



## JARDINE LLOYD THOMPSON

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Dear Sirs

### **Submission on “Regulation of Electricity Lines Businesses – Review of the Information Disclosure Regime and Implementing Valuation Choice for System Fixed Assets”**

Following our video conference with the Commerce Commission on the 18<sup>th</sup> March 2005 we would like to make the following further submission regarding Insurance – Clauses 207 to 209 of the Discussion Paper, December 2004.

#### **Information Disclosure**

Following interviews with all 28 lines companies we understand that no company now insures for loss or damage to the majority of their network assets – comprising poles, cable, lines and transformers outside zone substations.

This has primarily been driven by the insurance market which lines companies have found to be unwillingly to cover these assets, or only at uneconomic terms and conditions.

Therefore, today in terms of disclosure there should be little or no variance between lines companies, apart from those few who annually set aside money into an internal account for the purpose of funding potential losses.

The majority of lines companies have in the past insured these assets and it is only in recent years that the unavailability and/or high cost of cover has impacted lines companies.

In terms of disclosure we believe that the fundamental issue at stake here is whether self insurance costs should be allowed as legitimate operating costs in terms of the current threshold regime.

And secondly, if a viable alternative to self insurance for lines companies was available, should these costs be able to be passed through as a new cost to the industry.

#### **Self Insurance**

Overseas regulators are now coming to realise that self insurance costs are a legitimate operating cost to lines companies, particularly in the UK and Australia.

Recently IPART (NSW) in their decision on pricing for 2004/05 to 2008/09 have allowed self insurance costs in the sum of A\$4m to be included as operating expenditure for EnergyAustralia.



TXU has proposed to the Essential Services Commission in Victoria for the inclusion of an additional A\$8m per year for amongst other items self insurance compensation for rare events.

We submit that the Commerce Commission should either:

1. Allow lines companies to make an allowance for self insurance costs; or
2. Allow lines companies to transfer this risk to another party and for the costs of this risk transfer to be allowed as new costs to the industry.

We have previously put forward a viable option to the Commerce Commission in terms of option 2 above which would add approximately \$3m of cost to the lines companies in New Zealand – or approximately \$1.70 per customer per year.

This option is not available to individual lines companies and gives these companies the opportunity to cover the uninsurable by grouping together for mutual benefit.

Given the current price controls it is likely that a number of lines companies will stay with self insurance if the costs of insurance or risk transfer cannot be passed through.

The risk of self insurance to the customer is the cost and availability of capital funds to reinstate or reinvest in the network should an event such as an earthquake occur with its consequential impact on local communities.

The measurement of risk for extreme events is very difficult and we believe it is time for the lines industry to take control of its own destiny and start to provide for a catastrophe event that could affect any one lines company.

Yours faithfully

David Crawford