

Hon. Simon O'Brien MLC
Chairman
Standing Committee on Environment and Public Affairs
Parliament House
PERTH WA 6000

Sent by email: env@parliament.wa.gov.au

Dear Sir

Petition No.56 – Pilbara Underground Power Project

Thank you for your letter dated 30 October 2014 in relation to the abovementioned petition tabled in the Legislative Council by Hon Robin Chapple MLC.

As requested, please find attached Council's response to the terms of the petition and the submissions from the principal petitioner and the tabling Member.

If you have any queries, please do not hesitate to contact Phillip Trestrail, Director Corporate Services, on (08) 9186 8538.

Yours faithfully

Chris Adams
CHIEF EXECUTIVE OFFICER

24 November 2014

RESPONSE TO PETITION #56

PILBARA UNDERGROUND POWER PROJECT

BACKGROUND

The Pilbara Underground Power Project (PUPP) is an initiative of the State Government which is being delivered by Horizon Power.

PUPP involves the undergrounding of the power transmission infrastructure, with the aim of providing cyclone-affected North West towns with a safer and more reliable power supply. Karratha site works commenced in October 2010 and more than 40% of the Karratha scope of works is now complete.

Although arrangements for underground power differ for each local government area in Australia. In Western Australia, the State Government has traditionally funded 50% of underground power projects, with the community required to contribute the other 50%. Through Royalties for Regions funding the community contribution for underground power in Karratha has been reduced to 25% of the total project costs.

A funding agreement between Council and Horizon Power provides a commitment for the community contribution of 25% of the cost of the project, to a maximum of \$34.55M.

In order to fund the community contribution, Council resolved on 30 June 2014 to levy service charges on property owners in accordance with s.6.38 of the Local Government Act 1995 (LG Act) and reg. 54 of the Local Government (Financial Management) Regulations 1996. The charge comprises three components: a high voltage (HV) charge; a low voltage (LV) charge; and a connection cost. Service charge notices were issued on 7968 properties on 21 July 2014.

The HV charge relates to the undergrounding of HV power infrastructure that supplies power to the suburbs. The HV charge (of \$48.26 per kVA) is based on the total estimated costs attributable to the HV works divided by the total kVA load of the network. The rate per kVA is then multiplied by the power capacity (kVA) for each individual property. A normal residential property has a kVA load of 10 kVA which equates to a HV service charge of \$482.60. All properties are required to pay the HV service charge as all properties benefit from the undergrounding of HV infrastructure.

The LV charge relates to the undergrounding of infrastructure that carries power throughout the suburbs, including transformers, switch gear and street lighting. The LV charge (of \$196.38 per kVA) is based on the total estimated costs attributable to the LV works divided by the total kVA load of those properties undergrounded as part of PUPP. The rate per kVA is then multiplied by the power capacity (kVA) for each individual property. A normal residential property has a kVA load of 10kVA which equates to an LV service charge of \$1,963.80. Properties in an area with existing underground LV infrastructure are not required to pay this charge.

The connection charge relates to the cost of undergrounding existing overhead property connections to the network. The connection charge (of \$1022.17 per connection) is based on the total estimated costs attributable to connection works divided by the total number of connections for properties undergrounded as part of PUPP. A normal residential / commercial / industrial property has one connection which equates to a connection service

charge of \$1022.17. Properties with an existing underground connection are not required to pay this charge.

PETITION #56 – PILBARA UNDERGROUND POWER PROJECT

#1 The failure of Horizon power to carry out a satisfactory due diligence assessment of the project

This is a matter for Horizon Power.

#2 The failure of the former Shire of Roebourne to carry out a due diligence assessment of the project that was committed to by the Shire on behalf of the community

After significant damage was caused to Western Power's overhead network in very severe storms in 1994, the State Government established the State Underground Power Program (SUPP) to convert areas of overhead wires and poles to underground. A Steering Committee, comprising the Public Utilities Office (previously the Office of Energy), Western Power and the WA Local Government Association, was established to manage the program.

Pilot projects involving around 7,000 households were successfully carried out in Applecross, Albany, Cottesloe/Claremont and Wembley between 1996 and 1999.

In 1998, the Minister for Energy announced that the program would continue and invited local councils to apply for projects within their area to be considered for funding. The selected projects became Round One of the State Underground Power Program (SUPP).

The costs of SUPP are generally shared between the State Government and Western Power paying 25% each and the relevant Local Government is required to fund the remaining 50%, usually via the ratepayers.

41 major residential projects and 30 localised enhancement projects have been completed under the SUPP.

In July 2011 the Economic Regulation Authority (WA) released a report into the Costs Benefits of the State Underground Power Program, which estimated a positive total net present value (NPV) to that date in the order of \$480M.

