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COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

Price-Quality Path for Watercare

Proposal Guidance

20 October 2026



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Chapter 1 Introduction

Kupu whakataki

Purpose of this document

1.1 This document sets out guidance on what the Commerce Commission (the Commission) expects Watercare to include in its proposal for its price-quality path 2028 (PQP28) to help enable the Commission to set PQP28 in a way that promotes the s 52A purpose of Part 4 of the Commerce Act 1986 (Commerce Act).

1.2 The guidance is voluntary. Watercare is not required to comply with it.

Chapter 2 General provisions

Whakaritenga tauwhānui

Watercare proposal

2.1 By no later than 5pm, 31 May 2027, Watercare should submit a proposal to the Commission that includes the following, consistent with the guidance set out in later chapters of this document:

2.1.1 Regulatory template—containing forecast expenditure, information on unregulated services, and growth charge revenue.

2.1.2 Financial model— containing a copy of its proposed financial model used to calculate the forecast building blocks revenue.

2.1.3 Supporting documentation— providing the supporting information set out in later chapters of this document.

2.2 The information in the regulatory template, financial model, and supporting documentation should be consistent.

2.3 To avoid doubt, the proposal does not include any additional information Watercare provides to the verifier.

Form of the proposal

2.4 Watercare should complete the regulatory template and submit it to the Commission as an Excel file.

2.5 Watercare should create the proposed financial model and submit it to the Commission as a separate Excel file.

2.6 The supporting documentation can be made up of one or more documents. For example, the information may be in reporting for the Crown monitor, a water services strategy, asset management plan and/or investment and delivery plan.

2.7 Watercare should provide the supporting documentation together with a summary document that:

2.7.1 if the supporting documentation is split across more than one document, lists all documents provided in response to this guidance; and

2.7.2 explains where each point in the guidance is addressed.

2.8 Watercare should submit the supporting documentation in Microsoft Word, Excel, pdf and/or PowerPoint formats.

Interpretation for proposal guidance and regulatory template

2.9 The glossary in Attachment A defines relevant terms used in this proposal guidance and the regulatory template.

2.10 Watercare should include a glossary of key terms it has used (where not otherwise defined) in its supporting documentation.

2.11 Unless the context otherwise requires:

2.11.1 terms in this proposal guidance and the regulatory template that are defined in the Commerce Act, but not in this document, have the meaning given in the Commerce Act; and

2.11.2 terms in this proposal guidance and the regulatory template that are defined in the Local Government (Water Services) Act 2025 (LGWS Act), but not in this document or the Commerce Act, have the meaning given in the LGWS Act; and

2.11.3 terms in this proposal guidance and the regulatory template that relate to financial information and that are not defined in this document, the Commerce Act, or the LGWS Act, have the meaning that they have under GAAP.

Duration of regulatory period for the purposes of proposal

2.12 For the purpose of its proposal, Watercare should assume a 3-year regulatory period starting 1 July 2028.

Assurance of proposal

Certification of proposal

2.13 In relation to all information included in the proposal, no fewer than two directors of Watercare should each certify in writing, that having made all reasonable enquiries, it is their belief that:

2.13.1 the information was derived from and accurately represents, in all material respects, the financial and non-financial operations of Watercare; and

2.13.2 the proposal is consistent, in all material respects, with the relevant guidance in this document.

Audit and assurance reports

2.14 The proposal should include a report by an auditor that states whether:

2.14.1 as far as appears from an examination of them, proper records to enable the compilation of information requested in this guidance have been kept by Watercare;

2.14.2 in the case of actual financial information relating to the regulatory period, that information has been prepared in all material respects in accordance with the regulatory accounting guidance set out in this guidance, and that it has been audited in accordance with applicable auditing standards issued by the External Reporting Board in accordance with its functions under the Financial Reporting Act 2013 or any equivalent standards that replace these standards;

2.14.3 in the case of forecast financial information relating to the PQP28 regulatory period, that information has been compiled in all material respects in accordance with the regulatory accounting guidance set out in this guidance, and that it has been examined in accordance with applicable assurance engagement standards issued by the External Reporting Board in accordance with its functions under the Financial Reporting Act 2013, or any equivalent standards that replace these standards or other appropriate standards;

2.14.4 in the case of quantitative historical information provided in spreadsheets, the information is properly compiled on the basis of the relevant underlying source information; and

2.14.5 in the case of quantitative forecast information provided in spreadsheets, the information is properly compiled on the basis of relevant and reasonable disclosed assumptions.

2.15 Watercare should also provide a report written and signed by the auditor (either in an individual's name or that of a firm) in respect of the audit or assurance engagement undertaken of the matters specified in clause 2.14, stating:

2.15.1 the work done by the auditor;

2.15.2 the scope and limitations of the audit or assurance engagement;

2.15.3 the existence of any relationships (other than that of auditor) which the auditor has with, or any interests which the auditor has in, Watercare or any of its subsidiaries;

2.15.4 whether the auditor obtained all information and explanations that he or she required to undertake the audit or assurance engagement, and, if not-

2.15.4.1 details of the information and explanations not obtained; and

2.15.4.2 any reasons provided by Watercare for its position or their non-provision;

2.15.5 the auditor's opinion of the matters in respect of which the audit or assurance engagement was undertaken.

2.16 To avoid doubt, the reports covered by this clause need not be-

2.16.1 prepared in advance of the verifier undertaking verification of the proposal; nor

2.16.2 provided to the verifier.

Independent expert report on financial model

2.17 Watercare should provide an independent expert report from a suitably qualified independent expert in respect of the forecast building blocks allowable revenue and forecast smoothed maximum allowable revenue calculations per this guidance document that:

2.17.1 is prepared in accordance with the ISRS (NZ) 4400 Agreed-upon Procedures Engagements engagement standard carried out under the independent expert's area of expertise, and signed by the independent expert, either in his or her own name or that of his or her firm;

2.17.2 is addressed to the senior management of Watercare;

2.17.3 is to be provided to the Commission;

2.17.4 is available to be published by Watercare and the Commission; and

2.17.5 states;

2.17.5.1 the expert engagement does not constitute an audit opinion or an assurance opinion;

2.17.5.2 the scope of the work undertaken;

2.17.5.3 the scope and any limitations of the work undertaken;

2.17.5.4 the existence of any relationship which the expert has with, or any interests which the expert has in, Watercare or any related entities;

2.17.5.5 the results and findings of the work undertaken, including explanations, if applicable, of areas where the financial model may be producing incomplete, erroneous, or unreliable outputs; and

2.17.6 meets the following minimum scope requirements for the review:

2.17.6.1 review of all model inputs and input assumptions against historical information and this notice as required;

2.17.6.2 review of the integrity and consistency of the model revenue calculations in accordance with the methodologies set out in this guidance; and

2.17.6.3 review of Watercare's compliance or otherwise with this guidance as it relates to the financial model.

2.18 To avoid doubt, the report covered by this clause need not be-

2.18.1 prepared in advance of the verifier undertaking verification of the proposal; nor

2.18.2 provided to the verifier.

Publication of proposal and independent verification report

2.19 Watercare should publish its proposal and the independent verification report on its webpage within 10 working days of submitting the proposal to the Commission.

2.20 Where Watercare considers that it has a right to confidentiality of any information in the proposal and/or the independent verification report, and Watercare does not waive the right, Watercare should clearly identify the information as confidential in the version submitted to the Commission and provide the reason(s) Watercare considers the information is confidential.

2.21 If the Commission considers Watercare does not have a right to confidentiality in respect of that information, the Commission will advise Watercare and provide it with an opportunity to give its views. If, having considered any views Watercare provides, the Commission considers Watercare does not have a right to confidentiality, the Commission will advise Watercare and Watercare should then publish the proposal or the independent verification report (as applicable) without redaction as soon as practicable.

2.22 Watercare may otherwise redact from the proposal and independent verification report it publishes any information in respect of which it considers it has a right to confidentiality. The Commission may also publish the same versions of the proposal and independent verification report published by Watercare.

