵
 - expects to earn less than the allowable revenue for FY27 of \$960.8m (ie, the Charter MAR of \$919.22m plus the wash-up amount of \$41.6m), reflecting the Watercare Board’s decision to forgo recovery of the wash-up amount of \$41.6m from customers;⁶ and
 - is increasing IGCs by 20.0%, which is equal to the minimum allowable rate of increase under Charter clause 17(2)(b) for FY27.
9. Watercare’s decision to forgo the wash-up amount means that its customers’ price increases are lower than they otherwise would have been, reducing their bills for FY27.
10. We note that the Charter’s wash-up mechanism supports revenue stability over time by accounting for differences between revenue recovered and the MAR. In 2027 these differences arose due to variations in demand for water and wastewater services.

³ The Charter, clause 14(3) definition of “actual allowable revenue”.

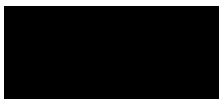
⁴ Watercare, [Report on the price-quality path: forecast stage](#), financial year 2027.

⁵ The Charter, clause 14(3) definition of “maximum allowable revenue or MAR”, para (b).

⁶ The Charter, clause 14(3) definition of “maximum allowable revenue or MAR”, para (b).

11. Watercare's report states that the Watercare Board agreed to forgo recovery of the wash-up amount following an assessment against enduring principles, with financial sustainability as the primary consideration. Its modelling indicated that the risk-adjusted FFO/debt ratio is forecast to remain above the policy minimum of 10%.
12. We encourage Watercare to take a multi-year perspective when making decisions to forgo revenue, balancing both financial considerations and investment needs. Decisions on how much revenue regulated businesses choose to recover within the constraints of a price control such as the Charter are, in our experience, often finely balanced and are a Board decision.
13. We note that Watercare's capital expenditure has remained below budget during the Charter period to date. However, it has indicated that a substantial increase in investment is required over the next decade.⁷ In that context, it is not immediately apparent to us how Watercare's decision to forgo revenue this year aligns with its stated long-term investment needs.
14. As required in clause 22(2), Watercare also demonstrated:
 - what the forecast revenue implies for average combined water supply and wastewater service bills;
 - how the average bill increase for FY27 (8.6% increase) compares to the bill increase that was expected when the Charter MAR was determined (7.2% increase); and
 - the key drivers of the difference between the average bill increase and the bill increase expected when the Charter MAR was determined.⁸
15. Watercare explains that the difference between average bill increase estimates reflects higher forecast water consumption in FY27 due to expected drier conditions and a change in customer mix.
16. If you have any queries about this letter, please contact wai@comcom.govt.nz.

Nāku noa, nā



Charlotte Reed
Head of Water Regulation
Commerce Commission, Te Komihana Tauhokohoko

⁷ [Watercare launches largest infrastructure investment programme in its history](#).

⁸ Watercare estimates the average combined water supply and wastewater services bill for a given year as revenue from prices divided by the average billed monthly connections. Watercare, [Report on the price-quality path: forecast stage](#), financial year 2027, page 14.