



COMMERCE COMMISSION

Please refer to:

12165
1249383_9

2 September 2011

«MRMS» «NAME» «SURNAME»
«Job_Title»
«COMPANY_QQ»
«PO_BOX»
«CITY»

Dear «MRMS» «SURNAME»

Insurance premiums and amendments to disclosed data

We are in the process of finalising our decisions on resetting the 2010-15 default price-quality path for electricity distribution businesses (EDBs) to take account of input methodologies published in December 2010. We consider that further information may be required from EDBs to inform our decisions.

This letter sets out the nature of the information required from EDBs and the processes for providing the information, including:

- information on insurance premiums
- amendments to information provided in response to notices that we issued on 16 March 2011 and 15 June 2011 under s 53ZD of the Commerce Act 1986 (s 53ZD Notices).

We have sought feedback on some of the matters addressed in this letter through the consultation process on our draft decisions for resetting the 2010-15 default price-quality path. While we will be reviewing any cross-submissions made next week on these matters, given the time available for finalising our decisions we consider it is appropriate to set out our emerging views on matters where we are likely to require further information from EDBs at this time in order to keep you fully informed.

Insurance premiums

Our emerging view is to allow EDBs to submit insurance premium information. This recognises that there may be increases to premiums over the remainder of the regulatory period as a result of recent natural disasters.¹

¹ This was an option set out in our draft decisions for resetting the 2010-15 default price-quality path for electricity distribution businesses. Commerce Commission, *2010-15 Default Price-Quality Path for Electricity Distribution Draft Decisions Paper*, 19 July 2011, p. 36. We are informing EDBs of the

For the Commission to consider EDB-specific insurance premium information, EDBs must provide:

- information in the form specified in Schedule A, where premiums must be:
 - provided in nominal terms for disclosure years ending 2009 to 2015
 - allocated to electricity distribution services by applying the cost allocation input methodology
- evidence from the EDB's insurer of the insurance premiums the EDB expects to pay (such as invoices or quotes). Where such evidence is not available, the EDB must provide supporting calculations and assumptions explaining the basis for the premiums the EDB expects to pay
- a Director's certificate in the form specified in Schedule B, which notes that all evidence relating to the EDB's insurance premium increases has been disclosed.

Any EDB that chooses to provide information on its insurance premiums must do so by no later than **5 pm Monday 19 September 2011**.

Amendments to disclosed data

After reviewing submissions and information supplied by EDBs, we have discovered that some information we have been provided is not consistent with the requirements of the s 53ZD Notices. We will directly contact those EDBs which are required to amend and resubmit the information to correct those errors.

We wish to provide other EDBs the opportunity to correct the information supplied under the s 53ZD Notices for these errors and therefore wish to alert you to the type of errors or areas of information for you to review, and make corrections. These are:

- the unallocated initial RAB value of assets - all assets, other than an 'included asset' or 'value modified asset' as defined in the Input Methodologies Determination, must be disclosed at their 2009 value (as required by clause 2.2.3(1)(b) of the Input Methodologies Determination)²
- where an EDB has elected to undertake an asset adjustment process, it may adjust the application of multipliers to their 2004 ODV valuations where better information has become available since 2004 on the appropriate application of those multipliers but this must be done to provide further insight into the 2004 costs (refer to clause 2.2.1(2)(d) and clause 2.2.1(4) of the Input Methodologies Determination and also paragraphs E2.17 to E2.22 of the *Input Methodologies (EDBs and GPBs) Reasons Paper*)
- in applying clause 2.2.1(2)(b) of the Input Methodologies Determination:
 - some EDBs may have included in the '2009 modified asset values' assets that are not 'assets omitted in error' when applying the *Electricity Distribution (Information Disclosure) Requirements 2008*

process for submitting information on insurance premiums at this time to allow EDBs to supply the information and the Commission to consider it within the statutory deadline for determining any reset.

²

The Input Methodologies Determination is the *Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010*, 23 December 2010, which is available at <http://www.comcom.govt.nz/input-methodologies-for-electricity-distribution-services>.

- some EDBs may not have included in the ‘2009 modified asset values’ assets that are ‘assets omitted in error’ when applying the *Electricity Distribution (Information Disclosure) Requirements 2008*
- some EDBs may have determined ‘weighted average remaining useful life of relevant assets’ on a basis other than the weighted average remaining asset life of all assets with an initial RAB value calculated by using the initial RAB values as weights
- gains or losses on disposal of assets may not have been accounted for consistent with the technical guidance as set out in the Issues Register updated 10 May 2011.³

We will issue more technical guidance in relation to these matters on our website early next week but given the tight timeframes for any correction to be made, we have brought matters to your attention so you can begin to consider the issues and plan for any corrections that may need to be made.

Some submitters to our draft decisions on resetting the 2010-15 default price-quality path have also requested that they be allowed to amend and resubmit other aspects of their responses to the s 53ZD Notices. We will consider any such amendments on a case by case basis and include responses on our Issues Register.⁴

All revised information **must** be accompanied by the same type of assurance as set out in the s 53ZD Notices issued on 16 March 2011 and 15 June 2011.⁵

Due to the tight time constraints, we require all EDBs to submit revisions to information no later than **5 pm Monday 19 September 2011**.

Any questions on matters raised in this letter can be directed to Anthony Merritt on anthony.merritt@comcom.govt.nz or (04) 924 3667.

Yours sincerely

Sue Begg
Deputy Chair

³ The Issues Register is available at <http://www.comcom.govt.nz/assets/Electricity/201015-Reset-DPP/SPA-Info-Request/SPA-Issues-Register/Issues-Register-10-May-2011-DPP-2010-15-Information-Request-Technical-Guidance-Updated-10-May-2011.XLS>.

⁴ The Issues Register is available at <http://www.comcom.govt.nz/2010-2015-default-price-quality-path/>.

⁵ In most instances this will require a Directors’ certificate and an auditor’s report. However, an engineer’s report will also be required to be re-issued if an EDB is making amendments that affect the asset adjustment process.



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Schedule A – Insurance premium information template

EDB Name							
	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast
Disclosure year ending:	2009	2010	2011	2012	2013	2014	2015
Insurance premium excluding effect of recent natural disasters (\$)							
Increase in insurance premium due to recent natural disasters (\$)							
Total insurance costs (\$)							

Notes:

- * Premiums must be provided in nominal terms.
- * Premiums must be allocated to electricity distribution services by applying the cost allocation input methodology.
- * Disclosed amounts must meet the definition of operating costs in accordance with the IM Determination, specifically costs must be incurred or forecast to be incurred. Accordingly, self-insurance must not be included in the reported premium.
- * Evidence of increases in insurance premiums from the EDB’s insurer must be provided which can be demonstrated to be a consequence of recent natural disasters. Where evidence is not available, supporting calculations and
- * Only insurance premiums that are intended to be paid by the EDB are to be included.



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Schedule B – Form of Directors’ certificate for insurance premium information

We, [insert full name of first director] and [insert full name of second director], being directors of qq Limited (zz) certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached Schedule A complies with the Commission’s requirements in respect of the request for information, which was issued in writing to zz on 2 September 2011*[except in the following respects].

[Signatures of directors]

[Date]

*[insert description of non-compliance if applicable]

*[Delete if inapplicable]