2.23 In cases where Watercare needs a formal information request in order to supply information, then it may request a notice in a timely manner.

Changes to proposal guidance

2.24 The Commission may make changes to this proposal guidance and will consult with Watercare before doing so.

2.25 Watercare may request changes to this proposal guidance or the regulatory template with an email to the Commission.

Consumer consultation

2.26 Watercare's supporting documentation should include a description of any consumer consultation Watercare has carried out, and pre-existing consultation, that informed the proposal, including how that consumer consultation informed the proposal.

Improvement planning

2.27 Watercare's supporting documentation should identify and describe any improvement plans relating to asset management, delivery (including enabling housing growth), and efficiency that it plans to implement during the regulatory period.

2.28 For each improvement plan, Watercare should:

2.28.1 identify the programmes and projects included in its forecast expenditure that support delivery of the plans;

2.28.2 describe the extent to which the plan is funded through the forecast expenditure included in the proposal; and

2.28.3 identify any material actions, initiatives, or projects required to deliver the plan that are not provided for in the forecast expenditure, and explain the reasons for this.

Inclusion of a base scenario and alternative scenario

2.29 Watercare should, as a minimum, include a 'base scenario' in its proposal that uses the methodologies and assumptions described in this guidance. Watercare may also include alternative scenarios, using alternative methodologies and assumptions – for example, scenarios that use different methodologies for estimating the weighted average cost of capital (WACC) or initial regulated asset base (RAB).

2.30 Watercare should support any alternative scenarios with sufficient evidence, such that the Commission is able to assess how Watercare arrived at the alternative scenario(s) and the extent to which the proposed scenarios may better promote the Part 4 purpose. Evidence should be in keeping with the level of evidence described in the chapters detailing the respective inputs and assumptions of the 'base scenario'.

2.31 Watercare should clearly identify these scenarios in the financial model. For example, see how the Financial RAB scenario was incorporated into the illustration model released alongside the Emerging Views (EV) Paper.[1]

[1] The illustrative model published with the EV paper can be found here.

Duties owed by Watercare

2.32 Watercare should list and briefly describe all the duties it owes under other legislation or instruments and under Treaty settlement obligations (for example, under water quality standards and requirements to support and enable planning processes, growth, and housing and urban development) that impact on the price and/or quality of the regulated services.

Chapter 3 Expenditure

Whakapaunga utu

Strategic context

3.1 Watercare should explain how its forecast expenditure for the regulatory period aligns with its overall business strategy and asset management strategies, including how the expenditure supports the achievement of Watercare's strategic objectives.

3.2 Where Watercare has articulated long-term service delivery objectives, it should explain how its forecast expenditure reflects and supports those objectives.

Capex

Capex information to include in the regulatory template

3.3 Watercare should provide its historical and forecast capex as set out in the regulatory template.

Forecast expenditure

3.4 Capex should be reported by programme, with priority projects (as defined in clause 3.14) in each programme identified separately and any remaining expenditure in the programme classified as "other".

3.5 For each programme and priority project, Watercare should:

3.5.1 attribute the capex to the relevant expenditure driver categories (growth, levels of service and renewals), as set out in the regulatory template;

3.5.2 specify the proportion of total project capex attributed to regulated services, as set out in the regulatory template;

3.5.3 identify any capex that it expects to fund through infrastructure funding and financing (IFF) grants. For such expenditure, Watercare should clearly identify the relevant programme and priority project that are expected to be funded through IFF grants;

3.5.4 specify the value of any capital contributions received or forecast to be received, as set out in the template;

3.5.5 specify the opening balance of work in progress, as set out in the template; and

3.5.6 specify the value of commissioned assets, as set out in the template.

Historical expenditure

3.6 Watercare is not expected to fully align its historical capex with the proposed programmes and priority projects used for forecast expenditure.

3.7 However, where it is reasonably practicable to do so, Watercare should classify historical expenditure to those programmes and priority projects. For example, where historical expenditure clearly relates to a project that forms part of a proposed programme, that expenditure should be included within that programme or project.

3.8 Where it is not reasonably practicable to classify historical capex by programme or priority project, Watercare should classify this expenditure within a single programme 'historical programme'. Within this programme, Watercare should provide sufficient information to enable an understanding of the nature of this expenditure. This may include, where practicable, project-level information and classification of expenditure by the primary expenditure driver category (growth, levels of service, or renewals). Where a project is driven by more than one expenditure driver, Watercare may allocate expenditure across the relevant categories or identify the predominant driver and explain the basis for that classification. The level of detail provided should be proportionate to the materiality of the expenditure and the availability of historical information.

Cost escalation and inflation assumptions

3.9 Watercare should provide the cost escalation and FX adjustments applied to forecast capex, as set out in the regulatory template.

3.10 Watercare should provide the inflation adjustments applied to forecast capex, as set out in the regulatory template.

Capex framework

3.11 Watercare should describe how it defines and categorises capex for the purposes of the regulatory template, including the approach used to assign expenditure to programmes, priority projects, other projects and expenditure driver categories (growth, levels of service and renewals), and how this categorisation has been applied consistently in completing the template.

3.12 Watercare should describe its approach to capitalising costs within its forecast expenditure, including:

3.12.1 the policies (if available) or criteria used to determine whether forecast expenditure is treated as capex or opex;

3.12.2 any material changes in Watercare's capitalisation approach over the historical period and the impact of those changes on forecast expenditure;

3.12.3 confirmation of whether Watercare's capitalisation approach has been applied consistently in developing its forecast expenditure;

3.12.4 the treatment of internal labour costs, including the types of labour costs that may be capitalised; and

3.12.5 the application of the capitalisation approach to different types of costs, including overheads, internal labour, delivery and installation costs, and financing costs during construction.

Capex programmes

3.13 For each programme set out in the regulatory template, Watercare should provide:

3.13.1 the programme's objectives and the principal outcomes it is intended to deliver;

3.13.2 how the programme aligns with and gives effect to Watercare's strategic objectives (including, where relevant, the Water Services Strategy, Strategic Asset Management Plan (SAMP), and Statement of Intent); and

3.13.3 the identification of priority and other projects within each programme, including clear linkage between each project and its programme.

Priority projects

Definition of priority projects

3.14 A priority project is a capex project identified by Watercare (including where relevant, a project funded through alternative funding mechanisms) that meets one or more of the following criteria:

3.14.1 has forecast capex of greater than $50 million in the regulatory period;

3.14.2 is strategically significant;

3.14.3 is expected to result in material consequential operating expenditure; and

3.14.4 is expected to result in Watercare entering into contractual commitments during the regulatory period that commit Watercare to spending more than $50 million in total during, and up to five years after, the regulatory period.

Description of priority projects

3.15 For each priority project, Watercare should provide a clear description, including:

3.15.1 the project's objectives and principal outputs and outcomes;

3.15.2 how the project contributes to, and supports the achievement of, the objectives and outcomes of the relevant programme; and

3.15.3 the specific problem or need the project is intended to address.

Readiness and deliverability of priority projects

3.16 For each priority project, Watercare should describe the readiness and deliverability of the project, including:

3.16.1 the stage of development (planning, design, procurement, delivery);

3.16.2 the maturity of cost estimates and supporting analysis;

3.16.3 the extent of contractual commitment, including the relevant stage of the project lifecycle to which those commitments apply; and

3.16.4 how the stage of development and extent of contractual commitment affect the flexibility, timing, deliverability, and risk profile of the project.

Forecasting approach for priority projects

3.17 Watercare should describe, at a high level, the approach it used to develop forecast capex for each priority project, including:

3.17.1 whether forecasts are primarily based on project-level estimates, planned models, programme-level aggregation, or a combination of these approaches; and

3.17.2 why the chosen approach is appropriate having regard to the nature, scale, and maturity of the project.

3.18 Watercare should identify the key assumptions underpinning the forecasts and provide a high-level explanation of how uncertainty and risk have been considered in developing the forecasts.

