Property Council New Zealand

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Submission on the Commerce Commission's Approach Paper on Price-quality Path for Watercare

5 February 2026

For more information and further queries, please contact
Leonard Hong leonard@propertynz.co.nz 021 160 0407

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Commerce Commission
Level 9, 44 The Terrace, Wellington
Via Email: wai@comcom.govt.nz

Submission on Commerce Commission's Approach Paper on Price-Quality Path for Watercare

1. Summary

1.1. Property Council New Zealand ("Property Council") welcomes the opportunity to submit on the Commerce Commission's ("Commission") intended regulatory architecture of a price-quality path ("PQP") for Watercare.

1.2. PQP is a binding regulatory decision that structurally sets the maximum revenue a monopoly provider can earn and the minimum service quality it must meet over a fixed period. The framework defines the rules for how long-lived water assets are financially recovered over time.

1.3. Our members are directly affected by infrastructure growth charges ("IGCs"). IGCs are upfront charges paid by developers to help fund new water infrastructure across Auckland. We are concerned about the expected increase in IGCs from mid-2028. Higher upfront infrastructure charges will put additional pressure on development feasibility, particularly given increases in construction and labour costs.

1.4. We welcome the Commission's proactive approach in reaching out for public consultation before the new water regulatory regime begins in 2028. Early consultation will ensure a more transparent and smoother transition to the new PQP regulatory regime.

2. Recommendations

2.1. At a high level, Property Council recommends that the Commission:

- Limits price-quality regulation to Watercare initially, and only considers extending PQP to other water service providers nationally once the regulatory regime has demonstrated efficient investment, cost discipline, and good outcomes in practice;
- Ensures any review or reconsideration provisions are clearly defined with narrow scopes and transparency from the beginning to avoid uncertainty;
- Accompany the building-blocks model with clear and enforceable regulatory rules on cost allocation and disclosure;
- Applies a transparent and conservative approach to setting the initial regulatory asset base ("RAB"), and publishes the key assumptions and modelling inputs;

- Specify an explicit and auditable mechanism within the building-blocks model to offset IGC revenue against allowed revenues, so growth-funded infrastructure is not recovered twice through regulated prices;
- Require binding price-quality path rules for IGCs, including mandatory public disclosure of IGC methodologies and growth assumptions, auditable ring-fencing and reconciliation of IGC revenues against growth-related investment, and clear assurance that IGCs are used for growth.
- Adopts a cautious approach to introducing binding quality standards in the first regulatory period; and
- Sets clear efficiency expectations for Watercare, supported by time-bound plans for cost control and productivity improvements, with independent reviews.

3. Introduction

3.1. Property Council is the leading not-for-profit advocate for New Zealand's most significant industry, property. Our organisational purpose is, "Together, shaping cities where communities thrive."

3.2. The property sector shapes New Zealand's social, economic and environmental fabric. Property Council advocates for the creation and retention of a well-designed, functional and sustainable built environment, to contribute to the overall prosperity and well-being of New Zealand.

3.3. Property is Auckland's largest industry. There are around $997.8 billion in property assets across Auckland, with property providing a direct contribution to GDP of $13 billion and employment for 87,080 Auckland residents.

3.4. Property Council is the collective voice of the property industry. We connect property professionals and represent the interests of 449 Auckland based member companies across the private, public and charitable sectors.

3.5. This document provides Property Council's feedback on the public consultation document "Price-Quality Path for Watercare: Approach Paper" from the Commission. All recommendations are provided on issues relevant to Property Council's members.

4. General comment

4.1. Property Council acknowledges the Commission's role in regulating Watercare. As a monopoly provider, Watercare requires robust economic regulation to ensure efficient investment and predictable pricing. For these reasons, we support the application of a standardised revenue-limiting framework to Watercare.

4.2. We note that the Approach Paper focuses primarily on:

- Overall approach to limiting Watercare's revenues; and

- The regulatory accounting framework underpinning those limits.

