Comment to the New Zealand Productivity Commission

on the Draft Report, *Using Land for Housing.*

August 2015

Introduction

1. We welcome the release of the Commission's Draft Report and the invitation to comment. The report is well written and well structured and addresses all the matters the Commission was asked to comment on. We compliment the Productivity Commission's efforts in this regard. The many complex issues around the subject matter have been clearly articulated.

2. Water New Zealand will confine comment to those matters addressing water management and delivery in Chapter 8.

8.2 Water Infrastructure

3. The problems listed on pages 208-209 have been previously identified by us and further discussion on those issues is welcomed.

4. **Q8.2** *Are there significant scale economies in the provision of water infrastructure that could improve the efficiency of provision that are not being realised in New Zealand's high-growth cities?* – The short answer to this question is 'yes' but it is important to note that scale economies are not confined to high-growth urban centres. Such economies should also be explored in areas with low growth, declining populations and aging infrastructure. Scaling water services provision in a geographic area to include both large and small suppliers has been shown elsewhere to enhance economies of scale, including service delivery, focussed funding and improved infrastructure.

5. **Q8.3** *Would greater integration and clarity within the statutory and legal frameworks for water supply, wastewater and stormwater assist councils in providing the water infrastructure necessary to support urban growth?* – The draft report has noted our previous observations in this area. Once again, the complex and convoluted nature of the current regulatory environment in relation to water services is not only an impediment to urban growth but to water services provision in general. As one example, there are considerable variations both within catchments and across the country to the way water assets are approved and consented. The lack of integration and clarity often results in unnecessary and excessive costs, long time delays, and an overly litigious approach.

6. **Q8.4** *Does a case exist for introducing access, quality and price regulation for water services in New Zealand?* – The case for introducing regulatory oversight for a monopoly service has been well demonstrated elsewhere. While there has been a suggestion here that a regulatory approach such as applies to electricity lines companies results in an excessively costly regime, we are not aware of this occurring in other jurisdictions in relation to water services. Caution needs to be taken, however, in suggesting a regulatory approach until such as time as there is a level of institutional change.

When water services are moved to stand-alone entities, as in the CCO model, regulation is an appropriate commercial and operational discipline. The CCO model currently has only limited application in this country at this stage. Most water services remain 'embedded' within a TLAs other functions. Attempting to apply regulation to a fragmented system with varying levels of price and condition transparency could prove to be an expensive exercise and the desired outcomes may not result. As the Auditor-General has noted, "*Good information about network asset performance helps good decision making about capital*

expenditure and how to fund that expenditure. Therefore the results of our analysis raised questions for us about the information local authorities use for asset maintenance, renewal, and replacement decisions…….Our own observations and advice from experts is that other countries…have better quality data and collection practices than those that our local authorities use to manage water and roading assets."[1]

In the introductory paragraph to Section 8.4 you note that in the case of Watercare revenue is raised by way of metering and volumetric charging for water services provision. While the question of metering has often misinformed rhetoric surrounding it, it is clear there are significant advantages. Rapidly emerging technologies such as digital or 'smart metering' means that consumers have a far greater sense of the value and importance of the water they receive. Metering results in greater equity than is currently the case, where a blanket uniform annual charge offers no incentive to change consumer behaviour. It helps identify leakage, offers a pricing tool to manage supply in times of drought, and allows the consumer to far more effectively manage their demand requirements.

7. **Q8.5** *How could the governance and funding arrangements for water infrastructure be improved to encourage providers to be more responsive to demands for new connections to the water network?* – As we have noted above, moving to dedicated and stand-alone water entities would in general improve governance and clarify funding issues. Elsewhere in the report (p216) you have detailed the advantages and disadvantages of 'arm's length' delivery. That analysis suggests advantages out way disadvantages, and, if accompanied by light-handed but directed economic regulation, would likely improve response to the requirements for new network connections.

8. In the conclusion to this chapter you note, *"Substantial weaknesses have been identified is the sector's regulatory and institutional framework. Addressing these weaknesses would improve the performance of the sector in general, and in a way that could contribute to urban growth through improving the way infrastructure is delivered.* We would suggest this sentiment moves to a recommendation in you final report.

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[1] Page 5,"Water and roads: Funding and Management Challenges", Office of the Auditor General, November 2014