TIAKI WAI
Care in every drop | He wai whakauka

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Tiaki Wai – Submission on Commerce Commission's Consultation on Price-Quality Path for Watercare – Emerging Views Paper

Kia ora,

This is a submission on the Commerce Commission's consultation on "***Price-Quality Path for Watercare – Emerging Views Paper***" from Tiaki Wai Limited.

Tiaki Wai welcomes the opportunity to comment on the Commerce Commission's Emerging Views Paper on the first Price-Quality Path for Watercare.

Tiaki Wai broadly supports the use of established regulatory approaches, including a building blocks model, financial capital maintenance, expenditure scrutiny, and a focus on financeability and service quality. However, many of the Commission's emerging views are likely to influence regulatory expectations beyond Watercare. Tiaki Wai therefore seeks greater clarity on which aspects of the Commission's approach are Watercare-specific and which may signal broader principles for other water service providers.

This is particularly important for providers such as Tiaki Wai that are developing long-term investment, funding, pricing, and financial sustainability settings while operating in a period of significant sector transition. Noting that many providers, including Tiaki Wai, are still building the systems, information and organisational capability needed to support mature asset management and long-term investment decision-making. So as the Commission comes to a view on the price quality determination process, it would be useful to develop pathways for other entities to reach the required start point.

The submission is therefore intended to provide a sector-facing view on the regulatory principles emerging from the Watercare PQP, rather than a detailed response to Watercare-specific expenditure, service quality or pricing proposals.

In relation to WACC, Tiaki Wai supports in principle the use of a benchmark efficient-firm methodology but considers that further explanation is required before excluding the possibility of a percentile uplift, particularly where underestimation of the cost of capital could affect investment incentives, financeability and long-term infrastructure delivery.

Submission Context

We recognise that the consultation is focused on the establishment of Watercare's first price-quality path from July 2028. We also recognise that many of the Commission's emerging views necessarily respond to Watercare's specific legislative, institutional, financial, and operating context.

Tiaki Wai's interest in the consultation extends beyond Watercare-specific matters. Many of the approaches outlined in the Emerging Views Paper — including the proposed building blocks model, financial capital maintenance framework, approach to expenditure assessment, treatment of key model inputs, financeability considerations, service quality expectations, and assurance requirements — are foundational elements of the emerging economic regulatory framework for water services.

Tiaki Wai is currently developing its longer-term strategic direction, including its water services strategy (to be published before 1 July 2027 and cover the 2027–37 period), investment programme, funding approach, and pricing pathways for future years. In that context, the Commission's emerging views provide important insight into how key regulatory concepts may be interpreted and applied in practice. That insight is relevant not only to Watercare, but also to other water service providers seeking to understand how regulatory expectations may evolve.

Given the consultation is seeking feedback on the Commission's emerging views, Tiaki Wai has intentionally focused its submission on the key regulatory principles and broader policy issues that are most relevant to the future development of the framework. It is noted that the Commission has not yet reached a draft decision or provided a complete statement of its proposed positions and supporting reasons.

As the framework develops and the Commission publishes its draft decisions, supporting analysis, and detailed reasoning, Tiaki Wai expects it will be in a better position to provide more specific comments on the practical application of the proposed approaches and their implications for the wider water services sector.

Overall position

Tiaki Wai is broadly supportive of the Commission's overall direction. We support the Commission's objective of establishing a practical and credible framework that promotes efficient investment, appropriate service quality, transparency, financial sustainability, and long-term consumer benefit.

We also support the Commission's decision to provide stakeholders with early visibility of its emerging views. Early transparency improves regulatory predictability and supports more informed engagement by water service providers, customers, owners, and other stakeholders.

The key issue for Tiaki Wai is not whether the Commission should tailor its approach to Watercare. We agree that it should. Rather, the key issue is how the Commission intends to distinguish between:

- views that are specific to Watercare;
- views that reflect broader regulatory principles; and
- views that may, over time, inform information disclosure, performance requirements, revenue assessment, regulatory principles and/or Input Methodologies, or future price-quality regulation for other water service providers.

Greater clarity on this distinction would improve regulatory certainty across the sector and assist providers such as Tiaki Wai to plan for future investment, funding, pricing, and regulatory requirements.

A key consideration in assessing the broader applicability of the Commission's emerging views is the significant variation in regulatory maturity across the sector. Watercare starts from a materially more advanced position than many other water service providers, reflecting both its scale and the substantial planning, assurance and capability development undertaken through the Charter process.

Many providers, including Tiaki Wai, are still building the systems, information and organisational capability needed to support mature asset management and long-term investment decision-making. Future regulatory expectations should therefore recognise these differing starting points and the practical pathways required for providers to achieve comparable levels of capability, assurance and regulatory maturity over time.

