

Commerce Act 1986

**Statement to the Commerce Commission of Economic Policy of the Government: Incentives of regulated businesses to invest in infrastructure.**

***To the Commerce Commission***

Pursuant to section 26 of the Commerce Act 1986, I hereby transmit to the Commerce Commission the following statement of the economic policy of the Government in relation to the incentives of regulated businesses to invest in infrastructure.

**Government Policy Statement**

**INCENTIVES OF REGULATED BUSINESSES TO INVEST IN INFRASTRUCTURE**

This statement sets out the Government's economic policy on infrastructure investment in the context of businesses that are, or may be, regulated under Parts 4, 4A or sections 70 to 74 of Part 5 of the Commerce Act.

**Introduction and background**

- 1 The Government's objective of returning New Zealand's per-capita income to the top half of the OECD requires improved labour and capital productivity.
- 2 Improved labour and capital productivity relies on quality infrastructure including secure and affordable energy services, affordable and sophisticated telecommunications technologies, and efficient transport links. In recognition of this the Government has adopted the following overarching objective for infrastructure:

*"To enhance infrastructure's net contribution to economic growth and societal well-being over time, while reducing the incidence and severity of service failures and adverse effects on the environment."*

- 3 The provision of efficient infrastructure requires that businesses have the confidence and incentives to make investments in replacement, upgraded and new facilities and services.
- 4 Particular issues arise in the case of businesses which are or may be regulated under Parts 4, 4A or sections 70 to 74 of Part 5 of the Commerce Act. The way in which the prices, revenues and/or quality of goods and services produced by these businesses is regulated or controlled can affect their incentives to invest in new or upgraded infrastructure.
- 5 This is an important issue because regulated businesses tend to operate in basic infrastructure sectors where security of supply is of paramount importance.

- 6 Similar considerations apply to investment by regulated businesses in related facilities and services. It is in the long term interests of the economy in general and consumers in particular that regulated businesses, in common with non-regulated businesses, are able to utilise existing assets to reduce the cost of investing in new infrastructure and to take advantage of economies of scale and scope.

### **Economic policy objectives**

- 7 The Government's economic policy objective is that regulated businesses have incentives to invest in replacement, upgraded and new infrastructure and in related businesses for the long term benefit of consumers. The Government considers that this objective will be achieved by:
- a. regulatory stability, transparency and certainty giving businesses the confidence to make long-life investments;
  - b. regulated rates of return being commercially realistic and taking full account of the long-term risks to consumers of underinvestment in basic infrastructure; and
  - c. regulated businesses being confident they will not be disadvantaged in their regulated businesses if they invest in other infrastructure and services.
- 8 The Government also considers that it is important that regulatory control ensures that:
- a. the consumers of regulated businesses are not disadvantaged by the investments of regulated businesses in other infrastructure and services;
  - b. regulated businesses are held accountable for making investments in that business where those investments have been provided for in regulated revenues and prices; and
  - c. regulated businesses provide infrastructure at the quality required by consumers at an efficient price.

Hon Lianne Dalziel  
Minister of Commerce