Address by Dr John Small, Chair of the Commerce Commission, at the Water New Zealand Conference and Expo 2026

COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

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The following text represents written highlights of Dr John's address, delivered at the at the Water New Zealand Conference and Expo 2026 in Hamilton.

Scene setting

- It's great to be here. What a great conference.
- I feel kind of at home as a farmer responsible for water networks. You know that when the water goes out, there's nothing else you can do but get on to it.
- So I feel aligned with the needs of water service providers. I've also got a touch of hardware disease, I confess, so that great big sucker truck out the front was a really nice way to start the day for me. So it's great to be here.

Why economic regulation matters

- I want to talk about economic regulation. It's not exactly everyone's favourite topic, but it's really important.
- As we know, New Zealand's water infrastructure is largely out of sight. Many of those pipes, pumps and tanks are ageing and deteriorating, while also serving higher populations than they were originally designed for. We do have an infrastructure deficit, and substantial investment will be needed to address that.
- Billions of dollars are being invested every year. In fact, according to the Infrastructure Commission, New Zealand is currently one of the highest spenders on water infrastructure on a per capita basis.
- Water networks are natural monopolies. That means there will only ever really be one pipe into each building. And that creates two main risks.
- The first is related to cost efficiency, both in the form of capital investment and operating management. In the case of a natural monopoly, there's no competitive pressure on the firm, so there's a risk that performance standards will slip.
- The famous theatre columnist Sir John Dix has a beautiful quote: "The greatest of all monopoly profits is a quiet life."
- We don't want a quiet life, because we need those assets to be managed very, very efficiently.
- The second risk can show up in poor customer service, with services that are out of line with reasonable customer expectations. Customers can't choose another provider if they're unhappy with the price, quality, service or investment decisions of the provider where they live.
- Economic regulation helps address both of those challenges.
- It does that first by promoting transparency. From that follows accountability and incentives for good long-term performance. It encourages efficient investment, financial sustainability and a customer-focused approach to decision-making.

- It also helps ensure that money collected for water services is spent on water services, and that investment decisions are efficient and justified. Consumer protections under the current regulatory system help ensure suppliers have appropriate complaints processes, dispute resolution mechanisms and consumer safeguards in place.
- Ultimately, economic regulation seeks to provide the kind of discipline that strong competition brings in other markets.

Our regulatory approach

- Our approach at the Commerce Commission is proportionate and risk-based.
- We won't price regulate everyone, but we will intervene where we feel that is necessary and desirable.
- I'd like to touch on a point made in the last panel. There are a number of regulators in this space, and we're one of them. So let's talk about how we relate to the others.
- Broadly speaking, there are three regulatory roles in this system:
- Economic regulation, which is our role at the Commerce Commission.
- Water quality and standards regulation, which is primarily the responsibility of the Water Services Authority.
- Environmental regulation, which falls to councils and, in some cases, the EPA.
- Each regulator has different objectives, but the roles are complementary.
- That means we collaborate where it makes sense and otherwise stay in our lane and out of each other's way.
- Our focus is on whether organisations delivering water services are performing well, investing wisely and providing value for money for customers.
- In June, we updated our Memorandum of Understanding with the Water Services Authority to reaffirm our shared commitment to collaboration that supports effective and efficient regulation of water services in New Zealand.
- We align our approaches where appropriate, reduce overlap and share information to support effective and efficient regulation.
- A key commitment is that water providers will only need to supply information to one of the Commerce Commission or the Water Services Authority. We will share information as required. Over time, this will likely mean the Water Services Authority stops asking for some information currently requested.
- Through this coordinated approach, we're aiming to improve system outcomes and support the delivery of safe, reliable and sustainable water services across New Zealand.

What economic regulation does

- Let's now talk a bit more about what economic regulation does and doesn't do.
- The Commerce Commission is the economic regulator for water services and is also responsible for consumer protection.
- That means we focus on outcomes that matter for consumers, including:
  - Service quality
  - Efficient investment
  - Financial sustainability
  - Accountability
- Our first task is to understand the performance of water service providers and assess whether they're operating efficiently, investing appropriately and delivering value.
- We do that by collecting and analysing information, comparing providers and assessing performance.
- All of this falls under what we call Information disclosure, or ID.

Information disclosure: the foundation

- Information disclosure is really the ground floor of the regulatory system for water services and other monopoly services that the Commission regulates.
- The purpose of Information disclosure is to allow interested parties to observe and understand the performance of water entities, both individually and comparatively.
- Those interested parties include:
  - Managers of water entities
  - Directors
  - Council members and staff
  - Customers
  - The Commerce Commission
- Information disclosure is the least intrusive form of regulation available to us.
- It shines a light on suppliers' decision-making and performance by requiring regulated suppliers to disclose specified information to us and to the public.
- A crucial aspect of the regime is consistency. All firms disclose information on the same basis, enabling fair and meaningful comparisons.
- By providing comparative information, transparency can influence suppliers to improve performance through reputational incentives.
- For many providers, transparency through Information disclosure alone may be enough to encourage good performance.
- It also reveals where further regulatory attention might be desirable, supporting our flexible and risk-based approach.

