

# Local Water Done Well

## Preparing for economic regulation

The upcoming economic regulation under the "Local Water Done Well" policy framework marks a transformative moment for New Zealand's water sector. It represents a shift towards ensuring greater accountability and sustainability in water service delivery.

The new economic regime, overseen by the Commerce Commission (the "Regulator"), will emphasise efficiency, transparency and accountability. It will require Councils to adhere to stricter planning and reporting protocols, including mandatory information disclosure, to promote efficient practices and protect New Zealand water users.

### Council roadmap

The Local Government (Water Services) Bill ("the Bill"), released in December 2024, is crucial supporting legislation that outlines key requirements for water services delivery, economic regulation, and the customer protection regime. It also introduces significant changes to the regulatory framework for water quality itself. We have reviewed the guidance provided, leveraging our extensive sector knowledge and global experience to share insights and tips for Councils during this pivotal time, with a focus on **economic regulation** as a key step change for the sector.

We share our reflections on the Bill and highlight essential aspects such as the **timeline** of requirements, **what's involved** in information disclosure and **some tips and key questions** for water service providers (WSPs) to consider. Our goal is to support Councils in:

- identifying readiness gaps;
- informing strategic planning for their Water Services Development Plans (WSDPs); and
- engaging their communities effectively throughout this transformative journey.

We also outline our views on potential longer-term arrangements to consider for the future of economic regulation of the water sector. These are speculative and intended to support Councils to consider an early roadmap of what to expect in the years to come.

### KPMG Aurecon partnership

Navigating the complexities of economic regulation requires expertise, strategic planning, and a deep understanding of the water sector's evolving demands. We are uniquely positioned to support Councils at every step, from assessing risks and enhancing governance to aligning WSDPs with regulatory requirements.

With a proven track record driving excellence in asset management, innovation and efficiency, and supporting compliance pathways, we can help you deliver sustainable, customer-centred water services.

**Contact us to discuss how we can work together to shape a resilient and successful future for New Zealand's water sector.**



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# Timeline to economic regulation

While the bill is under review by the Select Committee and may undergo changes after further consultation, its proposed rollout has been defined.

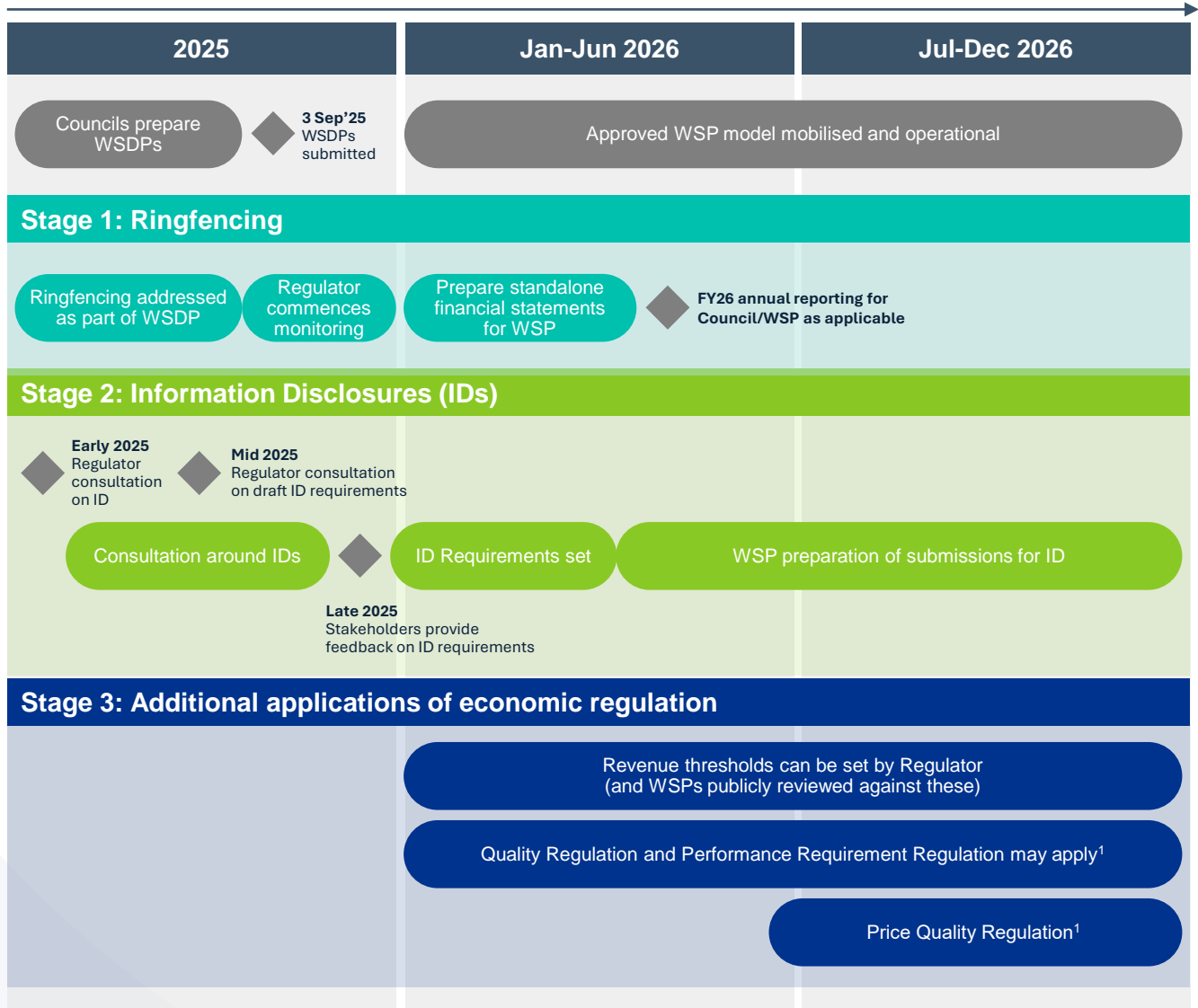
The Bill outlines three key stages for the economic regulation of Water Service Providers:

