

24 January 2025

Competition Policy Team
Building, Resources and Markets
Ministry of Business, Innovation and Employment
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Kia ora,

SUBMISSION ON THE PROPOSED COMMERCE COMMISSION LEVY FOR THE ECONOMIC REGULATION OF WATER SERVICES

1. The Dunedin City Council (DCC) thanks the Ministry of Business, Innovation and Employment (MBIE) for the opportunity to make a submission on the proposed Commerce Commission levy for the economic regulation of water services.
2. The DCC notes that the Commerce Commission's regulatory functions in relation to water services are set out in detail in the Local Government (Water Services) Bill (the Bill), which is currently before Parliament's Finance and Expenditure Committee. The DCC may also comment on the proposed economic regulation regime in a submission on that Bill.
3. The DCC recommends that MBIE considers submissions on the Bill and the Finance and Expenditure Committee's subsequent report alongside submissions on the proposed levy. This would mean that the levy proposal could be revised to reflect any changes to the Commerce Commission's proposed regulatory functions and/or the scope of the economic regulation regime. The DCC will forward to MBIE any relevant portions of its submission on the Bill after the closing date for submissions on the Bill.
4. In the meantime, the DCC would note the following points about the proposed economic regulation regime:
 - a. The DCC provides drinking water, wastewater and stormwater services for Dunedin. Water services infrastructure is owned by the DCC and water infrastructure and services are managed 'in-house'.
 - b. The DCC is currently preparing a Water Services Delivery Plan (WSDP) in accordance with the requirements of the Local Government (Water Services Preliminary Arrangements) Act 2024. The DCC, as part of the WSDP, must determine – in consultation with the community – the future delivery model for water services in Dunedin.
 - c. The DCC has not yet made a formal decision on the future water services delivery model for Dunedin. The DCC is considering options that include continuing to deliver water services 'in-house'. A formal decision on the future delivery model will not be made until mid-2025, following public consultation.

- d. The DCC considers the scope and scale of the Commerce Commission's economic regulation activities should be tailored to the water service provider's delivery model. The DCC is concerned that the level of Commerce Commission oversight currently proposed may be higher than is necessary in cases where councils adopt a delivery model that retains a high degree of council control (e.g. 'in-house' delivery). The DCC notes that the existing 'in-house' delivery model for water services already has a number of checks and balances in place that contribute to achieving the objectives of the proposed economic regulation system. These include long-term planning and audit requirements, with democratic elections as a backstop if the council's performance does not meet the expectations of consumers.
 - e. The DCC would encourage the Government and Parliament to carefully consider the appropriate level of regulation to be applied to councils that contemplate continuing to deliver water services 'in-house', as well as the various other possible delivery models.
- 5. In addition to the above, the DCC wishes to note that every new cost imposed on councils by central government has an impact on council budgets and, ultimately, on rates. Should the economic regulation regime and associated Commerce Commission levy go ahead as currently proposed, the DCC would need to assess the different options for incorporating the costs of the levy into operating budgets and rates, and to determine the most efficient system of administration.
 - 6. The cost of the levy itself would have a relatively low impact on rates (estimated at 0.07-0.19% for 2025/26, depending on whether applied via a general rate or via targeted rates for water services). However, the DCC expects it would incur additional operating costs to implement systems and procedures to monitor and report on compliance with economic regulation requirements. The DCC has not yet assessed the size of this impact. In times of financial pressures for both councils and members of the community alike, any additional cost increase is burdensome.
 - 7. The DCC recommends that MBIE provides a second opportunity to give feedback on the levy proposal once any adjustments have been made as a result of this consultation and the Finance and Expenditure Committee's consultation on the Local Government (Water Services) Bill. The DCC also recommends that, due to the further work to be done, any introduction of a levy be delayed until 1 July 2026.
 - 8. The DCC thanks MBIE once again for the opportunity to make a submission on the proposed Commerce Commission levy for the economic regulation of water services. The DCC would welcome an opportunity to speak to this submission.

Kā mihi,

Privacy of natural persons

Councillor Jim O'Malley
CHAIR, INFRASTRUCTURE SERVICES COMMITTEE