Underlying drivers of the priority projects

3.19 Watercare should explain the key underlying drivers of each priority project, over the regulatory period.

3.20 This explanation should identify the underlying factors informing the capex forecast for the priority project and distinguish between external drivers (for example, demand, growth, regulatory requirements, and Treaty settlement obligations), and internal drivers (for example, asset condition, service standards) and explain how these have been reflected in the forecast.

3.21 Where practicable, Watercare should quantify the impact of these drivers on the capex forecast for the priority project.

3.22 Where the capex forecast for the priority project is driven by demand or capacity requirements, Watercare should explain the underlying demand or usage modelling used to inform the need for investment, including key assumptions and outputs, and how this has been reflected in the capex forecast for the priority project.

3.23 Where forecast capex for the priority project is materially driven by demand or growth, Watercare should explain how that expenditure aligns with relevant growth strategies and planning frameworks. This should include, where relevant, how:

3.23.1 forecast capex reflects and supports Auckland Council's Future Development Strategy;

3.23.2 investment decisions align with Watercare's servicing strategies, planning assumptions, and infrastructure sequencing for areas of current and future growth;

3.23.3 demand forecasts, including population growth, land use changes, and development timing, are consistent with these external planning frameworks; and

3.23.4 any material differences between the priority project capex forecast and external planning frameworks have been identified, assessed, and addressed.

3.24 Where relevant (for example, renewals expenditure), Watercare may refer to historical expenditure to support its explanation.

3.25 Watercare should, for each priority project, identify the extent to which forecast capex within the regulatory period relates to contractual commitments. This should include a clear explanation of the nature and scope of those commitments, including which stages of the project lifecycle they relate to, and the proportion of the forecast expenditure that is subject to those commitments.

Opex

Opex information to be included in the regulatory template

3.26 Watercare should provide its historical and forecast opex as set out in the regulatory template, disaggregated by category and sub-categories (including sub-category 1 and sub-category 2).

3.27 Watercare should identify opex it proposes to be treated as pass-through costs in the regulatory template, including expenditure in sub-category 2 (rates and levies) and any other pass-through costs.[2]

3.28 For any expenditure included as "other" pass-through costs, Watercare should provide a clear explanation of the nature of the costs and justification for their treatment as pass-through costs.

[2] The Commission may allow automatic pass-throughs for clearly defined costs that are outside Watercare's control, expected to be narrow in scope, and aligned with other Part 4 regimes.

3.29 Watercare should provide the cost escalation adjustments applied to forecast opex, as set out in the regulatory template.

3.30 Watercare should provide the inflation adjustments applied to historical and forecast opex, as set out in the regulatory template.

Opex framework

3.31 Watercare should describe how it defines, categorises, and governs opex, including:

3.31.1 how opex is defined and categorised for the purposes of the regulatory template, including the principles and criteria applied to distinguish between different types of opex, such as maintenance, routine operational activities, and expenditure that may interact with capital renewals or replacement decision-making;

3.31.2 how opex supports service delivery outcomes, including how opex decisions interact with asset condition, lifecycle planning, and long-term system performance; and

3.31.3 how consistency in the definition, categorisation, and treatment of opex, is maintained over time, including how changes in policy (if available), standards, or accounting treatment are identified and applied.

Operational expenditure categories

3.32 For each opex sub-category 2, Watercare should:

3.32.1 provide a definition of the sub-category;

3.32.2 describe the activities and costs included within the sub-category and how the sub-category is distinguished from other sub-categories;

3.32.3 identify the key cost drivers for each sub-category, including factors which determine the level and composition of expenditure;

3.32.4 explain the principal outputs delivered through each sub-category and the outcomes those outputs are intended to achieve, including how they support ongoing system operation and service delivery; and

3.32.5 explain how expenditure in each sub-category supports service quality standards, duties owed under other legislation, instruments and Treaty settlement obligations, operational performance, and outcomes for consumers, including where trade-offs between cost, risk, and outcomes have been considered.

Forecasting approach

3.33 Watercare should describe, at a high level, the approach used to develop its forecast opex, including an explanation of whether forecasts are based on established business planning processes (base-step-trend), a bottom-up build, or a combination of these approaches, and why the chosen approach is appropriate.

3.34 Watercare should also identify any material changes in approach relative to previous planning processes and explain how these have been reflected in the forecast.

Drivers of change between historical and forecast expenditure

3.35 Watercare should explain material differences between historical (FY2026) and forecast opex (for FY2027, FY2028 and the regulatory period) and identify the key drivers of those changes over time. Where practicable, Watercare should quantify the impact of those drivers on forecast operating expenditure.

3.36 The explanation should distinguish between external drivers (for example, demand, statutory and regulatory duties, and Treaty settlement obligations) and internal drivers (for example, asset condition, operating practices, and consequential opex arising from the capital programme) and explain how these have been reflected in the forecast.

3.37 Efficiency improvements should be clearly identified and presented separately from other drivers of change. These should align with Watercare's Efficiency Improvement Plan and reflect reductions in opex relative to an identified baseline, including a clear comparison of forecast opex with and without efficiency improvements, showing how the forecast would have differed in the absence of those efficiencies.

Governance

3.38 Watercare should describe the governance process applied in developing its expenditure proposal, including:

3.38.1 the roles of management and governance bodies in overseeing the expenditure proposal;

3.38.2 how key decisions, assumptions, and material changes to the forecast expenditure were considered and approved during the proposal development process; and

3.38.3 how governance oversight has been applied in developing the expenditure proposal.

Cost escalation, inflation, and foreign exchange assumptions

3.39 Watercare should identify and explain the cost escalation, inflation, and foreign exchange assumptions applied in developing its forecast expenditure, including:

3.39.1 the specific indices used, the source and reference period of those indices, and the methodology used to calculate the adjustment factors applied and set out in the regulatory template;

3.39.2 the assumptions used to select indices (where relevant), and to calculate the adjustment factors, including how different cost components are treated;

3.39.3 any foreign exchange and hedging assumptions applied to forecast expenditure, and the methodology used to calculate any foreign exchange adjustments; and

3.39.4 how cost escalation, inflation, and foreign exchange assumptions have been applied consistently across forecast expenditure.

3.40 The quantitative information specified in paragraph 3.39 should be:

3.40.1 presented in an Excel worksheet, inserted into the regulatory template that Watercare submits to the Commission;

3.40.2 mechanically transparent, for example:

3.40.2.1 including calculations with formulae showing how the adjustment factors applied and set out in the regulatory template were calculated; and

3.40.2.2 including formulaic links from the Watercare-prepared worksheets to the adjustment factors applied and set out in the regulatory template.

Delivery, risk, procurement

Readiness and deliverability

3.41 Watercare should describe the deliverability of its forecast expenditure and readiness of that expenditure to be delivered, having regard to the different characteristics of capex and opex.

3.42 The explanation should also include:

3.42.1 a high-level explanation of the readiness to deliver forecast expenditure within the regulatory period, including the overall maturity of planning, scoping, and supporting analysis;

3.42.2 a description of any material constraints or risks to delivery within the regulatory period, including factors such as organisational capability, workforce availability, reliance on external suppliers, and key dependencies;

3.42.3 how the sequencing, prioritisation, and potential substitution of projects has been reflected in the forecast, where the programme of work exceeds the level of expenditure that can be delivered within the regulatory period; and

3.42.4 a statement on the overall deliverability of forecast expenditure within the regulatory period, including key assumptions underpinning the assessment.

Consequences of non-delivery

3.43 Watercare should explain, at a high level, the consequences of deferring or not delivering forecast expenditure within the regulatory period, including implications for service delivery, asset condition, statutory or regulatory duties, Treaty settlement obligations, and risk.

Risk assessment

3.44 Watercare should describe principal risks associated with delivering the forecast expenditure as presented, including risks relating to cost, timing, scope, and performance, including:

3.44.1 explaining how identified risks have been taken into account in the forecasts and the approaches used to manage or mitigate those risks; and

3.44.2 where risk profiles or mitigation approaches differ materially between capex and opex, explaining the reasoning for those differences.

Procurement approach

3.45 Watercare should describe the procurement approaches used, or proposed to be used, to deliver the forecast expenditure, including the extent to which delivery is undertaken internally or through external procurement arrangements.