4.3. This submission also provides developer-focused observations on other aspects of the Approach Paper that will materially affect development feasibility, including

- Quality standards and performance requirements;
- Expenditure forecasts and incentives; and
- Other price-quality path design and implementation choices.

4.4. While these matters sit outside the two topics formally covered by this consultation, they are closely connected to the effectiveness of Watercare's economic regulation.

4.5. Water services and IGCs are significant cost inputs for development across Auckland. We support the Commission's intent to move toward a more consistent, transparent, and predictable economic regulatory framework for Watercare.

5. Chapter 1-3: Observations on the purpose and structure of the proposed PQP

Introduction

5.1. In other monopoly sectors regulated by the Commission, including electricity and gas, input methodologies set ex ante rules for cost recovery, asset valuation, and revenue limits. Comparable methodologies are not yet in place for Watercare.

5.2. Property Council supports the Commission's pragmatic approach of testing and refining key regulatory settings prior to formalising a full regulatory regime. This supports regulatory learning and a more predictable transition to economic regulation. While some aspects of Watercare's regulatory design may inform future approaches for other water service providers, we recommend that any extension of a PQP beyond Watercare to other entities across the nation should be contingent on this regulatory regime first demonstrating that it delivers efficient investment, cost discipline, and predictable outcomes in practice.

5.3. Furthermore, a proportionate, evidence-based approach to economic regulation is essential. Not all water service providers face the same scale, complexities and risk. Caution and due diligence on applying full price-quality regulation to smaller water service providers will be necessary.

Statutory Purpose and implications

5.4. Property Council supports the purpose of Part 4 of the Commerce Act and its application to Watercare. Encouraging efficient investment, appropriate service quality, and limiting excessive monopoly profits benefits consumers, including those delivering housing and commercial development.

5.5. We support independent verification of Watercare's expenditure proposals, including checking for efficient investment and fostering continuous improvement in water service delivery. Robust verification and checks are important to distinguish costs arising from growth from those reflecting historic investment decisions.

5.6. The principle that “growth should pay for growth” is sound. However, the Commission should clearly articulate how this principle will operate in practice to ensure that growth charges reflect only the incremental capacity required to service new development. Charges should not recover costs associated with historic under-investment or non-growth-related upgrades.

5.7. Where infrastructure projects deliver a combination of growth capacity and non-growth benefits, we recommend the Commission should require Watercare to apply and disclose a transparent apportionment methodology, supported by independent assurance, to identify the proportion of costs that are legitimately growth-related.

5.8. The Approach Paper allows for price-quality paths to be reviewed or reopened during a regulatory period if there are major and unexpected changes, such as shifts in growth or changes to legislation. Some flexibility is appropriate. However, frequent or poorly defined reviews can create uncertainty for developers if charges or regulatory settings change without clear rules. We recommend that any review or reconsideration provisions should therefore be clearly defined, narrowly scoped, triggered by specified events rather than occurring on a regular basis, and transparent from the outset.

The Commission’s proposed approach to limiting Watercare’s revenues

5.9. Property Council supports the use of a building-blocks framework as the long-term approach to limiting Watercare’s revenues. When well designed, this framework can improve transparency, predictability, and confidence in cost recovery.

5.10. However, the way the building blocks are specified and applied will materially influence who ultimately bears those costs. In Watercare’s case, regulatory settings interact directly with growth charges, debt-funded investment, and the absence of dividend and tax obligations. As a result, revenue-cap design choices can significantly affect the balance between costs recovered from existing customers and those passed through to new development.

5.11. To ensure the revenue-limiting framework operates as intended, we recommend the Commission should accompany the building-blocks model with clear and enforceable regulatory rules on cost allocation and disclosure. In particular, consistent regulatory accounting requirements should enable stakeholders to observe how revenues recovered through general tariffs, Infrastructure Growth Charges, and other growth-related contributions interact with the Regulatory Asset Base and allowed revenues over time.