In 2006, Pilbara Power (then part of Western Power) completed an undergrounding project in Port Hedland and the Pilbara Underground Power Project (PUPP) was initiated by the State Government in 2009.

An assessment of the quantifiable benefits associated with PUPP shows that the proposed PUPP work has a positive NPV of \$29.7M.

Given the obvious benefits of underground power in the cyclone effected Pilbara, as well as the reduced community contribution of 25%, the then Shire of Roebourne, together with the Town of Port Hedland and Shire of Ashburton agreed to participate in the PUPP.

#3 The outsourcing of past and current tender agreements by Horizon power to contractors and project managers

This is a matter for Horizon Power.

#4 The cost overruns of the project

Council resolved on 16 August 2010 to commit to participate in the PUPP and provide a 25% financial contribution sourced by way of a service charge levied on ratepayers. Based on early cost estimates for the project Council's contribution was capped at \$21M.

At the Ordinary Council Meeting (OCM) held on 19 September 2011, Council adopted a billing model, developed by an independent consultant (Alliance Power & Data), for the determination of the service charge. The model, based on kVA and connection/s, consists of three charges:

- High Voltage (HV) – contribution to the undergrounding of HV network
- Low Voltage (LV) Network Charge – contribution to the undergrounding of the LV network
- Connection Charge – contribution to the connection of power from the meter board to the service pillar located at the front of the property.

Since commencement of the project a number of factors have resulted in increases in the cost estimate for the project and Horizon Power provided an updated cost estimate for the Karratha PUPP works of \$138,182,415 which was considered at the December 2013 OCM. Horizon Power sought additional Royalties for Regions funding and requested that Council adjust the Shire contribution in line with the revised cost estimate (i.e. \$34,545,604). Given the progress of works (as at 9 November 2013, 31% of lots in Karratha had been connected and energised, and 44% of the Karratha scope had been completed), Horizon Power expressed confidence in the revised estimates, and the revised estimates were the subject of independent review by Sinclair Knight Mertz. Horizon Power advised that the additional community contribution would be required for the project to be completed.

The billing model was reviewed in December 2013 in light of the revised estimates. Given that the full benefits of underground power would not be realised unless the project is fully completed and in light of the fact that the increased cap would not increase the indicative service charges advised in October 2011 by more than 5%, Council resolved to increase the maximum amount of the community contribution to \$34.55M.

#5 The failure of Shire of Roebourne, Horizon Power and the Pilbara Cities to consult meaningfully with the community as to the costs to be imposed on the community

Prior to the commencement of the project, the State Government consulted with each of the Pilbara Councils as the elected representatives of the community. The City of Karratha, together with the Town of Port Hedland and Shire of Ashburton, indicated support for the project in 2010.

Although the State Administrative Tribunal has held that 'There is no requirement for consultation when imposing a service charge or a specified area rate under s 6.32 or s 6.37 of the LG Act respectively' (see *Manfredi v City of Rockingham*), property owners were provided information as to the estimated PUPP service charge to be levied on residential properties in October 2011.

Due to the differing power capacities of commercial and industrial properties, Council was unable to provide an estimate of the contribution that would be required for these properties. This information was sent to property owners when it became available in July 2014 prior to the issuing of service charge notices.

While not providing an estimate for non-residential properties, the October 2011 letter clearly stated that non-residential properties would be required to make a contribution based on the 'installed power capacity' of a property as well as providing a list of 'Frequently Asked Questions' which was developed in consultation with Horizon Power.

The City has been encouraged by the level of community support for PUPP. As at 24 November 2014 the City has received full or instalment payments for approximately 70% of PUPP service charge notices.

A summary of Council's communications with property owners is provided below:

Communication	Date
Letter regarding the commencement of PUPP works and service charges	5 August 2011
Letter outlining kVA model and service charges plus FAQs	12 October 2011
Joint letter from Shire of Roebourne, Horizon Power, Pilbara Cities	19 March 2012
Letter confirming intention to levy PUPP service charge 2014/15	9 June 2014
Letter advising intended individual property PUPP service charge	11 July 2014
Issue of PUPP service charge notices	21 July 2014
Letter including updated FAQs	24 July 2014
Media Release – Flexible payments for PUPP options	15 August 2014
Media Release – Extensions given for PUPP payments	19 August 2014
Letter advising of interest free period to 25 November 2014	20 August 2014
Media Release – Special Meeting to consider PUPP payment options	23 September 2014
Letter advising 4.5% instalment interest and 10yr Instalment Option for the majority of Non-Residential properties with updated FAQ	3 October 2014
Letter to Residential property owners yet to select a payment option	11 November 2014
Letter to Non-Residential Properties yet to select a payment option	12 November 2014

This matter has also been considered by Council at public meetings on five separate occasions over the past four years and Council has met on several occasions with representatives of the Karratha Ratepayers Association. Since the service charges were levied, Council has responded to approximately 1,000 phone calls, emails and letters from property owners.

