



Economic Regulation Authority

*Promoting fair prices, quality services and choice*

# INFORMATION

## Inquiry into State Underground Power Program Cost Benefit Study

### FINAL REPORT TABLED IN PARLIAMENT

The Treasurer, the Hon. Christian Porter, has released the Economic Regulation Authority's final report on its Inquiry into the State Underground Power Program Cost Benefit Study. The inquiry, requested by the Treasurer on 23 April 2010, considers the costs and benefits of the Government's State Underground Power Program (SUPP) and what the appropriate funding shares should be for the parties that contribute funding to the current SUPP.

The Authority's final report has found that there has been an overall positive value of the SUPP to Western Australians. A large proportion of the benefits of the program have accrued to the owners of properties in suburbs where underground power has been installed, as reflected in increased property values. Overall, property owners have benefited more from the SUPP than they have paid for it.

Western Power has also benefited from the SUPP through lower maintenance costs and avoided replacement costs of overhead distribution assets (such as poles, transformers and wires). On average, it is estimated that Western Power has contributed an amount similar to the benefit that it has received from the SUPP, although benefits have varied for each project depending on the required replacement and maintenance costs that would have been spent on the pre-existing overhead network in each project area.

The Authority found that the wider Western Australian community (taxpayers) has benefited from the SUPP as well, although it appears to have contributed funding to the SUPP to a greater extent than it has benefited from it. In doing so, taxpayers have subsidised the cost of the program to the property owners.

Under the existing SUPP, major residential projects are funded by local governments (50 per cent, which is generally passed on to ratepayers), Western Power (25 per cent) and the State Government (25 per cent).

Although the Authority's view is that the amount that each of these parties should fund in the future should be based on the benefits that they are estimated to receive from the SUPP, it is recognised that the Government may still want to continue to fund a portion of the SUPP costs which is greater than the benefit that the wider community receives from the program.

This could be due to the fact that to date, the SUPP has been installed in some of Perth's wealthier suburbs (on average). This means that the subsidy from taxpayers has been directed more towards property owners in wealthier suburbs than those in less wealthy suburbs. The Authority's view is that this is inequitable and the subsidy to suburbs with higher property values does not represent an efficient use of taxpayer funds, because the ratepayers in these suburbs may have paid for their entire share of the costs of undergrounding. Further, it is likely that more SUPP projects could have been provided for the same amount of funding from public funds.

The Authority therefore considered who should pay for the SUPP in the future, based on the proportion of benefits that have accrued to each party in the cost benefit analysis of the SUPP. It is proposed that a more flexible approach be adopted, where Western Power could contribute an amount which is equal to the value of its avoided costs for each individual project area (on average, the contribution from Western Power could be between 15 and 35 per cent although it could be more or less than this depending on the actual project area).

The State Government's contribution could vary depending on the property values in each project area (with households in higher property value areas paying more). Additionally, the State Government may wish to increase its contribution for projects in areas with low socio-economic status. The Authority has proposed an example of where the State Government could continue contributing 25-40 per cent of the cost of SUPP projects where the median house price is at or below the Perth median house price at the time when the projects are short listed. However, there is no justification (on efficiency or equity grounds) for the Government to continue to provide a 25 per cent contribution for high-value suburbs that benefit most through improved amenity values, as measured by increased house prices. Consequently, the contribution from the State Government could then decrease as the median property prices increase, with the highest value suburbs receiving a State Government contribution of 5 per cent.

The funding contribution from local governments (through ratepayers) should be the residual of the total project cost of an area, after the variable contributions from Western Power and the State Government, to a maximum indicated by the proportion of quantifiable benefits to property owners. Based on an example in the final report (see Table 1 below), which uses illustrative shares for the beneficiaries depending on Western Power's actual avoided costs and the median value of properties in each future SUPP project area, local governments (ratepayers) could contribute between 25 and 80 per cent to the cost of future SUPP projects.

**Table 1 Illustrative Example of Authority's Proposed Contribution Shares**

Differential contribution shares from ratepayers	(A) Western Power* (%)	(B) State Government (%)	(C = Costs – A – B) Ratepayers** (%)
Median house prices of project area at or below Perth median house price and area is identified as low income***	15-35	40	25-45
Median house prices of project area at or below Perth median house price	15-35	25	40-60
Median house prices of project area greater than Perth median house price but below Perth median house price +\$250,000****	15-35	10	55-75
Median house prices of project area greater than Perth median house price +\$250,000	15-35	5	60-80

\* Western Power's avoided costs will vary from project area to project area. Based on Western Power's analysis of four round four projects, the mean value of avoided cost to Western Power was around 25 per cent.

\*\* Ratepayers would pay the balance of the costs (total project costs less Western Power's avoided costs less the contribution from the State Government).

\*\*\* Low income areas can be defined using the Australian Bureau of Statistics Socio Economic Index for Areas (ABS SEIFA). Currently, the Office of Energy defines lower socio-economic areas as those in the lowest quintile of the ABS SEIFA.

\*\*\*\*A step at \$250,000 has been included as this is approximately one standard deviation (SD) above the median house price.

The Authority's proposed approach to the funding of the SUPP would also mean that more underground power projects could be undertaken for the same amount of funding from taxpayers, if the State Government continued with the current level of funding.

In preparing the final report, the Authority conducted two rounds of public consultation and overall received 22 public submissions.

A copy of the final report is available on the Authority's [website](#).

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