Response to Emerging Views – cross submission

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Within these last two weeks we have failed to find a friendly economist or accountant willing to translate many of the associated materials from both the Commerce Commission and submitters into plain English. We are both small incorporated societies with a long and successful history of engaging with Watercare and predecessors, particularly on wastewater issues. We draw you attention to the **inequities** associated with our attempts to engage and the resources and expertise available to large professional organisations.

One chartered accountant did comment that much of the "**material was extremely dense, technocratic, bureaucratic gobbledygook."** She did not have the time to engage with us on any meaningful level. Neither could our organisations afford to pay for expertise.

For residents and citizens attempting to engage in civic society we expect better from our public servants. **Water entities are natural monopolies owned by the public**. As citizens, we expect:

1. **Appropriate consultation;**
2. **Plain English; and**
3. **Unbiased explanation of implications.**

Engagement with Mana Whenua appears especially lacking.

1.0 Engineering Aphorisms

As an engineer I will proceed from first principles.

A number of engineering aphorisms are relevant to this Watercare Price-Quality Path thought process.

a. As the United Nations reminds us, **water services** i.e. safe drinking water and safe disposal of wastewater **are a human right**.
b. The best engineering or infrastructure projects are usually "**limited to two of the following three goals**: **best price or cost effectiveness, timeliness, quality"**.

   Good quality and good decisions are extremely difficult to measure in engineering infrastructure with expected lives well in excess of 50-years and sometimes approaching or exceeding 100-years. Especially in water systems where the engineering is frequently buried.

   Clients (and perhaps regulators), whether private, local or central government, **often resort to things they can measure**. These often end up being timeliness and cost,

see above**. Neither of these goals necessarily produce quality** which I might **define as resilient, reliable, safe infrastructure in a world where planetary boundaries are broken and massive social and environmental change is occurring**.

c. When the uncertainties are so great, it suggests a **"belt and braces"** approach that incorporates safety margins on top of allowance for reasonable prediction.
d. Watercare have reminded you in their submission that in infrastructure **a dollar spent in the short term is frequently cheaper and has less risk (economically, public health and socially) than infrastructure spend delayed."** In Watercare's words, "the cost of underinvestment in an essential service exceeds the cost of a modest over-estimate of the cost of capital."
e. We have common acknowledgement that here in Aotearoa/NZ to our shame and collective harm we have continually delayed infrastructure spend over the last 50 years creating a **massive infrastructure debt** and as a result lower GDP than other reference nations. However, as the Infrastructure Commission reminds us, we need to put the spend in the right places and the best way i.e. focus on quality.

2.0 Commerce Commission Cannot Set Quality Standards for the Water Industry

I concur with Andrew Stevenson that the Commerce Commission cannot set quality standards for water supply, pipeline networks or wastewater treatment. If that leaves the Commerce Commission defining 'quality' as timeliness and cost the public are paying a great deal for almost nothing.

How does this price-quality path work relate to the NZ Drinking Water Standards (safety of drinking water) and the wastewater discharge consents (public health and environmental safety) which should define all of Watercare's operations?

The water industry as a whole requires clarification. The above, bottom-line safety, read quality, requirements will to a large extent determine ongoing operational and even renewal costs.

3.0 Contradictions

It would appear that there are many contradictions within the Commerce Commission's work.

a. Why are you willing to follow precedent on some issues, but not others? For example:
    i. indexation of Regulated Asset Base. (refer Andrew Stevenson)
    ii. Input Methodologies

b. Clarification is required on transferability of these proposals to other water entities. Other water entities do not have the resources of Watercare.
c. Provide clearer guidance on establishing the opening RAB.
    i. The starting point will materially affect outcomes in the longer term. (Water NZ).
    ii. When asset information is incomplete, as will be the case for many smaller water entities consider use of a "sufficiency and reasonableness test" (Water NZ).
d. Provide sufficient flexibility that negotiation over modelled RAB and input methodologies allows for financial resilience while protecting consumers' long-term interests. What role do the local body politicians serving as quasi water entity owners have?
e. Infrastructure Growth Charges should be predictable and unavoidable. This has not occurred in some Fast Track residential developments.
f. Consider carefully how the role of the Commerce Commission creates increased compliance costs, regulatory capture, regulatory uncertainty and duplication.

Manukau Harbour Restoration Society and Maangere Bridge Resident and Ratepayers **object to any implication that Watercare will earn a reasonable level of profit**. Watercare should be operating on a break-even basis. As Stevenson says, if profits are ploughed back the asset via re-investment this affects the RAB, compounds over the life of the asset and reduces incentives set by the Commission.

In addition, the **public as owners of the asset, have not given permission to set water entities up for sale**. It seems to me that future sale would be one reason to require water entities to produce a profit.

4.0 Use existing mechanisms

We endorse the following statements:

a. "Ethical business regulation" approach emphasising "openness and high quality information disclosure, alignment of incentives with long-term consumer outcomes, reduced reliance on prescriptive intervention." (Laurence Edwards).
b. Existing bylaws such as enforcing demand management on consumers are a stronger driver than the Commission's efficient pricing mechanisms. (Andrew Stevenson).