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16 October 2026

Geoff Hunt
Chair
Watercare Services Limited
73 Remuera Road
Remuera
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Via email: [redacted]

Tēnā koe Geoff

Re: Follow-up on 26 August 2026 meeting: Watercare Price-Quality Path (PQP)

Thank you for your letter setting out your takeaways from our August 26 meeting. We found the meeting constructive and are glad to hear that you found the discussion regarding Watercare's price-quality path (PQP) helpful. Thank you for the offer to visit some of Watercare's operational sites. We look forward to taking you up on the offer once the details have been finalised.

This letter provides responses to some of your follow-up questions. We hope that it provides clarity as Watercare continues preparing its PQP28 proposal.

Expenditure scrutiny and Watercare's delivery environment

We understand that Watercare has an extensive capital programme planned over the coming years. This programme is due to be delivered in an environment where Watercare is scaling its ability to deliver on this investment. We also understand that Watercare's network is interconnected, which can make planning and investment decisions contingent on an entire programme of work going ahead to be viable.

While we will scrutinise Watercare's proposed expenditure, our final decision will set a revenue allowance, not an expenditure allowance. We expect that Watercare will then prioritise expenditure on its network to best meet the long-term interests of consumers within that revenue allowance. As we discussed, you may need to reprioritise your spending as needs or circumstances change.

Foundational settings

We understand Watercare's desire for more consultation opportunities on the regulatory framework ahead of our draft decision. We have recently invited views on whether to adopt a trailing average cost of debt for PQP28. We will of course be open to changing our position on any aspect of our decision making in light of evidence in submissions on our draft decision, if that would better promote the long-term benefit of consumers. At this stage, we have no formal plans for additional consultation.

The views set out in the Emerging Views paper represent our considered view of the foundational regulatory settings. We acknowledge that some submissions, including those from Watercare and Frontier, expressed different views on the appropriateness of the settings proposed. We are currently working through the views expressed in those submissions but consider that the Emerging Views paper remains a good basis for Watercare to make prudent financing and investment decisions. Watercare will also have the opportunity to submit on all aspects of our draft decision.

Financeability

The financeability and financial sustainability concerns Watercare has raised throughout the process remain a key consideration for us in PQP28. Consumers are best served by a water provider that is both financeable in the short-term and financially sustainable in the long- term. We consider there are features of the regulatory regime that should insulate Watercare from most financeability concerns and ensure long-term financial sustainability.

However, as we discussed in our meeting, we consider that it is Watercare's responsibility in the first instance to manage short-term financeability concerns arising from external shocks, with assistance from the regime only in extreme circumstances. One of the purposes of our proposal guidance document is to provide Watercare with guidance on the types of information it should provide to demonstrate where it considers a financeability concern could arise and what Watercare could do in such instances to mitigate those concerns.

Timing of the final price-quality path decision

We understand Watercare's desire for more certainty around the timing of the final decision and the implementation implications of the proposed date. We have not confirmed the exact date of the final decision, but consider that May 2028 remains the likeliest date.

Should that date provide insufficient time for Watercare to implement the final decision into its pricing for 1 July 2028, Watercare could base its pricing on the draft decision. Any differences between the draft and final decision would be then washed up at a later date. We are still considering a range of issues, including those outlined in your letter, concerning how to best implement such a wash-up.

Next steps

Thank you for your offer to host the next quarterly meeting between Watercare and the Commission at Watercare's offices. We look forward to seeing you on 2 December.

In keeping with the transparency principle in our letter of expectations to Watercare regarding PQP28, we intend to publish these letters, and the proposal guidance document on our website.[1]

We look forward to continuing to work with Watercare to ensure that PQP28 results in an efficient, effective and deliverable capital programme that promotes the long-term benefit of consumers.

Nāku noa, nā

[redacted]

John Small
Chair

[1] Commerce Commission "Price-quality for Watercare Letter of Expectations" (27 January 2026)