6. Chapter 4: Regulatory accounting basis for Watercare

6.1. As a monopoly provider, Watercare requires robust economic regulation to ensure efficient investment and predictable pricings. Our comments are intended to ensure that the implementation of the proposed framework avoids double recovery, supports predictable investment decisions, and aligns with Auckland's long-term housing and infrastructure objectives.

FCM-RAB Approach

6.2. Adopting a financial capital maintenance ("FCM") approach provides discipline by limiting Watercare's allowed revenues to stop them from increasing prices simply because asset values rise on paper, rather than because real investment has occurred.

6.3. If applied with proportionate and transparent rules, this approach supports long-term investment while protecting customers from unnecessary price increases. Past funding shortfalls, historic under-investment, or costs that were not previously recovered should not be corrected by increasing future regulated charges.

6.4. The regulatory accounting framework under FCM differs from standard financial reporting under Generally Accepted Accounting Principles (GAAP). Under GAAP, accounting revaluations can increase reported asset values, whereas under FCM only real investment should drive higher regulated charges.

6.5. Property Council supports a clear and consistent regulatory accounting framework for Watercare to underpin predictable infrastructure charges and long-term investment.

6.6. The use of a regulatory asset base ("RAB") is part of the building-blocks framework:

- The proposed building-blocks approach sets a cap on how much revenue Watercare can earn. It does this by allowing Watercare to recover the efficient cost of running the network, gradually repay the cost of building long-life infrastructure, and earn a regulated return on the assets it uses to provide water services; and
- RAB provides a transparent way to value and track those long-life infrastructure assets. It allows the cost of major pipes, plants, and networks to be recovered over their useful asset life, rather than all at once. From a development perspective, this helps spread costs over time and reduces the risk of sudden price increases.

6.7. We agree that the regulatory framework should be carefully designed to ensure that the RAB includes only Watercare's own efficient and appropriately funded infrastructure assets, and excludes assets funded by developers or other third parties.

6.8. Assets that are constructed and funded by developers – vested assets – and subsequently vested to Watercare under consent conditions should not be treated as Watercare-funded capital for the purposes of regulated cost recovery.[1]

6.9. As a matter of asset eligibility, we support excluding from the RAB any assets that have already been paid for by third parties. This includes developer-funded assets, revaluation gains that are not linked to new investment, and assets funded through Infrastructure Funding and Financing arrangements. This is necessary to avoid charging twice for the same infrastructure.

6.10. Even where these rules are clearly defined, the success of the framework will depend on how growth-related funding is applied in practice. Depreciation, asset disposals, and growth charges must be tracked and applied accurately to ensure development is not charged again for infrastructure already funded upfront.

6.11. The starting value of the RAB is the most important design decision in the proposed framework. Property Council supports the Commission's intention to set a conservative modelled initial RAB. We recommend that this modelling must be transparent and clearly demonstrate that the initial RAB reflects only the level of investment required to support efficient service delivery going forward.

6.12. Separately, as a matter of valuation discipline, the initial RAB should not be used to retrospectively address historic under-funding, past pricing decisions, or system-wide investment shortfalls, nor should it rely on future growth to fund past costs. We recommend the Commission publish the key assumptions, inputs, and outputs used to set the initial RAB so stakeholders can understand how this outcome has been achieved.

Infrastructure Growth Charges (IGCs) and RAB

6.13. Infrastructure Growth Charges (IGCs) are paid by developers to fund growth-related infrastructure across Watercare's network, rather than specific and identifiable assets. Because IGCs are not asset-specific, we understand why the Commission does not propose deducting them from the value of individual assets in the regulatory asset base (RAB).

6.14. However, this does not remove the need to ensure that growth-funded infrastructure is not paid for twice. Developers already provide real funding upfront through IGCs, and Watercare should not be able to recover that same funding again through higher regulated revenues over time.