3.46 Watercare should explain how procurement practices are intended to support efficient delivery, manage risk, and achieve value for money, including the interaction between procurement, readiness, and deliverability.

3.47 Where procurement arrangements or market conditions are expected to materially affect the delivery of the forecast expenditure, Watercare should explain how those factors have been reflected in its forecasts.

Assumptions

3.48 Watercare should identify the key assumptions underpinning its assessments of readiness, deliverability, risk, and procurement of the forecast expenditure.

3.49 Where assumptions are subject to material uncertainty or risk, Watercare should explain how sensitivity to those assumptions has been considered and reflected in the forecast.

Financial and other linkages

3.50 Watercare should explain the relationship between its forecast opex and capex and its financial strategy, including funding, debt management, financial sustainability, and customer affordability.

3.51 Watercare should identify any assumptions used in developing its forecast expenditure that are materially different from those used in other planning documents or public disclosures, including Watercare's draft Water Services Strategy and draft Strategic Asset Management Plan, Asset Management Plan and Infrastructure Delivery Plan.

3.52 Where Watercare identifies material differences in assumptions, Watercare should explain the nature of those differences and the reasons why different assumptions have been applied for the purpose of the forecasts.

3.53 Watercare should explain the interactions between forecast expenditure, and service performance, including how forecast expenditure is expected to affect service delivery outcomes over the regulatory period.

3.54 Watercare should explain how different sources of funding, including IFF grants, have been taken into account in developing its forecast expenditure and financial strategy, including identification of any capex or opex that is expected to be funded through IFF grants rather than recovered through regulated revenue.

3.55 For each year of its forecast expenditure, Watercare should identify the total amount of opex and the total amount of capex that will be incurred in a transaction with a related party that is not on arm's-length terms.

3.56 Watercare should identify any plans to increase the use of operating leases during the regulatory period.

Data used to develop forecast expenditure

3.57 Watercare should describe the key data used to develop its forecast expenditure, including data used to inform cost estimates, demand assumptions, and asset condition, and explain any material limitations or sources of uncertainty in that data and how these have been taken into account in developing the forecast.

Chapter 4 Cost allocation

Tohanga utu

4.1 Our approach to cost allocation aims to mitigate the risk that consumers pay to cover costs that do not relate to the regulated service.

Cost allocation

Cost allocation information to be included in the regulatory template

4.2 Watercare should provide information on cost allocation as set out in the regulatory template, including specifying the following:

4.2.1 the amount of opex that is directly attributable to the provision of regulated services;
4.2.2 the amount of opex that is partly attributable, but not directly attributable, to the provision of regulated services; and
4.2.3 the total amount of opex (both directly attributable and partly attributable but not directly attributable) for the provision of regulated services.

4.3 Consistent with an accounting-based allocation approach, Watercare should specify, in relation to the amount of expenditure that is partly (but not directly) attributable to the provision of regulated services, the cost allocator used to allocate part of the amount to regulated services. This should be allocated on a causation basis (causal cost allocator), except where a causal relationship cannot be established.

4.4 Where a causal relationship cannot be established, Watercare must explain why a causal relationship cannot be established, and may use a proxy cost allocator, explaining the rationale for using that cost allocator for that expenditure.

4.5 Expenditure that is partly attributable but not directly attributable that is allocated to the regulated service, plus the expenditure that is partly attributable but not directly attributable that is allocated to the unregulated service, must be equal to the total expenditure before allocation.

4.6 Watercare should provide the following information on any unregulated services provided, as set out in the regulatory template:

4.6.1 a list and description of all services that are not regulated services; and
4.6.2 for all services that are not regulated services, the amount of expenditure that is partly attributable but not directly attributable, that is allocated to the unregulated service.

Chapter 5 Initial regulatory asset base calculation methodology

Tukanga tuatahi hei tātai rawa ā-waeture

Purpose of this guidance

5.1 This chapter sets out guidance on how the Commission expects Watercare to calculate and document its initial regulatory asset base (RAB) for the purposes of its proposal for price-quality path 2028 (PQP28).

Forecast gross initial regulatory asset base value – calculation methodology

5.2 Watercare should calculate the forecast gross initial RAB value in accordance with the following formula:[3]

> 'forecast gross initial RAB value' = 'existing asset base at 30 June 2026' + 'forecast adjustments from 30 June 2026 to 30 June 2028'

where -

> 'existing asset base at 30 June 2026' = '2011 deemed value' + 'roll-forward adjustments'

The '2011 deemed value', 'roll-forward adjustments' and 'forecast adjustments from 30 June 2026 to 30 June 2028' should be determined as set out under the subheadings below.

2011 deemed value

5.3 The 2011 deemed value is the closing net book value of Watercare's water supply and wastewater assets as at 30 June 2011 (including the integration value) as stated in Watercare's 2011 Annual Report, less developer and financial contributions, and revaluations.

Roll-forward adjustments

5.4 Watercare should make the roll-forward adjustments to the 2011 deemed value as follows:

5.4.1 include the value of commissioned assets from 1 July 2011 to 30 June 2026;

[3] We have used the term 'forecast' gross initial RAB, as the value is calculated using forecasts from 30 June 2026 to 30 June 2028. The 'actual' gross initial RAB will be determined after 30 June 2028, when actual asset movements are available.

5.4.2 remove assets disposed of from 1 July 2011 to 30 June 2026;

5.4.3 adjust for any transfer of assets between asset classes from 1 July 2011 to 30 June 2026;

5.4.4 remove assets that are fully depreciated from 1 July 2011 to 30 June 2026;

5.4.5 remove assets that have been vested by developers from 1 July 2011 to 30 June 2026 (except for the value of consideration actually paid);

5.4.6 remove GAAP revaluations from 1 July 2011 to 30 June 2026;

5.4.7 reduce for asset impairment from 1 July 2011 to 30 June 2026; and

5.4.8 recalculate depreciation using the same depreciation method used in Watercare's Annual Reports, from 1 July 2011 to 30 June 2026, to account for any changes in the carrying value of assets resulting from applying clauses 5.4.1 - 7.

5.5 For the purposes of clause 5.4.8, Watercare should describe the asset life assumptions used, including its calculation of weighted average remaining useful lives (where applied).

Forecast adjustments from 30 June 2026 to 30 June 2028

5.6 Watercare should make the forecast adjustments from 30 June 2026 to 30 June 2028 as follows:

5.6.1 for assets included in the existing asset base at 30 June 2026, deduct forecast depreciation;

5.6.2 include the forecast value of commissioned assets as set out in the forecasts disclosed in the regulatory template; and

5.6.3 deduct forecast depreciation for assets included in the value of commissioned assets.

5.7 For the purpose of clause 5.6.1, Watercare should forecast depreciation using the same depreciation method and asset lives as under clause 5.4.8.

5.8 For the purpose of clause 5.6.3, Watercare should forecast depreciation applying Watercare's current depreciation methodology under GAAP, using forecast remaining physical asset lives for the assets.

Forecast initial contra-asset value – calculation methodology

5.9 Watercare should calculate the forecast initial contra-asset value in accordance with the following formula:[4]

> 'forecast initial contra-asset value' = 'contra-asset value at 30 June 2026' + 'forecast contra-asset adjustments from 30 June 2026 to 30 June 2028'

where –

> 'contra-asset value at 30 June 2026' = 'historic qualifying funding' - 'contra-asset accumulated depreciation'

The 'historic qualifying funding', 'contra-asset accumulated depreciation', and 'forecast contra-asset adjustments from 30 June 2026 to 30 June 2028' should be determined as set out under the subheadings below.

Historic qualifying funding

5.10 The historic qualifying funding is the total amount of revenue or income Watercare has reported or recognised from the following sources, from 1 July 2011 to 30 June 2026:

5.10.1 infrastructure growth charges;

5.10.2 development contributions and financial contributions; and

5.10.3 government grants.

