Submission on economic regulation and consumer protection for three waters services in New Zealand

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Up until now, three waters services have been managed with a community focus that places the community at the heart of the management of these activities.
In a non-competitive market, price and quality regulation is essential, but it's important that the key strengths of the current local government based system are also acknowledged and included in any new legislation and economic regulation model. These include:
 economic measures wider than profits and return on assets consideration of social, cultural, and environmental wellbeings platforms for iwi, council, and the wider community voice to be heard
It's also critical that Te Mana o te Wai, which recognises the vital importance of water to people and communities, is woven across the entire design of any new regulation and legislation from the beginning, and that the economic regulator has enough teeth to hold the new service entities to account.
We see potential for the economic agency to be an independent party that can hold the Water Services Entities accountable to local government, its communities, and iwi, by ensuring transparency and accuracy of reporting, and conducting independent satisfaction surveys.
Throughout the reform process it's been widely communicated to councils, and through them to communities, that customers will be financially better off under the water reforms as opposed to under separate local government models. Therefore, it's imperative that the entities are transparent regarding where and when the efficiencies will be achieved and that they deliver on the promises of lower cost in the long term and improved service delivery standards. A robust economic regulation and customer protection model must be in place to hold them accountable for this.

Your name and organisation

Responses

Economic regulation What are your views on whether there is a case for the economic regulation of three waters 1 infrastructure in New Zealand? In a non-competitive market, price and quality regulation is essential to ensure customers are charged fair and reasonable prices for cost-efficient and reliable services. Three waters services are essential for maintaining life, health and community wellbeing; therefore, economic regulation must be broader than the limited price and quality regulation applicable to the electricity industry. Up until now, three waters services have been managed with a community focus that places the community at the heart of the management of these activities. While the stated goals of water reform refer to bettering the community, we don't think measures or guidelines based on economic regulation of the electricity sector would achieve this. These and other approaches outlined within the discussion document refer to individual benefit (e.g. individual bills) and national benefits (e.g. water conservation), while ignoring the key strengths of the current local government-based system which are: 1. Economic measures wider than profits and return on assets 2. Inclusion of community outcomes With these two aspects in mind, we recommend the approach used for economic regulation in

Victoria, Australia, over the approaches outlined within the discussion document. (Please see Table

1.1 on Page 16 below, from attached Document from OECD Water Regulators document).

16 – 1. OVERVIEW OF REGULATORY FRAMEWORKS FOR WATER SERVICES IN SELECTED COUNTRIES

Type of regulatory functions	Definition
Promoting demand management	Establishing incentives or specific schemes to promote reduced water demands.
Analysing water utilities' investment plans/business plans	In some cases, the regulator may be asked to approve the business plan or the investment plan of utilities.
Information and data gathering	Collecting data from operators, undertaking market research to identify trends and potential risks.
Monitoring of service delivery performance	Monitoring of the performance of water services against a set of targets or of performance indicators. This can involve benchmarking water utilities.
Licensing of water operators	Granting or approving licences for the operation of water systems.
Supervision of contracts with utilities/private actors	The obligations granted by the public authorities to a specific utility may be detailed in a specific contract (it is usually the case when a private actor is brought in). The regulator may be tasked with the supervision of the contract.
Supervising utilities' financing activities	Monitoring the financial schemes of water utilities (e.g. bond issuance, equity investments).
Carrying management audits on utilities	Auditing and /or approving the business plans of utilities.
Customer engagement	Consulting with customers on regulatory issues; communicating regulatory decisions to the public.

Table 1.1. Typology of regulatory functions for WWS (cont.)

This approach includes internal performance measures (e.g. breaks per 100 km of pipe) and independent performance measures such as from survey statistics. Some examples of independent feedback (via survey) include:

Individual feedback (voluntary survey of customer base)

- Satisfaction with price paid
- Satisfaction with continuity of service
- Satisfaction with customer service

<u>Community feedback</u> (compulsory survey of Local Authorities (LA's) and voluntary survey of community customers/ iwi groups (CG's)

