

From: [Andy Burgess](#)
To: [Sally Whineray](#)
Cc: [Catherine Montague](#); [REDACTED]; [Finance and Expenditure Committee](#); [Simon Thomson](#); [Ryan Mclean](#)
Subject: Response to Select Committee Questions
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Kia ora, Sally

Thank you for sending through the questions. They've prompted a good discussion amongst the team and Commissioners, which reflects the importance of these particular matters.

Below are our responses to each question. We are more than happy to assist you and the Committee further on these matters.

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Summary

- The legislation as currently drafted is already flexible enough to deal with the move from 4 to 10 Water Service Entities.
- We support the Bill's flexibility and don't see a need to specify a DPP/CPP mechanism. The way the PQ provisions are currently drafted, we have the flexibility to take into account the different entities' characteristics and adjust our regulatory approach accordingly.
- Depending on the decisions taken on when the different Entities will be established, there may need to be some adjustments to the implementation timeframes that are currently contained in the Bill. Until we know more, it is difficult to provide further guidance around implementation timeframes.
- Cost (time, effort, engagement) of implementing and administering the regime will be greater than for four entities.

Based on your experience with economic regulation in other sectors, what new issues does the ten entity model bring to the discussion about economic regulation compared to a four entity model?

- The flexibility in the Bill allows us to approach regulation in a way that reflects the differences and similarities between the entities. The regulatory process itself is not materially changed by the number of entities (although the cost of implementing it will be).
- There are likely to be some benefits to more entities - for example, we will likely get more disaggregated information which might help us identify trouble spots and examples of innovation. The greater number of entities should allow us to identify better via benchmarking or comparative analysis where efficiencies might be made.
- The greater number of entities and more varied size of the individual entities will increase the cost of implementing regulation, as there are more regulatory decisions to make, a change in the number and form of stakeholders for consultation, and potentially in the capacity and capability of the entities themselves. However, the Bill as currently drafted allows flexibility in the form and approach to regulation across entities that we consider will allow for these differences.
- We note that some of the proposed entities have a particularly small population size and asset base and may struggle to raise debt. This is a structural issue and not something economic regulation can address.

How does a default/ customised price path model differ from an individualised price path model?

What information would the Commission need from the entities to inform a price path?

- A DPP/CPP model assumes that entities can be grouped to reduce regulatory costs, while an IPP model assumes that each entity should be treated separately. The IPP model is closer to that used in other jurisdictions and is consistent with the different nature and context of the different entities.
- We do not think that limiting the approach to a DPP/CPP style regime would be better than the existing PQ regime in the Bill. The Bill as currently drafted allows us to adopt the approach that best suits the different entities. It does not require us to adopt the same approach for all entities subject to a price-quality form of regulation. We also welcome the ability to set infrastructure quality standards first and independently of price paths.
- If the Committee wished to make clear in the Bill that PQ paths and capital expenditure project IMs do not need to be set in exactly the same way for all WSEs, it could consider an additional clause that makes it clear that the Commission may have regard to the scale, complexity, and risk profile of a regulated services provider in determining these matters. However, we do not consider this to be necessary to achieve this.
- The Commission and industry will be drawing on a pool of engineering and regulatory experts that are likely to be in short supply in the early years of the WSEs. The Commission's Infrastructure Regulation Branch manages a multi-year work programme of PQ resets across Fibre, Gas, Telecommunications, Electricity Distribution and Transmission to ensure efficient utilisation of expert resources. Adding ten WSEs to the potential pool of PQ regulated entities would best be managed by providing the Commission with sufficient resource and with flexibility on the timing and extent of PQ regulation.

What implications would going to a 10-entity model have on timing of regulation (and specifically price-quality regulation) compared with a four-entity model? We are specifically interested in knowing how the timelines for gathering enough

meaningful information from 10 entities (vs four) would change and what knock-on effect that would have on the optimal timing for introducing price quality regulation ... as well as whether a potential change from customised to standardised price path would have on the optimal timelines?

- The key factor that might affect timing is which WSEs are established when. Depending on the decisions taken on when the different Entities will be established, there may need to be some adjustments to the implementation times frames that are currently contained in the Bill. Until we know more, it is difficult to provide further guidance around implementation timeframes.
- We expect that getting good information from 10 rather than 4 entities will take more time and resources for the Commission – more parties to deal with, potential inconsistencies in approaches, differences in the organisations’ capabilities, the need to have baseline information for more entities etc. All else equal, this may mean that PQ may start later for some or all entities. We note however that there is currently provision in the Bill to defer the start date of PQ regulation for one or more of the entities.

Nga mihi

Andy



Andy Burgess (he, him)

General Manager, Infrastructure Regulation

Commerce Commission | *Te Komihana Tauhokohoko*

44 The Terrace | PO Box 2351 | Wellington 6140 | New Zealand

www.comcom.govt.nz

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