Contra-asset accumulated depreciation

5.11 Contra-asset accumulated depreciation is the amount of accumulated depreciation for a contra-asset from 1 July 2011 to 30 June 2026 calculated as follows:

5.11.1 assuming the start date for depreciation is the date of recognition (ie, the date that the historical qualifying funding is recognised under GAAP); and

5.11.2 using the straight-line depreciation method from the date of recognition, based on the initial contra-asset physical asset life.

Initial contra-asset physical life

5.12 Watercare should propose an appropriate physical asset life to be used to calculate depreciation for the forecast initial contra-asset.

[4] We have used the term 'forecast' initial contra-asset, as the value is calculated using forecasts from 30 June 2026 to 30 June 2028. The 'actual' initial contra-asset value will be determined after 30 June 2028, when actual funding amounts are available.

5.13 Watercare should provide its rationale for choosing the initial contra-asset physical life. This should include the extent to which the proposed asset life is based on the underlying assets that have been or are to be funded by the historical qualifying funding.

Forecast contra-asset adjustments from 30 June 2026 to 30 June 2028

5.14 Watercare should make the forecast contra-asset adjustments from 30 June 2026 to 30 June 2028 as follows:

5.14.1 deduct forecast depreciation for each financial year from the opening carrying value of the contra-asset at 30 June 2026;

5.14.2 include the total amount of forecast qualifying funding for each financial year, which should include:

5.14.2.1 revenue from growth charges as set out in the forecasts disclosed in the regulatory template;

5.14.2.2 government grants; and

5.14.3 deduct forecast depreciation on each contra-asset increment related to forecast qualifying funding for each financial year as set out in clause 5.14.2.

5.15 For the purposes of clauses 5.14.1 and 5.14.3, depreciation should be forecast by:

5.15.1 assuming the start date for depreciation is the date of recognition (ie, the date that the corresponding forecast qualifying funding amount is recognised under GAAP); and

5.15.2 using the straight-line depreciation method from the date of recognition, based on the initial contra-asset physical asset life.

Chapter 6 Cost of capital

Utu moni tōpū

6.1 Watercare should apply the cost of capital assumptions described in this chapter when developing its forecast allowable revenues for PQP28. Consistent with the Commission's proposed building blocks model approach, the cost of capital is an input into the calculation of forecast allowable revenues and should be applied in each year of the regulatory period in the financial model.

Cost of capital for the base scenario

6.2 For its base scenario, Watercare should apply the methodology and parameter estimates set out in the Commission's Price-Quality Path for Watercare Emerging Views Paper to estimate a vanilla mid-point WACC with the SBL-CAPM by applying the following formula:

$$WACC\ (\%) = (\boldsymbol{RFR} + 0.96\% + 0.20\%)0.35 + (\boldsymbol{RFR}(1 - 0.28) + 0.461538 * 7.00)0.65$$

Where **RFR** is the prevailing risk-free rate for both the cost of debt and cost of equity.

6.3 This simplifies to:

$$\text{WACC}\ (\%) = 0.818(\mathbf{RFR}) + 2.506$$

For example, with a risk-free rate of 3.54% (as used in the placeholder WACC in the Emerging Views Paper), this would mean a WACC of 5.40%.

6.4 Watercare should re-estimate the risk-free rate using the prevailing risk-free rate methodology set out in the Emerging Views Paper as close as reasonably practicable to submitting its proposal to the Commission on 1 May 2027.[5]

6.5 This updated risk-free rate should represent Watercare's best estimate of the risk-free rate that will apply when the Commission calculates the prevailing WACC in December 2027. This reflects the Commission's proposed application of its standard prevailing WACC methodology approximately seven months before the start of the PQP28 regulatory period on 1 July 2028.

6.6 Under that methodology, the risk-free rate will be estimated using a three-month average of New Zealand government bond yields over the period 1 September 2027 to 30 November 2027, using government bonds with a term to maturity of three years – which is equal to the length of the regulatory period. Suitable forecasting approaches

[5] A more detailed explanation of the Commission's current methodology for estimating the risk-free rate can be obtained here: https://www.comcom.govt.nz/assets/pdf_file/0036/356886/Guidelines-for-WACC-determinations-under-the-cost-of-capital-input-methodologies-Post-IM-review-27-June-2024.pdf. See paragraphs 40-46.

include using observed risk-free rates for government bonds with a term to maturity of three years for the most recent three-month period at the time Watercare finalises its proposal, or forecasting the risk-free rate expected to apply based on forecast data for the period 1 September 2027 to 30 November 2027.

6.7 Watercare should provide sufficient information to enable the Commission to validate the risk-free rate assumption used in the base scenario in its proposal.

Alternative cost of capital estimates in alternative scenarios

6.8 Watercare may include an alternative cost of capital methodology in any alternative scenario in its proposal, including scenarios that depart from the methodology or parameter estimates set out in the Emerging Views Paper and scenarios reflecting parameters or methodologies arising from the Commission's common cost of capital input methodologies review that are finalised and sufficiently developed at the time Watercare submits its proposal. Where Watercare includes such scenarios, it should explain:

6.8.1 the nature of the departure from the Emerging Views Paper;

6.8.2 why Watercare considers the alternative better promotes the purpose of Part 4; and

6.8.3 the evidence supporting that view.

Term credit spread differential allowance

6.9 Watercare can propose a term credit spread differential (TCSD) allowance as per Table D.8 of the Emerging Views Paper if its weighted average original debt tenor exceeds five years. Where Watercare proposes a TCSD allowance, it should:

6.9.1 identify the allowance separately from the WACC;

6.9.2 calculate the TCSD for each debt issue with an original tenor of greater than five years and aggregate that into a single TCSD allowance in its proposal;

6.9.3 describe the underlying debt arrangements giving rise to the allowance; and

6.9.4 provide supporting calculations.

6.10 If Watercare plans to issue new debt after submitting its proposal but before the end of the PQP28 regulatory period with an original tenor exceeding five years, it may provide additional information on those proposed debt issuances and any associated TCSD allowance included in its proposal in respect of those expected debt issuances.

Chapter 7 Information relating to growth charges

Pārongo e pā ana ki ngā utu whakatipu

General

7.1 We acknowledge that Watercare is progressing pricing reform under the Charter. As such we refer to the information we seek as "revenue from growth charges", noting that in practice, the revenue will relate to either:

7.1.1 infrastructure growth charges (IGCs); and

7.1.2 development levies.

Information relating to growth charges to be included in regulatory template

7.2 Watercare should provide its historical and forecast revenue from growth charges in the format set out in the regulatory template.

Information to accompany forecast growth charge revenue

7.3 Watercare should describe the approach used to develop its forecast revenue from growth charges for each year in the regulatory template. In describing its approach, Watercare should explain the information set out below.

Pricing information

7.4 Watercare should provide an explanation of the growth charges underpinning its revenue from growth charges, including:

7.4.1 the extent to which it expects the structure of growth charges from 1 July 2028 to differ from the current structure as at 1 July 2026; and

7.4.2 the extent to which it expects the mix of growth charges applicable to each customer group from 1 July 2028 to differ from the current growth charges.

Quantity information

7.5 Watercare should provide an explanation of the Development Unit Equivalents (DUE) underpinning revenue from growth charges for each customer group, including:

7.5.1 the actual or forecast number of DUEs (or other unit of development equivalent measures under development levies, if adopted);

7.5.2 the extent to which there is consistency between the different measures of demand used for proposal forecasts (eg, growth charging, revenue forecasting, investment planning and operational planning); and

7.5.3 the key challenges Watercare has identified with forecasting DUEs and an assessment of how accurate forecasts have been historically (for example, one year ahead, two-three years ahead, and further out).

7.6 To the extent that it is able to, Watercare should explain its current understanding of whether and how the forecast quantity (ie, DUE) would change if IGCs are replaced with development levies.

Key assumptions

7.7 Watercare should provide a description of the key assumptions underpinning its forecast revenue from growth charges, and the principal data sources relied upon, including:

7.7.1 the rationale for the assumptions adopted (in particular, list any assumptions that are fully or mostly outside the control of Watercare, for example, if population forecasts are required to be aligned with Auckland Council sources, please explain this);

7.7.2 the sources of data used to support the forecasts; and

7.7.3 any known limitations, uncertainties, or risks associated with the data or assumptions that may affect the reliability of the forecasts.