- Km's of road dug up within 1 year of reseal (LA's)
- Satisfaction with the way entities meet capital programme planning and delivery to support growth and planning needs of councils
- Satisfaction of entities that work is coordinated and meets the needs of the entity (LA's). (Measured by both number of LA's and number of customers affected)
- Number of house builds delayed due to insufficient water infrastructure (LA's)
- Number of days of public space closures due to contaminated water (LA's)
- Volume of water suppled to community organisations (CG's)
- Satisfaction with engagement with organisation (CG's)
- Satisfaction with service received (CG's)

Government feedback (compulsory surveys to relevant ministries, such as Ministry for Environment)

• Satisfaction with progress made in relation to environmental issues

- Satisfaction with progress made in relation to public health issues
- Satisfaction with progress made in relation to emergency management issues and continuity of supply
- Satisfaction with progress made in relation to Treaty issues

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We believe that these measures will provide a basis for not only monitoring performance towards stated goals and targets, but also provide a platform for the wider community voice to be heard.

What are your views on whether the stormwater networks that are currently operated by local authorities should be economically regulated, alongside drinking water and wastewater?

Yes, particularly considering that the mix of councils in each of the four entities vary significantly in their levels of investment in stormwater. To achieve consistent quality and better environmental outcomes for all of New Zealand it's important to apply consistent pricing principles for all three waters services.

As raised in the discussion document, we are also concerned that leaving one aspect of the business unregulated leaves the ability for results to be manipulated to achieve the targets set (such as the allocation of costs between the activities).

The wider focus of regulation proposed in this submission also enables council feedback on stormwater work as it relates to city and growth planning

What are your views on whether the four statutory Water Services Entities should be economically regulated?

Yes, in the absence of free market economies, some form of economic regulation is needed to protect community and customer interests.

However, the objectives of economic regulation and the mechanisms of such a regulation need to be looked at carefully. A good economic regulator, along with its core regulation duties, can be the source of information and an enabler of innovation.

What are your views on whether economic regulation should apply to community schemes, private schemes, or self-suppliers? Please explain the reasons for your views

As mentioned in the Government's case for change, the objective is to ensure safe and consistent quality of drinking water at a fair price, therefore our view is that economic regulation needs to apply to all levels (i.e. community schemes, private schemes and self-suppliers).

Private water suppliers would be covered by the Water Services Act 2021. This Act covers the health risk for drinking water. The priority has been to get alignment with the drinking water rules, and this should be the focus for small suppliers. In the case for change, there were a number of entities identified that did not meet expected standards. However, many of these were small entities, that are not included in the reforms.

What are your views on whether the Water Services Entities should be subject to information disclosure regulation

Yes. If we want the Water Services Entities to have broader engagement with local government, information disclosure regulation should be a requirement. We see potential for the economic agency to be an independent party that can hold the Water Services Entities accountable to local government, its communities and iwi. It could do this through:

- ensuring transparency and accuracy of information and that what is being reported and disclosed reflects what is happening on the ground.
- conducting independent satisfaction surveys of communities, iwi and local government.

What are your views on whether Water Services Entities should be subject to price-quality regulation in addition to information disclosure regulation?

Yes - already answered

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7 What are your views on the appropriateness of applying individual price-quality regulation to the Water Services Entities?

Ideally the price quality regulation should be tailored to individual Water Service Entities as each of the entities make up different levels of investment and they have unique pressure points. For example, Tauranga and Hamilton communities face significant growth pressures while other communities have different challenges such as high deprivation and low growth.

As noted in Question 1, we recommend the approach used for economic regulation in <u>Victoria</u>, <u>Australia</u> over the approaches outlined within the discussion document. This approach not only includes internal measures, but also independent measures such as from survey statistics. Please refer to Question 1 response for examples.

We believe that these measures will provide a basis for monitoring performance towards stated goals and targets, and a platform for the wider community voice to be heard.

- A) Do you consider that the economic regulation regime should be implemented gradually from 2024 to 2027, or do you consider that a transitional price-quality path is also required?
- B) If you consider a transitional price-quality path is required, do you consider that this should be developed and implemented by an independent economic regulator, or by Government and implemented through a Government Policy Statement?
 - (A) The economic regulation scheme should start from 1 July 2024. This should include the introduction of both price and quality measures as outlined in response to other questions.

