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Commerce Commission
Wellington
Via email: wai@comcom.govt.nz

Tēnā koutou katoa

Feedback on approach to the cost of capital for Watercare PQP28

Water New Zealand (Water NZ) welcomes the opportunity to provide feedback on the Commerce Commission's consultation on the approach to estimating the cost of debt for Watercare's price-quality path 2028 (PQP28), and in particular whether a five-year trailing-average cost of debt (TACD) should apply to PQP28.

Water NZ is a national not-for-profit organisation which promotes the sustainable management and development of New Zealand's three waters (drinking water, wastewater and stormwater). Water NZ is the country's largest water industry body, providing leadership and support through advocacy, collaboration, and professional development. Its approximately 3,600 members are drawn from across the water management industry, including council-controlled organisations, regional councils and territorial authorities, consultants, suppliers, government agencies, academia, and scientists.

We support the Commission's intention to draw on developments across regulated industries and recognise the value of a consistent approach where it is appropriate to water-sector circumstances. Watercare is the first water entity subject to price-quality regulation, and Water NZ's interest is in ensuring that the approach adopted for PQP28 is well founded for the sector as a whole. We do not comment on Watercare's specific financing arrangements, which are a matter for Watercare. Our submission focuses on the information required to assess the options presented in this consultation and the importance of ensuring that regulatory approaches are adapted to the water context.

1. Timing of adoption cannot yet be assessed with confidence

Water NZ considers that the information currently available is insufficient to determine whether the TACD should be adopted for PQP28 or considered at a subsequent reset. Our concern is whether its implementation arrangements will be sufficiently developed, and understood, to support adoption for Watercare's first price-quality path.

Key matters, including revenue-path adjustments, the treatment of inflation forecasts and regulatory asset base revaluation, remain subject to forthcoming consultation for sectors covered by input methodologies. How these matters would apply to water has yet to be determined. Without clarity on these arrangements, it is difficult to confidently assess the implications of earlier adoption or the time required to incorporate them into Watercare's financing arrangements and price-quality proposal.

Water NZ acknowledges the Commission's rationale for retaining the prevailing-rate approach for PQP28, including certainty for proposal preparation and reduced implementation demands. Deferral would also allow Watercare to benefit from the experience of more established sectors. However, these considerations do not, in themselves, establish that deferral is preferable, as a fuller assessment of earlier adoption is not yet possible. A preference on timing of adopting the TACD would therefore be premature.

Of particular significance is the Commission's acknowledgement that earlier adoption could leave Watercare relying on arrangements developed within the available timeframe, rather than an implementation that best fits its circumstances. Watercare and the wider water sector are undergoing significant regulatory transformation and are only beginning to embed economic regulatory requirements. If a decision must be made before implementation arrangements are available, Water NZ considers that certainty and stability carry significant weight. Any such decision should balance immediate implementation demands with the long-term financing and investment needs of the sector.

Recommendation
Water NZ recommends that the Commission:

- recognise that stakeholders are not yet in a position to express an informed preference on timing, and not treat the absence of a stated preference as support for either option
- if it decides on timing before implementation arrangements are finalised, remain open to reconsidering that decision should those arrangements, once published, materially change the case for adopting the TACD for PQP28, while there is still time for this to be reflected in Watercare's proposal.

2. Application of the TACD to water

As water is not subject to input methodologies, a decision to adopt the TACD for other regulated sectors does not, of itself, establish how it should apply to water. Water entities are at an early stage of economic regulation, and the design of their price-quality paths may differ from that of established sectors. Further assessment will be needed of how the TACD would be tailored to these circumstances.

Recommendation

Water NZ recommends that, where settings developed under input methodologies are proposed for water entities, the Commission publish an assessment of how they would be adapted to the water context and seek feedback before the setting is confirmed.

Concluding remarks

Water NZ supports the Commission's direction towards a consistent approach to the cost of capital and recognises the value of drawing on experience from other regulated sectors. However, the information currently available does not yet allow stakeholders to form an informed view on the timing of adoption for Watercare.

Looking ahead, Water NZ would welcome consultations that are timed within the wider regulatory process so that the sector has full information to enable recommendations that are based on a more complete picture. Where proposals depend on implementation arrangements, making those arrangements known first, and allowing adequate time to consider them, would enable water entities to provide well-evidenced feedback and to take a confident position. This will become increasingly important as further regulatory settings are applied across the water sector.

Water NZ appreciates the opportunity to provide feedback and welcomes continued engagement with the Commission as these arrangements are developed.

Ngā mihi

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