Projects funded by growth charges

7.8 For the growth charge revenue forecasts for each financial year of PQP28, Watercare should provide:

7.8.1 a list of significant projects identified from its asset management planning documents that are potentially funded from growth charges;

7.8.2 any assumptions used to estimate 7.8.1; and

7.8.3 an estimate of the forecast weighted average asset life for the assets within the project or projects that are likely to be potentially funded from growth charges.

Chapter 8 Funding plan and financial sustainability

Mahere pūtea, ahumoni mauroa hoki

Funding plan

8.1 Watercare should also include a funding plan within its proposal that sets out how, it proposes to raise the debt necessary to fund operations, replace Auckland Council debt, and to fund the investment included in this proposal. That funding plan should:

8.1.1 identify the key sources of funding (including internal sources, external contributions separating those from customers, developers and grants, and the debt funding requirement);

8.1.2 include Watercare's debt strategy, including target debt levels, maturity profile, funding sources, liquidity management, credit rating strategy, covenant management strategy, refinancing assumptions, and

8.1.3 how Watercare proposes to manage risks (including interest rate risk, dealing with shocks, loss of access to a key borrowing market, and governance and monitoring of the borrowing programme).

8.2 The funding plan should provide information consistent with the financing and funding arrangements information required under clause 5.37 of the Water Services Information Disclosure Determination 2026 [2026] NZCC 3.

Financial sustainability

8.3 We set our emerging views on the issue of financial sustainability in paragraphs 3.41 – 3.52 of our Emerging Views Paper.

8.4 Watercare should set out its views on the key credit metrics in its proposal that test its financeability and financial sustainability. In particular, we expect Watercare's proposal to set out:

8.4.1 Watercare's views on the key credit metrics it considers should be taken into account when assessing financial sustainability;

8.4.2 evidence of what Watercare considers to be the minimum acceptable scores, or range of scores, on those credit metrics along with evidence supporting that view; and

8.4.3 Watercare's expected scores on these credit metrics given its expenditure proposals and the other key inputs discussed in the Emerging Views Paper (eg, cost of capital, the value of RAB).

8.5 Watercare should explain how the proposed credit metrics relate to its practical ability to finance efficient expenditure, service and refinance debt, maintain adequate

liquidity, comply with debt covenants, and maintain access to debt markets on reasonable terms.

8.6 Where Watercare considers that forecast performance against its credit metrics indicates a financeability concern, Watercare should explain:

8.6.1 the cause, expected duration, and practical consequences of that concern;

8.6.2 how it could reasonably manage the concern, including through prudent borrowing, available liquidity, expenditure management, or other financing actions, and

8.6.3 why those actions would not be sufficient to enable it to continue meeting its efficient operating, financing, and committed investment obligations as they fall due.

8.7 The financial model Watercare submits with its proposal should also incorporate the credit metrics described above, such that if new input data is entered into that model, the resulting impact of that change will be reflected in the relevant credit metrics.

Chapter 9 Financial model

Tauira ahumoni

Contents of financial model

9.1 Watercare should provide the Commission with a copy of its proposed financial model used to calculate the forecast building blocks allowable revenue that Watercare proposes for PQP28.

9.2 The proposed financial model should:

9.2.1 apply the building blocks in clause 9.3;

9.2.2 apply the regulatory accounting rules described in clauses 9.6 - 9.30;

9.2.3 include credit metrics as described in clauses 9.31 - 9.33;

9.2.4 be provided to the Commission in the form described in clauses 9.34 and 9.35;

9.2.5 include the notes described in clauses 9.36 and 9.37; and

9.2.6 be reviewed by an independent expert and be accompanied by an independent expert review opinion from a suitably qualified independent expert, addressed to Watercare and provided to the Commission in accordance with the requirements in the 'independent expert review of the financial model' section in Chapter 2.

Building blocks

9.3 The building blocks allowable revenue for each year of PQP28 should be calculated using the following:

9.3.1 WACC return on the opening RAB value, applying the cash flow timing factor;

9.3.2 WACC return on forecast Value of Commissioned Assets, applying the cash flow timing factor;

9.3.3 forecast depreciation applying the cash flow timing factor;

9.3.4 forecast opex, applying the cash flow timing factor;

9.3.5 forecast revaluation, which is to be recognised as income and applying the cash flow timing factor; and

9.3.6 if applicable, a forecast term credit spread differential allowance applying the cash flow timing factor.

9.4 For the purposes of clause 9.3, the cash flow timing factor to be applied is:

$$(1 + WACC)^{182/365}$$

9.5 The building blocks allowable revenue model should include the functionality to apply revenue smoothing to calculate a forecast smoothed maximum allowable revenue. This should be done by applying a revenue growth rate and CPI for each financial year of the PQP28 period such that the present value of the aggregated forecast smoothed maximum allowable revenue should equal the present value of the aggregated forecast building blocks allowable revenue for PQP28.

Regulatory accounting rules and disaggregated regulatory asset base roll-forward

9.6 The RAB roll-forward for PQP28 should be calculated separately for the following classes of asset and contra-asset bases, as set out under the subheadings that follow:

9.6.1 Existing RAB;

9.6.2 Incremental investment RAB;

9.6.3 Existing contra-asset; and

9.6.4 Incremental contra-asset.

9.7 To avoid doubt, the initial contra-asset and incremental contra-asset are negative financial assets, for the purpose of offsetting the initial RAB and incremental investment RAB as set out below.

9.8 Watercare may include further levels of disaggregation of asset classes under the subheadings specified in clause 9.6.

Existing regulatory asset base

9.9 For each year in PQP28 the closing existing RAB value is the opening existing RAB value, plus revaluation, less depreciation, and less the value of disposed assets.

9.10 For the purposes of clause 9.9:

9.10.1 for the first financial year of the regulatory period, Watercare should use the gross initial RAB value as the opening existing RAB value; and

9.10.2 for each subsequent financial year of the regulatory period, Watercare should use the closing existing RAB value of the previous financial year as the opening existing RAB value of the current financial year.

Figure 1.1 Closing existing RAB calculation



9.11 The forecast gross initial RAB value should be calculated in accordance with the guidance on 'initial RAB calculation methodology' found from clause 5.2.

9.12 The existing RAB should be depreciated using the straight-line depreciation method, and the remaining useful life should be calculated in accordance with the GAAP treatment of remaining asset lives in the existing RAB at the lowest level of asset granularity as practicable.

9.13 Revaluation amounts for the existing RAB should be calculated in accordance with clause 9.28.

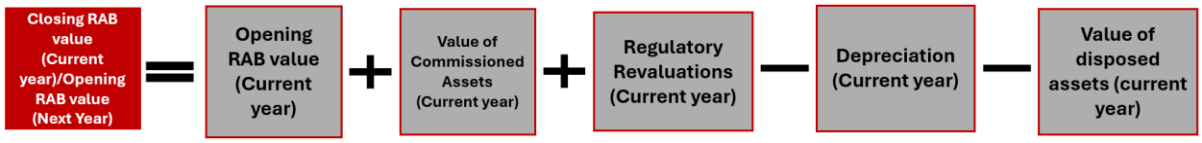
9.14 For the purposes of clause 9.13, if the physical asset life at the end of the financial year is nil or if the asset is a disposed asset, the revaluation is nil.

9.15 Gains or losses on disposal of assets in the existing RAB should be calculated such that the value of disposed assets is the sum of disposal proceeds less the opening RAB value.

Incremental investment regulatory asset base

9.16 For each year in the PQP28 period the closing incremental investment RAB value is the opening incremental investment RAB value plus the value of commissioned assets, plus revaluation, less depreciation, and less the value of any disposed assets.

Figure 1.2 Closing incremental investment RAB calculation



9.17 The incremental investment RAB should be depreciated using the straight-line depreciation method, applying the remaining asset lives of the individual assets in the incremental investment assets RAB.