Relevance to Tiaki Wai and other water service providers

Tiaki Wai considers that the Watercare PQP will be an important early reference point for the development of economic regulation for water services. The Commission's approach to Watercare may influence how established regulatory tools are adapted to the water sector and how future expectations are signalled to other providers.

However, there are important differences between Watercare and other water service providers. These differences matter when considering how the principles underpinning the Watercare PQP might apply more broadly.

First, many water service providers are being established or reconfigured as part of wider water services reform. Tiaki Wai is in the process of building its operating model, organisational capability, investment planning systems, pricing framework, and financial management arrangements. By contrast, the Watercare PQP is being developed for a single established provider with its own legislative, ownership, financing, and pricing context.

Second, providers will differ in their asset histories, asset information, accounting records, and data maturity. These differences are particularly relevant to the establishment of an opening regulatory asset base and to future expenditure assessment.

Third, providers will have different pricing and funding pathways. Tiaki Wai is considering future pricing reform, tariff design, revenue stability, financial resilience, and customer impacts as part of its wider strategic planning. The interaction between regulatory revenue settings and provider-led pricing reform is therefore important.

Fourth, financeability may constrain providers in different ways. Tiaki Wai's Water Services Strategy identifies the need to balance investment pace, customer charges, borrowing levels, financial covenants, and resilience to shocks. These considerations may differ from Watercare's specific circumstances and should be recognised when considering how regulatory principles apply across the wider sector.

For these reasons, Tiaki Wai encourages the Commission to provide further guidance on the broader applicability of the principles developed through the Watercare PQP. This would assist providers to understand which aspects of the Watercare approach should be treated as Watercare-specific, and which may indicate future expectations for the wider water services regulatory regime.

Tiaki Wai considers that any future application of these regulatory approaches should remain proportionate and should not impose materially different administrative burdens on providers without a clear policy rationale.

Revenue setting and core financial model

Tiaki Wai supports in principle the Commission's use of a building blocks model underpinned by financial capital maintenance as the basis for determining allowable revenue. The building blocks model and financial capital maintenance framework are well-established approaches in other regulated infrastructure sectors and provide a transparent mechanism for linking expenditure, investment, asset values, and financing requirements to revenue recovery over time.

Tiaki Wai considers that this is an appropriate starting point for water businesses. It provides a structured framework for assessing whether prudent and efficient costs can be recovered while supporting long-term investment in essential infrastructure.

However, the significance of this emerging view extends beyond Watercare. The decision to use a building blocks model and financial capital maintenance framework is a foundational regulatory design choice. Over time, it may influence how the Commission assesses revenue sufficiency, expenditure efficiency, financial sustainability, and potential future revenue-setting arrangements for other water service providers.

For Tiaki Wai, this is particularly relevant because the organisation is developing its long-term investment, funding, and pricing frameworks. Even if Tiaki Wai is not currently subject to a price-quality path, the principles established through the Watercare PQP may provide signals about how the Commission expects water service providers to demonstrate prudent expenditure, efficient investment, and revenue sufficiency.

Tiaki Wai considers that applying a building blocks model to other water service providers would require careful consideration of each provider's circumstances. Relevant factors include ownership and governance arrangements, funding structures, growth profiles, asset histories, data quality, investment requirements, pricing reform, and financeability constraints.

Tiaki Wai therefore supports in principle the use of a building blocks model and financial capital maintenance framework, while seeking clearer guidance on how the Commission expects these principles to apply more broadly. In particular, it would be helpful for the Commission to indicate whether it expects the framework to become a reference point for information disclosure, revenue assessment, or any future price-quality regulation for other water service providers.

Consistent with earlier consultation, Tiaki Wai encourages the Commission to minimise unnecessary departures between regulatory and financial reporting frameworks where this can be achieved without compromising regulatory objectives.

Opening Regulated Asset Base (RAB) considerations

Tiaki Wai considers the establishment of the opening regulatory asset base to be one of the most important issues in the emerging regulatory framework. While the building blocks model provides the mechanism for determining allowable revenue, the opening RAB is a key input that will materially affect future revenue requirements, financeability, depreciation profiles, and long-term cost recovery.

Tiaki Wai agrees with the Commission's objective of adopting a pragmatic and implementable approach to establishing an opening RAB consistent with the approach proposed for Watercare. However, further guidance would be valuable because any approach developed for Watercare may influence how other water service providers prepare for future regulatory requirements.

For Tiaki Wai, the practical ability to establish a robust depreciated historical cost valuation will depend heavily on the availability, completeness, and quality of underlying asset and financial records. Water service providers are likely to have different asset histories, different approaches to historical accounting, and different data maturity. In some cases, historical asset information may be incomplete, inconsistent, or still being improved.

