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5th February 2026

Price quality path for Watercare Approach Paper

Submission from Wellington Water Limited

Kia ora,

This submission on the Commerce Commission's **Price quality path for Watercare Approach Paper** is from Wellington Water Limited (WWL) developed with input from Tiaki Wai Limited (Tiaki Wai), the new water organisation that will take responsibility for water services to the Wellington metropolitan area from 1 July 2026. Although the Approach Paper is for a price quality path that would only apply to Watercare, we anticipate that in time a similar path will be applied to other large water organisations such as Tiaki Wai, so we have an interest in getting the settings right now.

In summary, this submission outlines that while the provisions of the Commission's **Price quality path for Watercare Approach Paper** are largely seen as proportionate and reasonable, the timing and requirements for some of the first disclosures will be challenging and require further consideration for these to be workable. Our submission responds in detail to the proposals, and we would like to highlight a few key matters in this letter.

In addition to the points below we support the submission from Water NZ, in particular:

1. Revaluations of the assets are treated as income in the FCM approach which is non-compliant with GAAP. We support the feedback that departures from GAAP should be minimised.
2. The need for further guidance on dealing with forecasting uncertainty.

The following is feedback on [Price-quality-path-for-Watercare-Approach-Paper-26-November-2025.pdf](#)

1. There is lack of detail and clarity in the Approach Paper regarding rules and processes to enable us to assess the potential impact on Tiaki Wai if the approach were to be implemented for the organisation.
2. Paragraph 6.5 of the Approach Paper references the Position Paper on foundational regulatory accounting basis that is intended to be published in Jun/Sep 2026. The Commission is not proposing to consult on this paper. Consultation on the rules in relation to this would improve transparency and implementation adoption and application due to enhanced understanding obtained by all parties during the consultation process. It would also identify operational challenges for all stakeholders where further clarity could facilitate more consistent application across comparable entities. Not setting input methodologies or consulting on this paper prevents this.
3. The approach paper does not discuss Input Methodologies (IM) which creates uncertainty and difficulty to ascertain what's required to comply with it e.g. impact on system and transition requirements and price path. We understand it takes a while for IMs to be bedded in.

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4. There is a large learning curve for organisations to transform themselves to be able to meet price quality requirements such as investment levels, incentivising financial sustainability. These changes will take time to implement so consideration needs to be given to the implementation timeframes.

Chapter 2: Statutory provisions and implications for Watercare and its consumers of our approach	
Section number	Comment
n/a	Consider long life assets replacement profiles when assessing financial sustainability
2.23	<p>Knowing the definition of re-openers and criteria would be helpful. Re-openers should be available where replacement timing or costs materially diverge from earlier forecasts due to:</p> <ul style="list-style-type: none"> • Inflation • Resilience of climate adaption requirements • Earthquake resilience requirements • Change in regulatory requirements • Other factors outside of the water organisation’s control • Uncertainty due to deliverability risk <p>This would acknowledge the much longer asset lives associated with water assets, the greater forecast uncertainty associated with this, more exposure to climate change, and higher proportions of vested assets. These factors make forecast changes and shocks structural (bound to happen) and allowing re-openers acknowledges that reality.</p>
n/a	<p>More clarity is required on cost allocation rules. Watercare is providing “two waters” (i.e. drinking water and wastewater) services to customers, while other entities that may be subject to this regulation in the future may be delivering “three waters” services, i.e. also including stormwater. Stormwater services currently sit outside the regulatory regime, but these entities will be incurring operational costs that may be shared across stormwater and regulated water services (e.g. field services for both wastewater and stormwater assets, customer services such as call centres and billing, and corporate overheads). What processes would be required to delineate and enable the appropriate regulatory assessment of these shared costs?</p>

Chapter 3: Our proposed approach to limiting Watercare’s revenues.	
Section number	Comment
	<p>The FCM approach is founded on the assumption that the levels of service expected from the assets is fixed in the long-term, but in many cases the levels of service are subject to some significant uncertainty. For example, for Tiaki Wai, increasing standards and customer expectations for wastewater and stormwater discharges to the environment (e.g. containment standards for wastewater networks, water quality requirements for overflows and treatment plant discharges) could mean that the existing asset fleet is inadequate and require significant investment (capex and opex). The OCM model appears to be more accommodating to this scenario as the valuation will reflect the cost needed to preserve actual service levels. What are the implications of level of service changes under the FCM model and how would these be addressed under this regulatory model if they are required?</p>