9.18 Revaluation amounts for the incremental investment RAB should be calculated in accordance with clause 9.28.

9.19 Gains or losses on disposal of assets in the incremental investment RAB should be calculated such the value of disposed assets is the sum of disposal proceeds less its opening RAB value.

Existing contra-asset

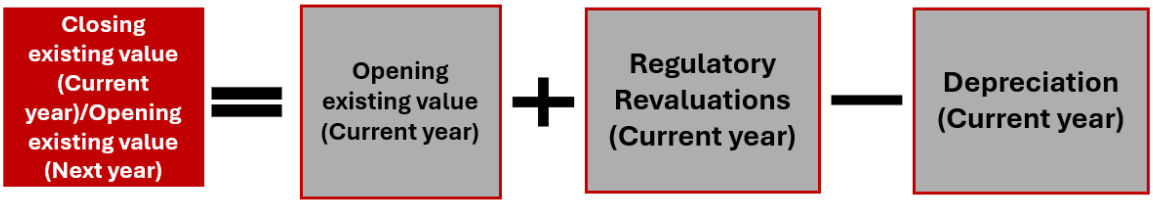
9.20 For each year in the PQP28 period the closing existing contra-asset value is the opening existing contra-asset value, plus revaluation, less depreciation.

9.21 For the purposes of clause 9.20:

9.21.1 for the first financial year of the regulatory period, Watercare should use the forecast contra-asset value as the opening existing contra-asset value; and

9.21.2 for each subsequent financial year of the regulatory period, Watercare should use the closing existing contra-asset value of the previous financial year as the opening existing contra-asset value for the current financial year.

Figure 1.3 Existing contra-asset value



9.22 The initial contra-asset value should be calculated in accordance with the guidance on 'initial RAB calculation methodology'.

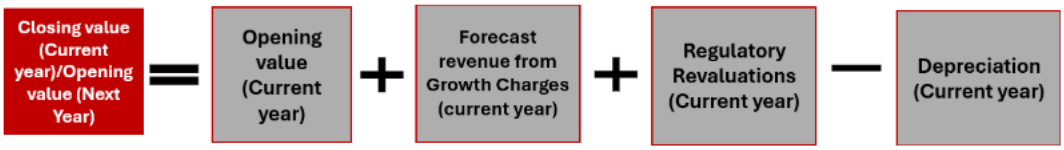
9.23 The existing contra-asset value should be depreciated using the straight-line depreciation method, applying the initial contra-asset physical life per clause 5.12 of the initial RAB calculation methodology.

9.24 Revaluation amounts for the existing contra-asset value should be calculated in accordance with clause 9.28.

Incremental contra-asset

9.25 The closing incremental contra-asset value is the opening value plus the value of forecast revenue from growth charges for the current financial year, plus revaluation, less depreciation.

Figure 1.4 Closing incremental contra-asset value



9.26 The incremental contra-asset should be depreciated using straight-line depreciation, applying the estimated yearly weighted average remaining useful life for funded assets per clause 7.8.3 of the guidance relating to revenue from growth charges.

9.27 Revaluation amounts for the incremental contra-asset should be calculated in accordance with clause 9.28.

Revaluation methodology

9.28 Revaluation amounts for the purposes of the RAB roll-forward should be revalued by applying the following formula:

(opening RAB value – depreciation) x revaluation rate

where -

'opening RAB value' is either the opening existing RAB value or the opening incremental investment RAB value as used for the purposes of clauses 9.9 -9.11 and 9.16.

'depreciation' is the amount calculated in accordance with clauses 9.12 and 9.17,

'revaluation rate' is calculated in accordance with 9.30.

9.29 Revaluation amounts for the purposes of the contra-assets should be revalued by apply the following formula:

(opening value – depreciation) x revaluation rate

where –

'opening value' is either the opening existing contra-asset value or the opening incremental contra-asset value as used for the purposes of clauses 9.20 - 9.22 and 9.25,

'depreciation' is the amount calculated in accordance with clauses 9.23 and 9.26,

'revaluation rate' is calculated in accordance with 9.30.

9.30 The revaluation rate is calculated according to the following formula:

$$(CPI_4 \div CPI_4^{-4}) - 1$$

where –

CPI^4 means CPI for the quarter that coincides with the end of the financial year ; and

CPI_4^{-4} means CPI for the quarter that coincides with the end of the preceding financial year.

Credit metrics

9.31 The financial model should include the following credit metrics in accordance with clause 8.7 of the financial sustainability guidance:

9.31.1 FFO/Net debt ratio (calculated on a closing balance basis);

9.31.2 Net debt/RAB ratio (calculated on a closing balance basis); and

9.31.3 any other proposed metrics that inform Watercare's credit rating under clause 8.4.

9.32 Watercare may include any other information related to its credit metrics such as (but not limited to) an overview of credit metric score ranges that could compromise Watercare's credit rating.

9.33 Watercare should ensure that credit metrics included in the financial model reflect Watercare's own financial information.

Form of the model

9.34 The financial model should be supplied in an 'unlocked' MS Excel format, with formulae intact, so that we can easily navigate the model, transfer information or otherwise manipulate (ie, cell precedents and dependencies can be traced and there are no 'hardcoded' values except where necessary for inputs).

9.35 The model should be consistent with good financial modelling practice (for example, use clearly defined inputs, calculations and outputs, logically structured with appropriate guidance notes).

Notes to accompany model

9.36 Watercare should include an explanatory note to accompany the model (either within the model, as a separate document or other form as appropriate) describing and explaining any key modelling assumptions it has applied or other judgment it has applied in the model to calculate the forecast building blocks allowable revenue.

9.37 Watercare should provide a reference in its model to the relevant clause(s) of this guidance it is applying.

Chapter 10 Service quality

Te kounga o te ratonga

Proposed service quality measures and justification

10.1 Watercare should outline how it currently measures and publicly reports on service quality (including any service level targets). This could include, for example, measures in its current Statement of Intent and the Charter.

10.2 Watercare should outline how it intends to measure and publicly report on service quality during the regulatory period (including any service level targets).

10.3 Watercare should justify its intended service quality measures having regard to at least the following considerations:

10.3.1 the extent to which they are useful for understanding performance across a complete range of key service attributes that are meaningful to consumers;

10.3.2 how they reflect consumer and other stakeholder expectations, demands or preferences, including from:

10.3.2.1 consultation and/or engagement undertaken; or

10.3.2.2 other evidence that shows they are or are likely to be meaningful to consumers and stakeholders;

10.3.3 how they have been informed by any historical performance data, methodologies, analysis and/or calculations;

10.3.4 how they have been informed by any duties owed under other legislation, instruments, or Treaty settlement obligations;

10.4 For the purposes of justifying the service quality measures in clause 10.3, Watercare may rely on the same evidence to justify multiple service quality measures. However, Watercare should justify each service quality standard with separate evidence in accordance with clause 10.8.

10.5 Watercare should highlight any changes between how it currently measures and reports its service quality and how is intends to measure and report its service quality (including any service level targets).

10.6 Watercare should explain any changes highlighted at clause 10.5, with reference to the considerations in clauses 10.3 and 10.4.

Proposed service quality standards and justification

10.7 Watercare should propose at least one service quality measure that it considers the Commission should use as a service quality standard in PQP28.

10.8 Watercare should:

10.8.1 explain the rationale for selecting the proposed service quality standard(s);

10.8.2 outline the alternatives Watercare considered, and the reasoning (including trade-offs) it has for proposing the standard(s) instead of any alternatives; and

10.8.3 for each service quality standard proposed, explain why it was proposed, with reference to the considerations in clause 10.3.

Identifying opportunities for improvement

10.9 Watercare should describe how its approach to understanding, measuring, monitoring, and reporting service quality is expected to evolve during the regulatory period, including through any relevant new or existing programmes of work such as its information disclosure obligations, IDAM Plan, consumer engagement activities, and other related initiatives.