It is important that an economic regulation regime is in place from the start. This is because:

- It gives the public comfort and understanding over the controls that are going to be put in place
- It gives the entities certainty over the sort of measures they are going to be held accountable for
- There is less likely to be an immediate 'frenzy' in relation to consumer prices (as happened with the electricity regime where prices immediately soared)
- The entities will collect the data that will allow a baseline of data to report, generating trend information much quicker than if this regime is delayed

Should a phased implementation be considered, appropriate attention should be given to operating efficiencies, growth management and depreciation funding. Initial pricing can be consistent with current charges.

(B) If required, a transitional pricing strategy could be considered. Price quality should be the mandate of an independent economic regulator as opposed to government. To achieve long term benefits for communities, it should be independent of political views and election cycles. We believe that economic regulation should be adopted immediately. We also recommend that this is implemented through an independent economic regulator covering both price and quality aspects.

A) What are your views on whether the Minister of Commerce and Consumer Affairs should be able to reduce or extend the application of regulation on advice from the economic regulator?

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- *B)* What factors do you consider the economic regulator should include in their advice to the Minister? Existing service delivery standards, longer term path for service delivery improvements
- (A) We believe that the Minister of Commerce and Consumer Affairs should be able to reduce or extend the application of regulation on advice from the economic regulator. It is unlikely that the original measures will remain ideal as circumstances change (such as through government policy, customer expectations or global warming) in the future. Therefore, a mechanism to update these measures is vital to ensure they stay relevant.
- (B) On the basis that the economic regulator is set up as an independent body, there should be no restrictions in relation to their advice back to ministers. However, we would expect that advice to be primarily attributable to aspects arising out of the measures being reviewed by the regulator. In particular, we refer to the independent survey results obtained from the following sectors as outlined in Question 1 above.
 - Individual Feedback (voluntary survey of customer base)
 - Community Feedback (compulsory survey of Local Authorities (LA's) and voluntary survey of community customers/ iwi groups CG's)
 - Government feedback (compulsory surveys to relevant ministries, such as Ministry for Environment)
- A) What are your views on whether the purpose statement for any economic regulation regime for the water sector should reflect existing purpose statements in the Telecommunications Act and Part 4 of the Commerce Act given their established jurisprudence and stakeholder understanding?
- B) What are your views on whether the sub-purpose of limiting suppliers' ability to extract excessive profits should be modified or removed, given that Water Services Entities will not have a profit motive or have the ability to pay dividends? Important to recognise intergenerational equity (fair price for services paid overtime).
- *C)* Are there any other considerations you believe should be included in the purpose statement, or as secondary statutory objectives?
- D) What are your views on how Treaty of Waitangi principles, as well as the rights and interests of iwi/Māori, should be factored into the design of an economic regulatory regime for the three waters sector?
- (A) We do not think the proposed Telecommunication Act purpose is sufficient for the three waters entities. As above (from question 1) the purpose statement for the water entities should reflect the wider social, economic, cultural, and environmental well-beings that are currently considered under the local government framework. We note that the regulations primarily relate to 'for profit' entities and are therefore of limited benefit in relation to the water sector. While measures in relation to financial operations are still important, they need to be tempered by nonfinancial performance targets and the four well-beings.
- (B) The excessive profit objective should be removed.

(C) Not answered.

- (D) Regulation must acknowledge Te Mana o te Wai which recognises the vital importance of water to people and communities:
 - The health and wellbeing of water

aspects in the structure of three waters prices?

- The health needs of people
- The ability of people and communities to provide for their social, economic, and cultural wellbeing

What are your views on whether a sector specific economic regulation regime is more appropriate for the New Zealand three waters sector than the generic economic regulation regime provided in Part 4 of the Commerce Act?

Yes, there should be sector specific economic regulation. The issues and challenges facing the water industry are unique, as outlined in Question 1 and subsequent questions above, and require a specialist skill set and a wider focus to regulate, hence an independent economic regulator is considered necessary.

¹² What are your views on whether the length of the regulatory period should be 5 years, unless the regulator considers that a different period would better meet the purposes of the legislation?

Five years is appropriate.

