



Fact Sheet:

Changes to the State Underground Power Program

The Government of Western Australia has approved changes to the project selection criteria and funding arrangements for the next funding round (Round Six) of the State Underground Power Program (the Program).

Why has government implemented changes to the Program?

The new arrangements have been implemented to increase the network security improvements delivered by the Program and to better align funding contribution shares with the proportionate benefits received by Program participants.

In September 2011, the Economic Regulation Authority's *Inquiry into State Underground Power Program Cost Benefit Study* found that most of the Program benefits accrue to ratepayers through higher property values.

What are the new project selection criteria?

Up to Round Five of the Program, proposals were ranked based on their ability to improve network reliability. Non-technical criteria included the commitment of the local government to fund 50 per cent of the project and a sufficient level of community support (at least 50 per cent of respondents to a community survey indicating support for the proposal). The non-technical criteria were 'pass or fail' and did not affect the ranking of proposals.

For the next funding round, the project selection process will utilise three selection criteria:

Western Power's network priorities (50 per cent weighting)

The network priority criterion will target projects that assist in addressing risk to the electricity network by replacing ageing infrastructure and advancing scheduled maintenance to the distribution system. Proposals will be assessed using a Network Risk Management Tool that has been developed by Western Power. Those proposals that offer the greatest benefits to the network will receive the highest network priority score.

Local government funding contribution share (25 per cent weighting)

In their project proposals, local governments will nominate the proportion (percentage) of project funding they will pay if the proposal is successful. There will be a minimum threshold for local government funding contributions of 50 per cent. Project proposals that offer a greater contribution share will receive a higher funding contribution score in the selection process.

Demonstrated community support for projects (25 per cent weighting)

A survey will be sent to property owners located in areas covered by proposals to determine the level of community support for a proposal. The survey questionnaire will include an estimate of the funding contribution property owners will be asked to pay. For a proposal to be considered for the Program, the community survey must show at least 50 per cent of property owners who respond support paying the estimated cost to underground power. Project proposals with higher percentages of community support will receive a higher community support score in the selection process.

The new selection process will better reflect community preferences and allow local governments to make a larger contribution to project costs with a view to influencing project selection. With a larger share contribution from local governments, more projects will be able to be implemented with the funding approved for Western Power and the Department of Finance.

Evaluation and selection of nominated proposals will continue to be an independent process managed by the Program Steering Committee, comprising representatives from the Department of Finance (Public Utilities Office), Western Power and the Western Australian Local Government Association. The process will be overseen by an independent probity auditor.

What are the new funding arrangements?

Since 1999-2000, the State Government and Western Power/Horizon Power have each contributed 25 per cent of the costs for major residential projects, with the participating local governments funding the remaining 50 per cent.

For the next funding round, contributions and funding requirements for each project will be determined by the following sequence:

- Local governments will contribute between 50 and 100 per cent of the project cost as specified in the project proposal.
- Western Power's project funding contributions will vary according to the project costs that meet the New Facilities Investment Test.
 - The New Facilities Investment Test is established under the *Electricity Networks Access Code 2004*. It provides a methodology to assess the justification of each new network augmentation and the efficiency of proposal expenditure. It is the measure used to determine whether Western Power is following good business practice in efficiently minimising its capital investments to meet forecast demand.
 - For most projects, the New Facilities Investment Test value of a project is likely to be between 15 and 35 per cent of the total project cost.
 - Where the combination of the local government contribution and the calculated Western Power contribution exceeds 100 per cent, Western Power will contribute a reduced amount.
- The remaining balance (if any) will be provided by the Department of Finance, Public Utilities Office.

Will government provide an additional contribution for projects in low socio-economic areas?

Up to Round Five of the Program, the State Government has provided an additional 15 per cent contribution for projects in low socio-economic areas. This arrangement will cease in Round Six consistent with the Government's objectives to:

- increase the network security improvements delivered by the Program by undertaking as many projects as possible within the approved Program budget in an environment of fiscal constraint; and
- better align funding contribution shares with the proportionate benefits received by Program participants.

When will the next funding round commence?

The Government is finalising project selection guidelines and will soon call for expressions of interest from local governments for projects for the next funding round (Round Six).

If local governments are prepared to pay the full project cost, they can approach Western Power about undertaking underground power projects outside the Program.