Attachment A Glossary

Kupu taka

Term	Meaning
accounting-based allocation approach	means a methodology used to allocate costs not directly attributable to a regulated service, which assigns operating costs and asset values based on causal factors, or when causal factors are unavailable, using proxy factors
arm's-length terms	in relation to a transaction, means a transaction that is on terms that would be reasonable in the circumstances if the parties were connected or related only by the transaction in question, each acting independently, and each acting in its own best interests
asset impairment	means: (a) an adjustment made to an asset value to reflect impairment excluding revaluations; or (b) the GAAP impairment value in instances where a rework is not able to be calculated
assumptions	means the material premises, judgements, or inputs used in developing forecast expenditure and associated expected outcomes, including those underlying modelling, costing, timing, or performance forecasts
auditor	auditor means a person who: (i) is qualified for appointment as auditor of a company under the Companies Act 1993; (ii) is independent; (iii) is not a verifier of the proposal; (iv) has not assisted with the compilation of the information in the proposal; (v) has not provided opinions or advice (other than in relation to audit reports) on the methodologies or processes used or to be used in compiling the information in the proposal; and (vi) is neither professionally associated with nor directed by any person who has provided such assistance, opinions or advice.
capex	means capital expenditure
capital contributions	means money or the monetary value of other consideration that is charged to or received from consumers or other parties, excluding IGC revenue, for the purposes of asset construction, acquisition or enhancement

capital expenditure	means costs incurred or forecast to be incurred in the acquisition or development of an asset that is intended to be commissioned, and that are intended to be included in the value of commissioned asset
capitalisation rate	has the same meaning as under GAAP
causal	means, in relation to a relationship or basis of allocation, that the allocation base is the most significant trigger of consumption or use of the resources or services represented by the costs or other item that is being allocated
Charter	means the Local Government (Water Services Preliminary Arrangements) (Watercare Charter) Order 2025
Commission	means the Commerce Commission
commissioned	means used by Watercare to provide regulated water services and 'commission' should be construed accordingly
commissioning date	means the date that an asset is or is forecast to be first commissioned
constant prices	means the prices expressed in terms of a specified base year, excluding the effects of inflation and cost escalation
cost escalation	means the changes in the cost of inputs to deliver services or assets that are not solely attributable to general inflation
CPI	means the consumer price index stipulated for each quarter in the 'All Groups Index SE9A' as published by Statistics New Zealand
deliverability	means the extent to which forecast expenditure can reasonably be delivered within the regulatory period, having regard to identified constraints and assumptions
development contribution	has the same meaning as in section 109 of the Local Government (Water Services) Act 2025
directly attributable	in relation to the provision of a regulated service, means – (a) an amount of expenditure that is – (i) wholly incurred in the provision of the service; and (ii) not incurred for any other purpose; or (b) an amount of revenue or other income that is – (i) wholly received for the provision of the service; and (ii) nor received for any other purpose
DUE	Development Unit Equivalent

Efficiency Improvement Plan	means the plan required under clause 20 of the Local Government (Water Services Preliminary Arrangements) (Watercare Charter) Order 2025
financeability	means the ability to finance efficient expenditure and service debt
financial contribution	has the same meaning as in section 108(9) of the Resources Management Act 1991
financial sustainability	means having revenue and funding for providing water services sufficient to sustain long-term investment in water services, while meeting all regulatory requirements
financial year	means a period of 12 months commencing on 1 July and ending with 30 June
forecast expenditure	means opex and capex that is forecast to be incurred and is included in the PQP28 proposal
FX adjustment	means an adjustment reflecting changes in foreign exchange rates applied to forecast expenditure
GAAP	means generally accepted accounting practice, within the meaning of section 8 of the Financial Reporting Act 2013
government grant	has the same meaning as 'government grants' under GAAP
gross initial RAB	means the value of the initial regulatory asset base, prior to the deduction of the value of the initial contra-asset
historical expenditure	means– (a) in relation to opex, expenditure incurred in FY2026; and (b) in relation to capex, expenditure incurred from FY2021 to FY2026
IGC revenue	means revenue from infrastructure growth charges
incremental investment RAB	means the value of the RAB after 1 July 2028 less the value of the initial RAB
inflation	means the changes in general price level as measured by the consumer price index
Infrastructure Delivery Asset Management Improvement Plan	means the plan required under clause 24 of the Local Government (Water Services Preliminary Arrangements) (Watercare Charter) Order 2025
integration value	means the value of the water supply and wastewater assets vested from other Auckland Councils into Watercare as at 1 November 2010 as stated in Watercare's 2011 Annual Report
LGWS Act	means the Local Government (Water Services) Act 2025

nominal prices	means the prices expressed in nominal terms (including inflation)
non-causal	means where a proxy cost allocator is used in circumstances where a causal relationship cannot be established for allocating operating costs
not directly attributable	means costs which are shared across multiple services and should be apportioned using a reasonable causal or proxy allocator
opex	means operating expenditure
operating expenditure	means a cost incurred by Watercare in the provision of a regulated service, but excludes any of the following: (a) a cost that is treated as a cost of an asset by GAAP (b) an amount that, in accordance with GAAP, is depreciation, tax, a subvention payment, a revaluation, or an interest expense (c) an amount that is an impairment loss (d) a cost associated with the issuance of debt
pass-through costs	means- (a) a cost associated with the supply of regulated services, and (b) outside the control of Watercare, and (c) appropriate to be passed onto consumers
priority project	means a project identified by Watercare as meeting the criteria set out in clause 3.14 of this proposal guidance.
PQP28	means the price-quality path applicable to Watercare that is intended to commence on 1 July 2028 and finish on 30 June 2031
programme	means a group of related projects
project	means a temporary set of interrelated activities undertaken to deliver specified outputs and outcomes
proposal	means the regulatory template, financial model, and supporting documentation
readiness	means the extent to which activities, projects or programmes are sufficiently developed to proceed as forecast, having regard to planning, design, approvals, and preparatory work
regulated service	means water supply services or wastewater services
regulatory period	means the proposed period for which the PQP28 would apply (1 July 2028 to 30 June 2031)
regulatory template	means the Commission's template file named "Price-Quality Path for Watercare - Proposal Guidance – Regulatory Template v1.0" completed by Watercare
related party	means,

	(a) a person who is related to Watercare where Watercare would be considered as the reporting entity as defined under GAAP, or (b) any part of Watercare that does not supply regulated services
RFR	means the prevailing risk-free rate for both the cost of debt and cost of equity used in the base scenario
RPE	Real price effect
Service quality measure	means a measure of service quality that Watercare may propose as a service quality standard or other reporting measure (including service level targets) for PQP28
Service quality standard	means a type of service quality measure, which includes a binding service level target, that Watercare proposes for PQP28
Service level target	means the number or range of numbers that is associated with a service quality measure that Watercare (a) aims to meet, or (b) in the case of a service quality standard, must meet.
Treaty settlement obligation	has the meaning given in the Local Government (Water Services) Act 2025
value of commissioned asset	means cost of an asset to Watercare determined by applying GAAP to the asset on its commissioning date, except that: (a) for an asset in respect of which capital contributions were received where such contributions do not reduce the cost of the asset when applying GAAP, is the cost of the asset by applying GAAP reduced by the amount, and (b) for a vested asset in respect of which its fair value is treated as its cost under GAAP, the value of commissioned asset must exclude any amount of the fair value of the asset determined under GAAP that exceeds the amount of consideration provided by Watercare
vested asset	means an asset received in exchange for nominal or no consideration
Watercare	means Watercare Services Ltd.
work in progress	means, the accumulated cost to Watercare of an asset to under construction, determined by applying GAAP, where (a) construction of the asset has commenced and has not concluded; and (b) the asset is not available for its intended use However:

	(a) for an asset under construction in respect of which capital contributions were received where such contributions do not reduce the cost of the asset when applying GAAP, is the cost of the asset by applying GAAP reduced by the amount, and (b) for a vested asset in respect of which its fair value is treated as its cost under GAAP, the cost of the asset must exclude any amount of the fair value of the asset determined under GAAP that exceeds the amount of consideration provided by Watercare