(A) What are your views on whether the economic regulator should be required to develop and publish input methodologies that set out the key rules underpinning the application of economic regulation in advance of making determinations that implement economic regulation? 13 (B) What are your views on whether the economic regulator should be able to minimise price shocks to consumers and suppliers? (C) What are your views on whether the economic regulator should be required to set a strong efficiency challenge for each regulated supplier? Would a strong 'active' styled efficiency challenge potentially require changes to the proposed statutory purpose statement? (A) Yes, because there are clearly significant issues around depreciation funding, renewals, resilience of infrastructure and levels of service investments, therefore some form of consistency is desirable. (B) Yes, but it should not be at the cost of transparency and/or service delivery standards. (C) Yes. Throughout the process it has been widely communicated to councils, and through them to communities, that customers will be financially better off under the water reforms as opposed to under separate local government models. Therefore, it's imperative that an 'active styled' approach to economic regulation, coupled with strong penalty provisions, is in place to achieve this outcome. This may require some wording changes to the purpose statement, as the current language leans towards a more passive approach. The entities need to deliver on the promise of lower cost in the long term and improved service delivery standards. A) What do you consider are the relevant policy objectives for the structure of three waters 14 prices? Do you consider there is a case for parliament to directly control or regulate particular

	<i>B)</i> Who do you consider should have primary responsibility for determining the structure of three waters prices:		
		a)	The Water Services Entity, following engagement with their governance group, communities, and consumers?
		b)	The economic regulator?
		c)	The Government or Ministers?
	C)	есо	ou consider the economic regulator should have a role, what do you think the role of the momic regulator should be? Should they be empowered to develop pricing structure thodologies, or should they be obliged to develop pricing structure methodologies?
		(A)	The price quality aspect of regulation alone will not be enough if the Government also wants to consider equity between different customer groups and inter-generational cost responsibilities. As this is more subjective, we consider it should be included as a government policy objective. Any such political involvement should only be at a strategic policy level.
		(B)	An independent economic regulator should have primary responsibility for determining the structure of three waters prices. Pricing should be primarily determined by the Water Services Entity, following engagement with their governance group, communities, and consumers but with oversight and regulation by the economic regulator
		(C)	To protect the long-term interest of customers the independent economic regulator should be obliged to develop pricing structure methodologies but only after comprehensive consultation with all the relevant stakeholders
15			rre your views on whether merits appeals should be available on the regulators decisions termine input methodologies and the application of individual price-quality regulation?
	-		on the proposal that merits appeals are available where individual groups are affected by price regulation decisions
16		you uire	broadly agree that with the compliance and enforcement tools? Are any additional tools d?
	beł	navio	ement should be the last resort. Financial penalties could potentially drive the wrong ours from entities. Overall, there is a preference for education, and discussion to influence nes. It is the customers who pay the price for penalties.
	is r ent	ewa ity e	ntive-based system deserves consideration, whereby a service entity exceeding expectations rded, as this could negate the need for tools around enforcement. For example, if a service exceeds its obligations attending call outs for water breaks through innovative use of logy, it could receive a financial reward funded by a levy ringfenced for this use.
	The	e Wa	ater Services Act has a similar approach to enforcement.
17			o you think is the most suitable body to be the economic regulator for the three waters Please provide reasons for your view.
	Pre	ferr	ed Option C (New Water Economic Regulation Authority):
	Crc prii	wn o mari	an independent economic regulator would be the preferred delivery model. An independent entity specialises in the delivery of water services and will always benefit the customer ly. However, the analysis (barriers) provided in the discussion document to set up a new are acknowledged (cost and time to establish).

