

26 August 2020

Robert Gordon

Commerce Commission

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Dear Robert

### **Wellington Electricity DPP3 allowance calculation - preparation**

This letter responds to your questions from meeting Clive Smith and I at your offices on 2 July 2020. Thank you for your patience - we now have Board approval of the certification process for this year's Information Disclosures so we can now provide the detail to your questions from the meeting.

### **Providing the 2020 Information Disclosures**

WELL can confirm that it will not be using the Covid-19 extension provided by the Commerce Commission (**Commission**) and we are endeavouring to provide the 2020 Information Disclosures as early as possible. WELL expects to be able to provide the 2020 Information Disclosures before 30 August 2020.

### **Earthquake resilience has not been included in the 2020 AMP capex forecast**

WELL can confirm that the 'Earthquake resilience' programme has not been included in the 2020 AMP capex forecast. The 'Earthquake resilience' programme is the next resilience step after the current CPP 'Earthquake Readiness' Determination has been completed in Q1 next year.

The DPP3 framework, specifically the capex and opex mechanisms, do not allow the additional 'Earthquake resilience' works to be included in the DPP3 price path. As outlined in WELL's DPP3 submissions, WELL believes an amended regulatory framework is needed for single events which are not suited to the "whole of business" Customised Price Path (CPP) framework. WELL would like to continue to discuss this with the Commission outside of the DPP3 price path setting process.

### **CPP operating costs not captured in the base year operating costs**

As outlined in WELL's letter to the Commission titled '*Adjusting the DPP3 allowance for on-going CPP allowances*' dated 11 July 2019 and discussed at the meeting on the 2 July 2020, there are on-going CPP operating costs that will not be captured in the base year used to calculate DPP3 operating cost allowances. An adjustment will be needed to the DPP3 base year to capture the expenses provided for under the CPP Determination. Table 1 below provides the CPP operating cost allowance that would not be captured in the base year. The table assumes the 2020 Information Disclosures will be used as the base year. If the 2019 Information Disclosures are used, further costs will be missed.

Note, the table has been updated from that provided in WELL's 11 July 2019 letter. The table includes actual costs where they are known and the latest project budgets where procurement is still in progress. The expected costs do not align exactly with the allowances because part of the implementation of the radio/telephone work stream has fallen into the 2021 year.

**Table 1: CPP operating costs not captured in the DPP base year**

Year ending	2018/19 (\$000)	2019/20 (\$000)	2020/21 (\$000)	Total (\$000)
Operating expenditure from the CPP determination <sup>1</sup>	228	395	605	1,228
Incremental operating costs	228	167	210	605
Radio/phone opex not captured in 2020 base year			130	130
Data centre opex not captured in 2020 base year			157	157
Total opex not captured in 2020 base year			287	287

**Insurance costs not captured in the base year operating costs**

As discussed at the meeting on 2 July 2020, WELL's insurance costs have increased by 37% or \$479k this year but alarmingly we were unable to place at a similar level of cover. The additional insurance premium is not captured in the base year. WELL would like the known cost increase to be added to the base year. If the cost increase is not included in the base, WELL will have to consider reducing insurance cover so costs meet the allowances and rely on the ex-post CPP recovery mechanism following the event (which is both inefficient and ineffective). The impact of this exposes customers to paying greater costs after a major event as fewer assets would be insured. Appendix A provides confirmation of the 2019 and 2020 insurance premiums.

WELL looks forward to working with you and the wider team at the Commission to finalise WELL's DPP3 price path. If you have any questions or there are aspects you would like to discuss, please don't hesitate to contact Scott Scrimgeour, Commercial and Regulatory Manager, at [sscrimgeour@welectricity.co.nz](mailto:sscrimgeour@welectricity.co.nz).

Yours sincerely



Scott Scrimgeour

**Commercial and Regulatory Manager**

<sup>1</sup> The operating costs are from the Commission's financial model for the Wellington Electricity Customised Price-Quality Path Final Determination 28 March 2018.

## Appendix A: Change in insurance premiums



**Martin Holden**

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24 August 2020

**Subject: Wellington Electricity – Industrial Special Risks Policy**

Dear Gerry

I can confirm the following are the annual insurer premiums for the above insurance policy for the period since 30 June 2016:

2016/17 Insurer Premium	2017/18 Insurer Premium	2018/19 Insurer Premium	2019/20 Insurer Premium	2020/21 Insurer Premium
\$722,500	\$899,135	\$1,025,654	\$1,292,215	\$1,771,492

Note that the premium shown does not include Fire Service or EQC Levies or GST.

I trust this assists but please let me know if any questions.

Yours sincerely,

Martin Holden  
Senior Client Executive