1. Ring-fencing of water service revenues (early 2025).
2. Information Disclosure to the Regulator (late 2026).
3. Potential additional requirements over time: Although Information Disclosure will be the key (both minimum and maximum),

3. (cont.) Quality Regulation and Performance Requirement Regulation, and Price-Quality Regulation.

Each stage represents additional levels of scrutiny from the Regulator.

In the following pages, we briefly outline the anticipated implications of each stage for WSPs, particularly in preparing their WSDPs.



1. If recommended by the Regulator, subject to Ministerial support  
 2. Above timeline applies to the majority of WSPs / Councils – with the exception of Watercare and providers that are excluded from the Act (i.e. 25 or fewer consumers).



## Water Services revenue ringfencing

**A key financial principle of the Bill is that a Water Service Provider must demonstrate that the revenue it receives from providing water services is used exclusively for water services (including maintenance, improvements, and growth). The intent is to build trust through transparency and clear allocation of funds.**

This first stage of economic regulation requires Water Service Providers to ring-fence water service revenue. This involves maintaining separate accounts to clearly demonstrate the collection and expenditure of water service revenue. If these accounts are not already distinct, Councils should prioritise establishing them and implementing processes for accurate reporting.

The Regulator will monitor this reporting to ensure that revenue is appropriately allocated for the provision of water services. Penalties for non-compliance can be applied from 1 July 2027.

Ring-fencing is an important first step toward the requirements for Information Disclosure (Stage 2). The systems for allocating revenue should be straight forward but the cost allocations could be more complex and would need to be considered.

### Key questions for Councils to prepare for ringfencing in drafting their WSDP:

- What systems, processes and governance structures do we need to establish or enhance to ensure transparent reporting?
- Do we have the data and systems in place to respond to the Regulator's requests in a timely manner?
- How can we engage our stakeholders along the economic regulatory evolution to build and maintain trust?
- Have we adequately identified and sufficiently mitigated all the risks in our business planning?
- How can we create a credible plan to address these risks by the time economic regulation starts?



## Stage 2 Information Disclosure

**The Bill indicates that from late 2026, all water service providers will be subject to Information Disclosure (IDs) as a minimum requirement.**

Consultation on Information Disclosure will take place over 2025. This is typically a light-handed form of regulation, leaving pricing decisions the responsibility of the Water Service Provider.

Information Disclosure requires providing a range of information to the Regulator and sets in motion a practise of making relevant data and information accessible and transparent to stakeholders, including consumers, policymakers, and investors. Information may include the following:

- Performance (in relation to the provision of water services),
- Quality (in relation to water quality or compliance with water standards),
- Financial sustainability (revenue sufficiency, cost management, price-quality, investment in infrastructure to meet future demand, financial planning and risk management etc...), and
- Other relevant information to support effective regulation.