	Recognising that Option C has these constraints, then Option A (Taumata Arowai) would be the next preferred option due to there being an opportunity for specialist understanding of the waters industry. Taumata Arowai might provide added benefits to the customer by front-footing environmental standards in addition to the commercial synergies of being under the same entity.
	Option B (Commerce Commission) is the least preferred option, due to its lack of water experience, and the overall customer experience with the energy sector that it regulates. It will have a very narrow focus, and we see the water regulator needing to be more attuned to social, cultural, and environmental well-beings.
18	What are your views on whether the costs of implementing an economic regulation regime for the three waters sector should be funded via levies on regulated suppliers?
	Yes, that way the cost of administering regulation is borne by the users
	Do you think that the levy regime should:
19	A) Require the regulator to consult on and collect levy funding within the total amount determined by the Minister? OR
	<i>B)</i> Require the Ministry to consult on the levy (on behalf of the Minister) and collect levy funding within the total amount determined by the Minister?
	Option A, as it ensures the regulator consults with customers on work programmes and required funding, which promotes efficiency and an accountability mechanism for customers.
20	Are there any other levy design features that should be considered?
	To ensure enough mechanisms are in place for transparent consultation to occur. Stakeholders for the consultation process would include local government.
Cons	umer protection
	(A) What are your views on whether additional consumer protections are warranted for the three waters sector?
21	(B) What are your views on whether the consumer protection regime should contain a bespoke purpose statement that reflects the key elements of the regime, rather than relying on the purpose statements in the Consumer Guarantees Act and Fair Trading Act? If so, do you agree with the proposed limbs of the purpose statement?
	(A) There are many vulnerable customers who need to be considered. We need to be receptive to the wellbeing and needs of our communities, which may benefit from additional customer protection.
	(B) We support the statements made in paragraph 166, whereby the service to customers is underpinned by quality of water, giving customers a voice, giving customers the tools for redress, and transparency around pricing.
22	What are your views on whether the consumer protection regulator should be able to issue minimum service level requirements via a mandated code that has been developed with significant input from consumers?
	As the industry is a monopoly minimum levels of service are essential for drinking water, wastewater, and stormwater.

	Customer charters and customer contracts could be the mechanism to inform minimum levels of service. From a customer's perspective, having charters sitting alongside a minimum level of service allows greater empowerment overall, with better buy-in around objectives, particularly for Iwi.
23	What are your views on whether the consumer protection regulator should also be empowered to issue guidance alongside a code?
	The formation of a customer charter or contract will provide guidance to customers.
24	What are your views on whether it is preferable to have provisions that regulate water service quality (not regulated by Taumata Arowai) in a single piece of economic regulation and consumer protection legislation?
	Regulation and legislation needs to be easy to find and written in clear simple language. We need to ensure that however this is structured, all parties can easily understand their rights and responsibilities.
25	What are your views on whether minimum service level requirements should be able to vary across different types of consumers?
	Yes. There is a strong case for the ability to vary service across different types of customers. Currently Tauranga City does not cater to many community variances, consequently, we would support the development of targeted service quality solutions.
26	What are your views on whether the regulatory regime should include a positive obligation to protect vulnerable consumers, and that minimum service level requirements are flexible enough to accommodate a wide range of approaches to protecting vulnerable consumers?
	We agree that the regulatory regime should include a positive obligation to protect vulnerable customers, reflected in a flexible approach to establishing minimum service levels, with a focus on communal aspects of water services provision.
27	What are your views on how Treaty of Waitangi principles, as well as the rights and interests of iwi/Māori, should be factored into the design of a consumer protection regime for the three waters sector?
	We support the objective of equitable outcomes and mitigation of unintended consequences on Māori through the introduction of water reforms and ongoing water service delivery.
	The needs of Māori need to be factored in across the entire design of the new regulations.
28	 A) Do you consider that the consumer protection regime should apply to all water suppliers, water suppliers above a given number of customers, or just Water Services Entities? Could this question be left to the regulator? B) Do you support any other options to manage the regulatory impost on community and private subsequence?
	schemes? It is our view that all commercial suppliers should be subject to consumer protection regimes. For practical reasons, the solution for small suppliers may be best served through information disclosure regarding service and performance levels.
29	Do you broadly agree that with the compliance and enforcement tools proposed? Are any additional tools required?

Yes, the proposed elements are broadly agreed.

The regulations should provide for pecuniary penalties, and order to disclose or correct information. Compliance and enforcement action must be timely, transparent and predictable.

30 Do you agree with our preliminary view that the Commerce Commission is the most suitable body to be the consumer protection regulator for the three waters sector?

We believe that the regulation of water service entities requires a nuanced approach, and a dedicated focus. A generic entity like Commerce Commission that is experienced with profit making organisations will struggle with a not-for-profit that has specific focus on health, social, environmental and community outcomes.

31 What are your views on whether the regulator should be required to incentivise high-quality consumer engagement?

Yes. High quality customer engagement will be fundamental to the success of the new entities.

32 What are your views on whether there is a need to create an expert advocacy body that can advocate technical issues on behalf of consumers?