6.15. We recommend that the Commission specify an explicit and auditable mechanism within the building-blocks model to offset IGC revenue against allowed revenues over

[1] A vested asset is infrastructure – such as water pipes, pumps or connections – that a developer is required to build and pay for under a consent and then transfer to Watercare once completed.

time. The audit should be clearly documented so developers can see how growth funding is recognised and prevented from flowing into higher future charges.

6.16. We support the Commission's intention to manage this risk at the overall system level, rather than asset by asset. This is important because IGCs represent real funding already provided upfront by development, and Watercare should not charge again for that funding through higher prices over time. This approach is an important safeguard for development feasibility.

6.17. The integrity of the price-quality framework depends on growth charges being clearly and demonstrably linked to incremental capacity required by development. This requires regulatory settings that maintain a transparent connection between Infrastructure Growth Charges, the growth drivers they respond to, and the capital investment outcomes they are intended to fund.

6.18. Property Council recommends that the Commission give effect to this through hard requirements within the price-quality path determination, using its existing powers. These should include:

- mandatory IGC methodology disclosure pack at each PQP reset and on a regular basis, covering growth forecasts, capacity assessments, mapped growth capital programmes, and cost-allocation rules for mixed-purpose projects;
- functional ring-fencing of IGC revenues through a separate growth-fund reporting line with audited reconciliation and a wash-up mechanism where collections materially diverge from growth delivery; and
- a standardised demonstration that IGC receipts are not being used to fund renewals, backlog replacement, or historic under-investment that should be recovered through general tariffs, unless explicitly justified and disclosed.

7. Chapter 5: Other decision-making topics for setting Watercare's PQP

7.1. The issues raised in Chapter 5 are critical to whether Watercare's first PQP supports housing delivery and infrastructure rollout in practice. Decisions about service standards, spending levels, pricing, and regulatory flexibility will directly affect project feasibility, delivery timeframes, the cost of housing and commercial development across Auckland.

Quality standards and performance requirements

7.2. Property Council recommends a cautious approach to binding quality standards, particularly in the first regulatory period. Standards set too early or too tightly risk increasing costs and reducing flexibility in how the network supports growth.

7.3. Quality standards directly affect connection timeframes, service availability, and development costs. If standards are overly conservative or not well aligned with customer priorities, they can slow delivery and drive unnecessary infrastructure costs.

Standards should therefore focus on outcomes that matter to customers and development, such as service reliability and timely connections, rather than prescriptive technical requirements. Some members have raised concerns about how firefighting water supply standards are applied in practice, noting that zoning-based approaches may increase development costs without clear evidence of improved outcomes.

7.4. Standards should also reflect Watercare's role in economic growth and housing. Where evidence is lacking or uncertainty exists, start with performance reporting and benchmarking before introducing enforceable standards to avoid unnecessary costs.

Expenditure forecasts and incentives

7.5. How Watercare's future spending is assessed directly impacts development costs through infrastructure charges and prices. Approved spending should reflect the efficient cost of growth, not conservative assumptions or over-investment.

7.6. While sufficient investment is essential, strong spending discipline is equally important. Without clear efficiency incentives, higher spending today could lead to permanently higher prices in the future, even where that spending is not strictly necessary. We recommend that the Commission set efficiency expectations with time-bound plans for Watercare's cost control and productivity. Independent reviews should test if investments are needed at the proposed scale, and match actual growth demand.

8. Conclusion

8.1. Property Council members invest, own, and develop property across New Zealand. We thank the Commerce Commission for the opportunity to provide feedback on the new regime for a PQP for Watercare.

8.2. We remain committed to working with the Commission to improve the PQP regime when it is implemented in 2028.

8.3. We support the intent of the consultation to improve the economic regulation of Watercare. However, we have made some recommendations which could strengthen this intent by providing stakeholders with clearer benchmarks and criteria.

8.4. For further enquiries, please do not hesitate to contact Leonard Hong, Senior Advocacy Advisor, via email: leonard@propertynz.co.nz

Yours Sincerely,

Martin Cooper

Auckland Regional Chair, Property Council New Zealand