#6 *What action that should be taken by HP, the State and the Pilbara Cities program to ameliorate the fiscal impact being applied by KCC on the recipients of the PUPP*

Council is aware of the impact that the PUPP service charge is having on some property owners, particularly small businesses and not-for-profit organisations. At its August 2014 meeting, Council agreed to extend the interest free period for three months (to 25th of November) as well as explore additional payment options to help alleviate the financial impact of the charge.

The City of Karratha has been able to renegotiate the terms of the funding agreement with Horizon Power which allows the community contribution to the project to be spread over a

longer period with less upfront contribution. This has reduced the need for Council to borrow money, meaning that Council has been able to offer more favourable payment options.

Property owners who elect to pay the PUPP service charge by instalments will now be charged 4.5% interest rather than 5.5% from 25 November 2014. In addition non-residential properties (excluding Government organisations) with a power capacity greater than 10 kVA and less than 200 kVA now have the option to pay by 40 instalments over ten years. These property owners can pay in full, over four years or over ten years.

Not-for-profit organisations will also benefit from a 70% concession on their service charge for non-residential properties.

Submission from Tabling Member	Issue	Response
#1	I support the petitioner's concerns that the charges now being imposed by the City of Karratha do not reflect the stated commitments given by the President of the Shire of Roebourne, Horizon Power and the Pilbara Cities during the projects inception and stated costs. I consider the cost overruns of the project now lumped onto the residents of Karratha to be unfair, unnecessary and unwarranted.	<p>In October 2011 Council advised that, on average, residential property owners would be required to contribute \$3,300 based on a kVA model.</p> <p>A 'typical residential property' levied HV, LV and connection charge is required to pay \$3468, however 3,329 residential properties were levied less than \$500 and a further 3,622 residential properties were levied between \$500 - \$3,468. Based on these charges, the average residential service charge levied is \$1,930.</p> <p>These charges compare favourably when benchmarked against underground power projects in the metropolitan area.</p>
#2	To that end the Shire of Roebourne, Horizon Power and Pilbara Cities have also failed to consult meaningfully with the community as to the costs overrun of the project.	The increase in the total project costs has not materially impacted the service charges for individual properties and the average residential charge is less than the amount stated in October 2011.
#3	In many instances residents have been given little information other than a bill and a date by which to pay said bill.	Prior to issuing service charge notices, correspondence (including FAQs) was sent to property owners on at least five separate occasions between August 2011 and July 2014. In addition, Horizon Power has provided regular updates regarding the project through local media and direct mail.
#4	To use an example, after I enquired on behalf of a ratepayer, Horizon Power revised their bill from \$15,211.29 down to just \$482.60 and labelled the error a simple calculation mistake.	The property referred to is for a vacant parcel of land within Nickol West. The property had been levied a service charge based on the confirmed kVA electricity supply available to the property. A review resulted in an amended service charge being issued due to the property being assessed as vacant residential land therefore receiving the applicable residential service charge based on Council's billing model assumptions for residential property.
#5	It is not 'normal practise' to bill the community for regional power upgrades.	The \$34.55m community contribution is for underground electricity works consistent with the <i>Local Government Act 1995</i> and <i>Local Government (Financial Management) 1996</i> . Horizon Power has confirmed that the \$34.55m does not include charges relating to a voltage upgrade.
#6	Contrary to the premise with which these initiatives were conceived the population in the region is decreasing and we now have a	Council is not aware of the availability of data relating to the number of vacant homes, however it is noted that the number of advertised rental properties

	situation where more than 400 homes are empty in Karratha alone.	decreased from approximately 300 properties in February 2014 to approximately 200 properties in October 2014.
#7	Grave concerns over potential conflicts of interest identified during the establishment and decision making by the Shire of Roebourne of the PUPP. These matters need to be properly investigated and rectified if found to be true.	Although the <i>Local Government Act</i> provides that employment by the State cannot give rise to a conflict of interest in an individual's role as a Councillor, those Councillors who held a position with Horizon Power declared an interest in Council considerations of PUPP.
#8	I support the petitioners concerns about the failure of Horizon Power and the Shire of Roebourne to carry out a due diligence assessment of the project that was committed to by the Shire on behalf of the community.	Covered in response to Petition (refer to #2)
#9	The purpose of this petition, which I support, is to determine what action will be taken by Horizon Power, the State and the Pilbara Cities program to ameliorate the fiscal impact being applied by the city of Karratha on the recipients of the PUPP	Covered in response to Petition (refer to #6)
Submission from principal petitioner	Issue	Response
#1	There has been no consultation with the ratepayers or residence of Karratha regarding the PUPP. This is in direct contrast to SUPP, which by all accounts we can see is built on extensive consultation with the communities involved.	Covered in response to Petition (refer to #5)
#2	There was no consultation with the business owners, or at any time any indication as to what levy they would have to pay would be.	Covered in response to Petition (refer to #5)
#3	The first time the business owners knew what their amount was, when they received their	All property owners were originally given up to four years to pay the service charges. At its August 2014 meeting, Council agreed to extend the interest free period for three months (to 25 November) as well as to explore additional