Yes. This could work well, although it could be seen as an extra layer in the hierarchy. We support the outcome of the customer having a voice with the water sector, but this needs to be via an efficient and effective process.

The entities should have dedicated/specialised customer advocates who are well trained and understand the responsibilities.

What are your views on whether the expert body should be established via an extension to the scope of the Consumer Advisory Council's jurisdiction?

The structure of the CAC allows it to be broadened. There are synergies and learnings that could be brought through if the CAC was introduced. However, we have highlighted in the previous questions that we do not wish to see an unnecessary hierarchy when there is the possibility that this function could be built within the water entity structures.

34 What are your views on whether there is a need for a dedicated three waters consumer disputes resolution scheme?

Yes, agree that a scalable disputes mechanism will be needed. The discussion document states that the Commerce Commission is not able to keep up with the volume of complaints received, therefore the new three waters entities will need to have new mechanisms built. However, we don't support extending the Utilities Disputes Ltd offering, the preference would be for an independent offering.

What are your views on whether these kinds of disputes should be subject to a dispute resolution schemes? Are there any other kinds of issues that a consumer dispute resolution provider should be able to adjudicate on?

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The entities should be geared to handle all the noted complaint types. However, there will be escalations where there are dissatisfied customers.

There are other areas that should be considered in the list; damage to property, reinstatement, summer water restrictions, damage to land (i.e. flooding, scouring), sustained odour issues, and loss of amenity value.

36	What are your views on whether a mandatory statutory consumer disputes resolution scheme should be established for the water sector?	
	Yes - answered above.	
37	Do you consider that a new mandatory statutory consumer disputes resolution scheme should be achieved via a new scheme or expanding the jurisdiction of an existing scheme or schemes?	
	Yes – answered above	
38	Do you consider that the consumer disputes resolution schemes should apply to all water suppliers, water suppliers with 500 or more customers, or just Water Services Entities?	
	The disputes resolution scheme should apply to everyone. It is often the smaller supply schemes that have bigger problems, therefore there needs to be a structure around these suppliers.	
39	Do you think the consumer dispute resolution scheme should incentivise water suppliers to resolve complaints directly with consumers?	
	There needs to be careful thought around this as we shouldn't be incentivising a process that supports frivolous complaints. However, if there was a threshold (e.g. \$2,000) per complaint, this might help incentivise the parties to reach agreement.	
40	Do you consider that there should be special considerations for traditionally under-served or vulnerable communities? If so, how do you think these should be given effect?	
	We support entities training their staff to specialise in and manage the nuances of the communities within their region.	
	The items bullet-pointed in paragraph 238 have been well covered. In addition to those, we would support the inclusion of: people with learning disabilities, multi lingual staff, and stakeholder segmentation specialists.	
41	What are your views on whether the costs of implementing a consumer protection regime for the three waters sector should be funded via levies on regulated suppliers?	
	In principle we support the application of levies. However, this is a discussion that should take place once the entities have been formed and some of the other building blocks have been put in place.	
	Do you think that the levy regime should:	
42	A) Require the regulator to consult on and collect levy funding within the total amount determined by the Minister? OR	
	B) Require the Ministry to consult on the levy (on behalf of the Minister) and collect levy funding within the total amount determined by the Minister?	
	As above	
43	Are there any other levy design features that should be considered?	
	As above	
Implementation and regulatory stewardship		

44	Do you consider that regulatory charters and a council of water regulators arrangements will provide effective system governance? Are there other initiatives or arrangements that you consider are required?
	Any regulatory charters and stewardship arrangements need to support the delivery of the reform outcomes.
45	Do you consider it is useful and appropriate for the Government to be able to transmit its policies to the economic and consumer protection regulator(s) for them to have regard to?
	Statutory independence is paramount. Policies need to be consistent and based on the intent of the water reform legislation and regulation.
46	What are your views on whether the economic and consumer protection regulator should be able to share information with other regulatory agencies? Are there any restrictions that should apply to the type of information that could be shared, or the agencies that information could be shared with?
	The ability to share information would allow for coordination and efficiency between agencies. However, privacy should always be a key consideration, and the agencies should only collect information that is essential for their service, with the approval of all parties, and in compliance with relevant legislation.
	We support any tools that reduce the duplication of effort for both the entity and the customer.

Other comments