	<p>In some cases, the assets are in an impaired state and do not fully perform their function. Will there be guidance developed on how to value such assets as part of the building blocks approach?</p> <p>Additional clarity is needed on how to deal with impaired assets and those needing significant investment.</p>
3.25	<p>Wellington Water currently uses the GAAP approach for financial reporting purposes and regulatory purposes. The Commission proposes to use FCM for price quality setting. Running separate books for financial reporting purposes and regulatory purposes, would drive material additional compliance costs for Tiaki Wai. We do not consider the benefits of a changed approach would outweigh these costs.</p>

Chapter 4: Regulatory accounting basis for Watercare

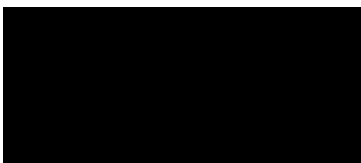
Section number	Comment
4.25 & 4.27	<p>Vested assets and IFF assets – it will be good to get clarification whether at the time these assets or components of these assets are replaced by the water organisation, will these be added to RAB to enable the costs to be recovered through pricing (assume this will be included in the value for commissioned assets when RAB is rolled forward)? Also, how are decommissioning costs allowed for in the price path determination?</p>
4.26	<p>Revaluations of the assets are treated as income in the FCM approach which is non-compliant with GAAP. We should minimise departures from GAAP.</p>
4.40	<p>Tiaki Wai's shareholding councils are undertaking a financial valuation of its asset base at transfer date based on the assets captured in WWL's Asset Management Information System (AMIS).</p> <p>WWL AMIS asset data is not perfect nor complete. Some historical assets have not been captured and there is ongoing data quality and improvement work to capture these. There needs to be ability to adjust for assets 'found' or transferred following the establishment of the initial RAB.</p>
4.44	<p>Councils (and in future Tiaki Wai) charge Development Contributions (DC) to fund growth infrastructure. Some of these charges may relate to 'programmes' of work rather than specific projects/assets. It will be good to get further clarity around how this will impact the cost allocation and price quality approach.</p>
4.44	<p>Has there been consideration given to the linkages with and potential impact (if any) of the new Development Levies System being proposed by DIA on the price quality path approach? And vice versa?</p>
4.46	<p>Majority of councils and WWL's regulatory asset registers are at an aggregated level as a lot of FMIS systems are unable to handle the volume of assets contained in an AMIS at the disaggregated level. So determining the value of disposed assets to be removed from the RAB will be complex. For current WWL and its shareholding councils' year end reporting processes, this is dealt with through a combination of the revaluation process (which provides an estimated value at the individual asset level stored in the AMIS) and WWL staff</p>

4.46 (cont)	manually determining the cost of disposed assets using valuation unit rates. There could be additional complexity depending on the approach taken to revaluations and inflation adjustments for the purposes of determining the price path.
4.58	As Tiaki Wai's shareholding councils are undertaking a financial valuation of its asset base at transfer date, it is expected this will be the basis for determining initial RAB values for Tiaki Wai.

Chapter 5: Other decision-making topics for setting Watercare's PQP	
Section number	Comment
	The principles for how the Watercare requirements have been set are unclear, so it is unclear how this might be approached for other organisations in the future

Chapter 6: Key steps for setting the PQP for Watercare	
Section number	Comment
6.5	Paragraph 6.5 of the Approach Paper references the Position Paper on foundational regulatory accounting basis that is intended to be published in Jun/Sep 2026. The Commission is not proposing to consult on this paper. Consultation on the rules in relation to this would improve transparency and implementation adoption and application due to enhanced understanding obtained by all parties during the consultation process. It would also identify operational challenges for all stakeholders where further clarity could facilitate more consistent application across comparable entities. Not setting input methodologies or consulting on this paper prevents this.

Yours sincerely



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