

Watercare – the benefits of integration to rural customers

Background

In 2010 Watercare became the provider of all water and wastewater services in Auckland previously run by the legacy councils.

The benefits of integrating the six local network operators of the region's water include both efficiency gains and improvements in the quality of service.

Efficiency gains

The Royal Commission on Auckland Governance identified that in 2006/07 the Auckland water industry had revenue of around \$600 million. In its first full year of operation as an integrated entity Watercare had revenue of \$442 million, in 2016/17 (six years after integration) Watercare had revenue of \$570 million in 2016/17¹. In the meantime Watercare had invested \$1.7 billion in infrastructure, increased debt by \$385 million, delivered capacity for growth and achieved a Ministry of Health Aa grading on all water services and increased the level of consent compliance across the region.

The current price for water is \$1.48 per 1,000 litres inc GST, and by way of comparison, remains cheaper than Metrowater's price in 2010 which was \$1.62 at the time of integration. The average monthly household bill for both water and wastewater was \$75.33 for the year ended 30 June 2017. This is a 0.9% of the average household income.

Use of in-house capability to replace consultant cost

Prior to integration many legacy councils were reliant on external consultants for provision of waters expertise – at integration Watercare was able to in-source activities such as resolution of treatment process issues through existing Watercare expertise. This resulted in \$1 million per annum of savings in the former Rodney area alone.

Quality of service gains

Core assets operated in house

Following integration Watercare transferred the operations activity of all treatment facilities to in-house teams under Watercare's existing management structure. This resulted in the elimination of a level of contracted management services plus resulted in consistent application of Watercare operating procedures and operational expertise across all water and wastewater treatment facilities in the Auckland region resulting in a higher level of service. Robust management process is a key driver of service quality and a criteria in assessment of drinking water grading.

Investment in infrastructure to service rural communities

Watercare operates services for multiple rural communities within the Auckland region specifically those previously operated by the Rodney and Franklin District Councils. Since integration Watercare has invested significant sums of money to improve the quality of these services, meet enhanced consent conditions and to prepare for significant growth aspirations under the Auckland Unitary Plan.

¹ excluding vested assets

Examples of these projects include:

Rodney

Project	Description/outcome	Value \$m
Kumeu, Huapai, Riverhead servicing project	Provision of metropolitan water and wastewater services to North Western rural communities	30
Helensville wastewater upgrade (complete)	Renewal and upgrade of Helensville wastewater treatment facility to cater for growth and deliver higher quality discharge	8
North Eastern wastewater scheme (underway)	Wastewater discharge consent, treatment plant construction and transfer pipelines to develop wastewater services at rural communities in Snells/Algies and Warkworth catering for existing and forecast populations at higher quality discharge location	190
Warkworth water supply (underway)	New water source located and consented, new treatment facility and network enhancements to service current and forecast populations	21
Wellsford wastewater treatment upgrade (underway)	Consent and upgrade wastewater treatment facility at Wellsford	14
Omaha wastewater consent and upgrade (underway)	Consent renewal and wastewater plant upgrade	3
Waiwera wastewater diversion (planned)	Remove existing wastewater discharge (consent has expired) from Waiwera River and divert to Army Bay network	8
Wellsford water supply (underway)	Source investigation, consenting and water treatment facility to be constructed to cater for growth	11

Franklin

Project	Description/outcome	Value \$m
Franklin rural communities water supply (complete)	Provide metropolitan water supply to North Franklin rural communities catering for existing and forecast populations	28
Pokeno/Tuakau water supply (complete)	At the request of Waikato District Council (WDC) Watercare provides bulk water to WDC towns to cater for growth and provide Aa graded water at a cost significantly lower than WDC can provide.	1 ²
Pukekohe wastewater upgrade (underway)	Renewed and upgraded transmission sewer, wastewater discharge consent and upgrade of treatment facility to cater for growth at higher quality discharge	115
South Western wastewater scheme (underway)	Wastewater discharge consent, treatment plant construction and transfer pipelines to develop wastewater services at rural communities of Clarks Beach, Kingseat and Waiuku to cater for existing and forecast populations at increased level of discharge	122

Watercare's ability to respond

At 30 June 2017 Watercare's assets are valued at \$9 billion with a debt level of \$1.6 billion. This gives Watercare a debt to asset ratio of 17%, compared to Vector 40%³. PwC has previously provided benchmark data for international water utilities that indicates an international debt to asset benchmark range of 40-60%.

²Watercare marginal capital cost only, excludes regional wide investment

³Vector Limited 2018 Interim Report – asset value at 31 December 2017 of \$5,668 million and debt of \$2,253 million