Areas of focus

- At a high level, we're interested in what customers pay for water services and what they get in return.
- Our focus areas help us understand where performance is strong, where improvements are needed and whether additional regulatory intervention would be useful.

Service quality and customer service

- Service and network performance
- Customer experience
- Customer protection

Infrastructure and capital delivery

- Asset management practices
- Prioritisation and execution of investment
- Innovation

Efficiency and pricing

- Cost efficiency
- Operating expenditure effectiveness
- Efficient use of water infrastructure
- Pricing and tariff structures
- Tariff structures are particularly important because they create incentives for efficient outcomes and determine how costs are recovered.

Financial sustainability

- Investment sufficiency
- Financial stability
- Revenue sufficiency
- Ring-fencing of revenues
- Dividend policies, where relevant
- Many of these organisations are already, or will soon be, heavily investing in infrastructure, making financial sustainability critical.

Our regulatory toolkit

- Information disclosure is one part of the toolkit. There are several others.

Revenue Thresholds

- Revenue thresholds signal expected minimum or maximum revenue levels.
- We can use them where there are concerns about investment funding or revenue sufficiency.
- For example, if a supplier is not recovering enough revenue to maintain its network effectively, we could set a minimum threshold to support adequate funding.

Ring-Fencing

- Ring-fencing helps ensure that money paid for water services is spent on water services.

Quality regulation

- Quality regulation allows us to set quality standards, separate from price regulation.
- This tool requires ministerial approval and could be used where monitoring identifies issues such as frequent unplanned outages or prolonged service restoration times.

Performance requirements

- Performance requirements are more specific. They direct an organisation to undertake particular actions.
- We've recently asked Ministers and Cabinet to enable performance requirements for Tiaki Wai, and that approval has been granted. We're now considering what those requirements should be and where they should apply.

Price-quality regulation

- Many providers are likely to perform well under Information disclosure alone.
- However, price-quality regulation remains available where stronger intervention is needed.

Consumer protection

- This focuses on ensuring providers have appropriate consumer-facing procedures and protections in place.

Which tool when?

- From our perspective, having a range of regulatory tools provides flexibility.
- We appreciate that, from a provider's perspective, that variety may feel daunting.
- That's why we recently published guidance called '**Which tool when?**', which helps explain how we think about different regulatory tools and when each might be used.

The Importance of benchmarking

- Benchmarking is another important feature of the Commerce Act regime for water services.
- It helps deliver greater insight and transparency from Information disclosure by allowing comparisons across organisations and the publication of comparable information.
- We're pleased to have benchmarking available in the water sector because it will significantly increase the value of the information collected through Information disclosure.

Watercare

- The Commerce Commission is Crown Monitor for Watercare until mid-2028, when economic regulation under the Commerce Act will replace the current charter arrangements.
- Our role is to monitor Watercare's performance against the charter and report publicly.
- At the same time, we're developing Watercare's first price-quality path, which will set requirements for prices, investment and service quality from 2028 onward.

Tiaki Wai

- Because of its elevated risk profile and its predecessor organisation, Wellington Water, Tiaki Wai was subject to a transitional form of regulation called Foundational Information disclosure from August last year.
- Our review indicated that further regulatory measures were needed.
- Earlier this year, we consulted on additional regulatory requirements for Tiaki Wai. Since its establishment on 1 July, it has been subject to the same regime as other water suppliers, alongside the performance requirements provisions discussed earlier.
- Tiaki Wai faces significant challenges, including issues at Moa Point and other critical facilities.
- As economic regulator, we need to understand those challenges and recognise the obligations the organisation is already managing.

Why we do not intend to price-regulate Tiaki Wai in the near term

- There has been considerable public discussion about whether price-quality regulation should be applied to Tiaki Wai.
- We've been examining that question closely.
- The short answer is that price-quality regulation would not reduce prices for Wellingtonians over the next three to five years.
- That may sound surprising, so let me explain.
- Our modelling does not start with the approximately $9 billion asset value assigned to Tiaki Wai's assets.
- One approach would be to start with that asset value and build prices from there by adding returns, debt servicing and operational requirements.
- But that's not how we approached the analysis.
- Instead, we started with a practical question:
- How much revenue does the organisation actually need to service debt, meet operating costs and invest efficiently?
- Working backwards from those requirements, the answer is that prices would need to be higher, not lower.
- Tiaki Wai is under significant financial pressure. It has deferred substantial cost recovery into the future and relies on highly accommodating funding arrangements.
- That's why we do not intend to apply price-quality regulation to Tiaki Wai in the near term.
- What we can do is continue applying pressure through our existing tools, including Information disclosure and performance requirements.

Conclusion

- Economic regulation needs to respect fundamental economic realities.
- If a company is high cost, that is a fact. Underfunding networks is in no one's interest.
- What we can do is promote cost efficiency, transparency and accountability.
- We're taking a proportionate, risk-based approach. We're focusing on the most important system risks, targeting interventions where they'll have the greatest impact, and setting challenging but realistic expectations for improvement.
- That's exactly how this system is supposed to work.
- Success won't be measured by how often we intervene.
- It will be measured by whether consumers receive reliable services, whether investment is well targeted, and whether providers are accountable for the decisions they make.

Thank you.