These differences reflect broader legacy challenges, not simply variations in data maturity. As set out in Tiaki Wai's Water Services Strategy, Tiaki Wai is addressing the consequences of historic underinvestment through significant programmes of network renewal, backlog reduction and service improvement. The condition of assets, investment needs and information available to support regulatory decision-making are all influenced by this starting position and should be recognised when considering how opening RAB approaches may apply to providers beyond Watercare.

Tiaki Wai also notes the importance of the timing and treatment of deemed asset values. Where historical information is incomplete or where asset records are refined after establishment, a regulatory framework may need to accommodate found assets, later-confirmed assets, or other adjustments. The treatment of these matters can have material implications for revenue recovery, intergenerational equity, and financeability.

Tiaki Wai notes the Commission's discussion of possible opening RAB approaches, including approaches similar to those being explored for Watercare, the GAAP write-down approach considered in earlier consultation, and approaches that may place greater weight on financial outcomes or financeability. Given the significance of these choices, Tiaki Wai would welcome further guidance on the circumstances in which each approach may be appropriate.

Tiaki Wai also notes the Commission's concerns about whether establishment values are suitable as a starting point for determining an opening RAB. We recognise that establishment values may not always provide a reliable basis for reflecting historical investment, asset condition, or the principles of financial capital maintenance. However, for providers such as Tiaki Wai, early clarity on the Commission's preferred direction would assist with the practical work required to assess potential opening RAB values and supporting evidence.

Tiaki Wai therefore supports a pragmatic approach to opening RAB establishment, but seeks further clarity on:

- how the Commission would assess the suitability of different opening RAB methodologies for providers beyond Watercare;
- how data limitations and incomplete historical records should be treated;
- how deemed values, found assets, or later-confirmed assets could be accommodated; and
- how the opening RAB methodology should interact with financial sustainability and financeability.

Cost of capital

Tiaki Wai supports in principle the Commission's proposal to estimate the cost of capital using a benchmark efficient-firm WACC approach. This approach is well established in other regulated sectors and provides a transparent basis for estimating the efficient cost of capital required to support investment in long-lived infrastructure assets.

The WACC framework is a core input into the building blocks model. It will affect allowable revenue, financeability, investment incentives, and long-term financial sustainability. For that

reason, Tiaki Wai considers the Commission's emerging views on WACC to be relevant beyond Watercare, even though the immediate decision is Watercare-specific.

Tiaki Wai acknowledges the Commission's reasoning for adopting a midpoint WACC estimate for Watercare, including Watercare's ownership structure, restrictions on dividend payments and the availability of other regulatory tools. However, Tiaki Wai considers that further explanation would be valuable regarding the Commission's broader position on WACC percentiles and the circumstances in which an uplift may be justified.

While the midpoint WACC represents the Commission's best estimate of the efficient cost of capital, the estimate is inherently uncertain. If the cost of capital is underestimated, this may have implications for investment incentives, financeability and the long-term ability of providers to recover the efficient costs of investment. These considerations may be particularly relevant where providers face significant and sustained investment requirements or financeability constraints.

Tiaki Wai also notes that Watercare's ownership and financing arrangements differ from those of many other water service providers that may be subject to economic regulation in the future.

Given the significance of the Commission's emerging view, and the historical use of percentile uplifts in other regulated sectors, it would be helpful for the Commission to more clearly articulate its broader thinking on the role of percentile uplifts, the circumstances in which they may be appropriate, and the extent to which alternative tools are expected to address investment and financeability risks. Without further analysis and explanation, Tiaki Wai does not consider that the case for excluding the possibility of a percentile uplift has been fully established.

Efficient expenditure

Tiaki Wai considers that regulatory expectations should be realistic and proportionate. The Commission should expect continuous improvement, but should also recognise that capability uplift and efficiency gains will occur over time. Expenditure assessment should therefore place weight on a provider's improvement trajectory, the quality of its planning, the evidence supporting expenditure choices, and the credibility of its delivery pathway.

Tiaki Wai notes that deliverability constraints, including market capacity, specialist workforce availability and supply-chain limitations, are likely to influence the pace at which investment programmes can realistically be delivered.

Tiaki Wai also notes that strong incentives already exist for publicly owned water service providers to pursue efficiency. Efficient expenditure supports lower prices than would otherwise be required, better value for consumers, and improved outcomes for communities. These incentives are reinforced by accountability to consumers, shareholding councils, governance bodies, and other oversight mechanisms.

Tiaki Wai therefore broadly supports the Commission's expenditure assessment framework, but encourages a proportionate approach that recognises differing starting points, current capability, data limitations, and the realistic timeframe over which improvements can be delivered.

Financial sustainability and financeability

Tiaki Wai supports the Commission's recognition of the importance of financial sustainability and financeability. A regulatory framework should not only provide a theoretically sound approach to revenue setting; it also needs to support the practical ability of water service

providers to deliver required investment, access funding, maintain service quality, and remain financially resilient.