Our experience with similar economic regulation regimes of water in Australia and in Information Disclosures in other New Zealand industries, suggests that over time, the Regulator will establish industry benchmarking to evaluate the relative performance of Water Service Providers using key metrics and performance indicators (an example of this is the [Performance Accessibility Tool - New Zealand electricity distributors - Data and metrics by the Commerce Commission New Zealand](#)). This practice can help identify areas for improvement, set performance goals, and encourage providers to adopt successful strategies from other regions.

The Regulator intends to publish its proposed approach to Information Disclosure in early 2025 for feedback later this year. Our experience tell us the following types of information will be required from providers in response to these requests – although the Regulator has signaled that the level/depth of information required in early stages may vary depending on maturity and size of each organization:

- Financial information, including expected profits – highlighting a provider’s financial health and sustainability, and including profit and loss statements and future profit.
- Forecast operating costs – disclosures demonstrating how providers plan to manage expenses related to their operations in the upcoming years, including maintenance, network operations, staffing, overheads and the cost of regulatory compliance itself.
- Asset management plans and capital expenditure investment forecasts – detailed plans on managing and maintaining physical assets, along with forecasts for future capital investments to demonstrate how providers ensure infrastructure reliability and long-term service delivery.
- Pricing information and justification of approach – setting out how they set prices (tariffs/charges), including the rationale behind different pricing segments and the balance between fixed charges and usage-based charges. This is intended to enhance transparency and enable understanding of the pricing structure.
- Quality of service information - information on service quality metrics that reflect how well providers are meeting customer expectations and regulatory standards, including aspects such as service reliability and customer satisfaction.
- Customer engagement – evidence demonstrating that customer engagement has been meaningful, inclusive, and outcome-oriented, ensuring that customer priorities directly influence service levels, affordability, and long-term investment strategies.



## Information Disclosure (cont.)

In addition, while not directly telegraphed in the Bill, we see the following requirements commonly required in regulated water services environments worldwide:

- Consumption information and forecast demand including growth trends - Historical and projected water consumption data to provide insights into current demand and anticipated future trends, helping to gauge the adequacy of water supply planning.
- Cost allocation methodology – detailing costs are allocated across different services and customer segments. This will help to ensure that pricing practises are transparent and equitable.
- Proof of comprehensive evidence-based investment planning (e.g., robust business cases for capital investment options) supported by clear governance, including policies, procedures, and standards.



### Key questions for Councils to prepare for Information Disclosure in drafting their WSDP:

- Do we have a strategy that guides how we collect data to enable a comprehensive understanding of our water services?
- How can we use our data to identify and mitigate risks in our WSDP? Can we create a credible plan to address these risks before economic regulation starts?
- Do we have the necessary information that help us understand and provide the evidence base for decisions on capital planning, maintenance, demand forecasting, and our overall business strategy?
- How do we engage with customers and communities to get their feedback and maintain trust throughout our planning process?
- Do we have an implementation plan that is adequately resourced to meet the requirements for economic regulation?





# Additional applications of economic regulation

## The Bill introduces new regulatory tools for the Regulator, as well as tools used in other sectors.

Additional measures could be implemented by the Regulator, potentially using baseline information provided through the WSDPs or subsequent ID submissions. Based on this data, the Regulator may identify providers requiring closer scrutiny.

The specific additional tools that may be applied include:

- **Revenue thresholds (NEW tool)** – The purpose is to promote the ongoing recovery of revenue at a level that covers efficient costs, so that regulated suppliers invest in water services infrastructure to meet consumer demands thereby ensuring that water services are provided in a cost-effective, financially sustainable, and accountable manner. The Bill provides for the Regulator to apply this tool without further approvals of the Minister (unlike the other tools below), enabling the Regulator to make determinations on minimum or maximum revenues the water service providers should receive. It also clarifies that the Regulator does not have enforcement powers for revenue threshold but can assess performance against these thresholds and may rate and rank Councils publicly. This urges water service providers to set pricing that ensures revenue falls within these target thresholds.
- **Performance requirement regulation (NEW tool)** – the Bill enables the Regulator to make or investigate investments for improving performance. Like revenue thresholds, it is intended to motivate water service providers to invest in assets if there is under-investment. The regulator will make this requirement if it is in the long-term interests of consumers, therefore while this may require higher revenue (i.e., prices) over the short term to fund the investment, over the long term it will result in better performance and potentially lower cost and pricing.
- **Quality regulation (NEW tool)** – the Bill grants the Regulator the authority to establish quality standards and incentives, such as the frequency and duration of network interruptions. Our international experience suggests that these quality incentives may include imposing penalties if the standards are not met.

- **Price-quality regulation** – This regulation is used in various sectors such as electricity, telecoms, and gas. It will allow the Regulator to set price or revenue levels and establish clear service quality requirements for providers. This form of regulation is one of the most robust tools available to the Regulator and is similar to the systems applied to major water utilities globally.

Prior to the application of the latter three tools, the Regulator must submit a recommendation to the Minister. This recommendation will be reviewed by the Minister and, if supported, may be enacted through an Order in Council.



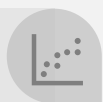
### Key questions for Councils to prepare for future additional applications of economic regulation in drafting their WSDP:

Do we expect to see any of the following risks in our WSDP that could draw the Regulator's attention:

- Pricing and revenue proposals that don't meet expected costs within a reasonable period (i.e. potential continued under-recovery).
- Capital or operating costs that are insufficient and may reflect potential service risks, or costs that exceed the benchmark and may be considered 'gold-plating'.
- Major capital program proposals that don't address service levels, enable growth, or are not market-related.
- Pricing or revenue structures that deviate from the norm, with novel approaches drawing more attention.
- Evidence gaps that could prompt a regulatory response that introduces further service risk into the business.

If so, we should :

- Outline in our WSDP how we will address these risks and make a credible case that the planned investment is at an appropriate level and that the forecasted revenue will support this activity.
- Examine how our investment planning practices (e.g., business cases for capital investment options) and evidence justify our expenditure proposals. Are they supported by clear governance, including policies, procedures, and standards or do we need to develop a pathway to mature these areas?



# What do we expect to see in the longer term?

The introduction of economic regulation marks the beginning of a transformative journey under for the New Zealand water sector. Over time, this framework is expected to evolve beyond the immediate goals of accountability and efficiency to address broader economic, environmental and social challenges.

We anticipate the following evolution over time:

- **Strengthening accountability and performance** – Standards will expand to include more sophisticated performance benchmarking, encouraging water entities to improve, innovate and share practices across the sector.
- **Evolving pricing mechanisms** – Frameworks will move beyond cost recovery and affordability to incorporate dynamic elements such as demand management, environmental costs and conservation incentives.
- **Enhance data-driven regulation** – Advancements in technology will drive the adoption of real-time monitoring and analytics, enabling more proactive and adaptive regulation.
- **Greater focus on customer and community outcomes** – Recognising that water is central to our communities and daily lives, regulation is likely to focus on measures to ensure equitable access to services, addressing affordability and protecting vulnerable communities.
- **Fostering innovation and investment** – In future, regulation could also expect to encourage the adoption of advanced technologies, sustainable practices to balance financial sustainability with service improvement.
- **Expanding public and stakeholder engagement** – Transparency will increasingly require meaningful engagement with communities and stakeholders. Over time, regulation may mandate deeper consultation and co-design processes for decisions relating to tariffs, infrastructure planning and service delivery improvements.

In addition, we anticipate that the approach for economic regulation could be tailored or right-sized based on the provider under review:

- Regular cycle of information disclosure or price-quality regulation for larger or multi-council providers,

OR

- Guidance on policies and rotational audits by the Regulator for smaller entities, to incentivise strong investment and pricing policies without substantial regulatory burden.

Throughout this journey, we expect the Regulator to develop a systematic approach across the sector, ensuring consistency in the quality and robustness of internal information from providers.

Councils should be prepared for economic regulation to change over time and should maintain continuous improvement in practices as a priority.



## Considerations for Councils to maintain readiness for economic regulation

Economic regulation is expected to be a key part of New Zealand's water sector now, and into the future. Instead of designing processes specifically for economic regulation, providers are encouraged to consider how suitable business processes can be used for economic regulation information requirements.

Utilities that succeed in economic regulation often have robust business processes for investment and revenue decisions, built on customer and community engagement foundations. These processes are then used at each regulatory cycle, rather than rebuilding information sets at each regulatory review.

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