Financeability is likely to be a critical issue for many water service providers. Tiaki Wai's own strategic planning identifies the need to balance investment pace, customer charges, borrowing levels, financial covenants, and resilience to financial shocks. These factors are interconnected and cannot be considered in isolation.

Tiaki Wai would welcome further guidance on how financeability considerations would operate within a building blocks and financial capital maintenance framework where financeability becomes the binding constraint. In particular, it would be useful to understand how the Commission would approach situations where the standard outputs of the model do not provide sufficient financial capacity to support prudent and efficient expenditure requirements.

Possible responses could include changes to revenue recovery profiles, expenditure phasing, depreciation or asset recovery settings, price smoothing, alternative financeability mechanisms, or other regulatory tools. Tiaki Wai is not proposing a preferred mechanism at this stage, but considers that greater clarity on the Commission's framework for making these trade-offs would assist planning.

Tiaki Wai is also interested in how the Commission would balance financeability, affordability, and investment delivery. Where higher revenues are required to support financial sustainability, the Commission will need to consider customer impacts, the pace of price increases, the smoothing of price paths, and the risk of price shocks. Conversely, if expenditure is deferred to manage affordability or financeability constraints, there may be implications for service quality, compliance, resilience, and long-term cost.

Tiaki Wai therefore supports the Commission's recognition of financeability as an important regulatory consideration. We seek further clarity on how financeability would be assessed and addressed where it becomes the binding constraint, including the interaction between revenue requirements, expenditure phasing, affordability, price smoothing, and investment delivery.

Other PQP design and implementation issues

Tiaki Wai notes that many of the remaining design and implementation issues in the Emerging Views Paper are specific to the establishment of Watercare's first PQP. Their direct relevance to other water service providers will depend on whether, when, and how price-quality regulation is applied more broadly.

Nevertheless, Tiaki Wai generally supports the Commission's approach to risk allocation. A sound regulatory framework should allocate risks to the party best placed to manage them, while maintaining incentives for efficient expenditure, sound delivery, and good consumer outcomes.

Tiaki Wai also agrees that uncertainty is inherent in expenditure forecasting and revenue setting. This includes uncertainty in capital and operating expenditure forecasts, delivery timing, demand, consumption volumes, growth, financing conditions, and pricing reform. A regulatory framework should be able to manage these uncertainties without undermining incentives for efficient performance.

Tiaki Wai notes that forecasting uncertainty is likely to remain a significant feature of the water sector for some time. This reflects uncertainty in expenditure forecasts, asset condition information, growth assumptions, service requirements and pricing reform. Further guidance on how the Commission expects these uncertainties to be treated within regulatory

assessments would assist providers in understanding how forecast risk is allocated and managed.

Volume and demand risk are particularly relevant where providers are considering changes to tariff structures or pricing design. More cost-reflective pricing, volumetric charging, metering, or other pricing reforms may affect consumption patterns and the relationship between volumes and revenues. At the same time, many water services involve significant fixed costs that do not vary materially with consumption in the short term.

Tiaki Wai would welcome further guidance on how the Commission expects demand risk, revenue variability, and tariff reform to be managed in future regulatory settings. This would assist providers to assess future pricing options while maintaining revenue stability and long-term financial sustainability.

Tiaki Wai therefore, at this stage and pending further detail, does not object to the Commission's general approach to PQP design and implementation for Watercare, while seeking further visibility on how uncertainty, volume risk, revenue variability, and pricing reform may be treated if similar tools are applied more broadly.

Conclusion

The Watercare PQP is likely to have significance beyond Watercare. The Commission's emerging views on revenue setting, RAB, WACC, expenditure assessment, financeability, risk allocation, quality, and assurance may influence broader expectations across the water sector over time.

Tiaki Wai's central request is therefore for greater clarity on the broader application of the Commission's emerging views. In particular, Tiaki Wai encourages the Commission to distinguish clearly between Watercare-specific decisions and broader regulatory principles that may inform future information disclosure, performance requirements, revenue assessment, input methodologies, or price-quality regulation for other providers.

Providing this clarity would improve regulatory certainty, support better long-term planning, and help water service providers prepare for future regulatory expectations while continuing to focus on efficient investment, financial sustainability, and long-term consumer outcomes.

Tiaki Wai encourages the Commission to continue placing significant weight on implementation practicality when developing regulatory methodologies and requirements, particularly where providers are transitioning to new operating models and improving underlying information systems.

Tiaki Wai also encourages the Commission to set out more clearly its broader position on WACC percentile uplifts, including the circumstances in which an uplift may be justified and how alternative regulatory tools are expected to address investment and financeability risks.

Kind regards



Mike Brewster
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