	bill, which they had previously only one month to pay.	payment options to help alleviate the financial impact of the charge. Non-residential properties (excluding Government organisations) with a power capacity greater than 10 kVA and less than 200 kVA now have the option to pay by 40 instalments over ten years.								
#4	This for many small business owners was in excess of \$20,000	Approximately 2% of the 7,968 service charge notices issued exceeded \$20,000. Many of these were issued to publically listed companies and Government departments/agencies.								
#5	Many of the bills that have been issued by the City of Karratha are incorrect. People have been double billed, billed for something they already have or just billed incorrectly.	<p>A total of 7,968 PUPP service charge notices were issued on 21 July 2014 based on kVA and connection data supplied by Horizon Power. The service charges comprised the following components:</p> <table border="0"> <tr> <td>High Voltage</td> <td>7,968</td> </tr> <tr> <td>Low Voltage</td> <td>4,576</td> </tr> <tr> <td>Connection</td> <td>4,576</td> </tr> <tr> <td>Total</td> <td>17,120</td> </tr> </table> <p>Approximately 7% of the charges have been revised based on updated kVA data, or to ensure consistency with the adopted billing model. Other service charge notices have been reissued based on concessions granted to not-for-profit organisations, properties with dual meters, multiple dwellings with common walls and in response to applications for adjustment due to privately funded works. Council and Horizon Power has reviewed all queries as well as completing proactive reviews of the LIA and CBD to ensure that all errors in service charges have been identified and corrected.</p>	High Voltage	7,968	Low Voltage	4,576	Connection	4,576	Total	17,120
High Voltage	7,968									
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Total	17,120									
#6	Some owners are being asked to pay \$16,000 for a fluorescence light and double power outlet in a storage shed in the LIA.	PUPP contributions are based on project costs and allocated based on available power capacity to the property (measured in kVA), these contributions bear no direct relationship to the size or floor area of a property.								
#7	People just cannot afford to pay this and there was no mention of this levy when performing land title searches from the council.	Although the project scope was largely determined in 2010/11 and property owners were provided with indicative costs in October 2011, the PUPP service charges were not formally adopted by Council until 30 June 2014 and levied on property owners on 21 July 2014. Property enquiries only include service charges that have been levied.								

#8	One couple purchased a small business in the LIA one month before the bills were delivered and have received a \$60,000 bill for PUPP.	All property owners to receive a PUPP service charge notice were written to on 9 June 2014 advising that they would be receiving the notice with their 2014/15 rates notice. The letter further advised of the soon to be released information regarding their property/s service charge contribution/s. This notification was sent 11 July 2014 prior to the billing date 21 July 2014 to provide additional opportunity to enquire of Council.
#9	The council have already agreed to increase the cap for this project from \$21M to \$34.55M, so what guarantee do we ratepayers have that they won't increase this again?	The funding agreement between Council and Horizon Power provides a commitment for a community contribution of 25% of the cost of the project, to a maximum of \$34.55 million. Horizon Power has expressed confidence in the revised estimates, and the revised estimates were the subject of independent review by Sinclair Knight Mertz (now Jacobs). The most recent tender for PUPP works supports Horizon Power's revised estimate.
#10	The current council needs to be investigated, as they are voting against us in protest, which goes against all oaths they take when becoming a councillor	This matter has been presented to Council on five separate occasions over the last four years and each time the Council (whether comprising the current group of Councillors or different Councillors) has voted to support the project. Councillors take their role very seriously and have made decisions based on all of the available information, without regard to their own self-interest. Defamatory allegations of impropriety on the part of Councillors lack any foundation and are rejected in the strongest possible terms.
#11	Currently there is no contractor to tender for PUPP and no work has commenced.	A contractor has been appointed and has commenced work on the next stage of works in the Karratha Light Industrial Area and Bulgarra West.
#12	We don't believe that paying a fee of 4.5% interest to a party that does not have to enter into any payments currently due to work not commencing should be avoided and dismissed entirely.	The community contribution is required to fund the 44% of works already completed and future works. Instalment Interest is being levied in accordance with the <i>Local Government Act</i> and associated regulations to cover the costs of administering the instalment payment options any borrowing costs.
#13	The fact that there has been no due diligence of the project by the City of Karratha needs to be investigated.	Covered in response to Petition (refer to #2)
#14	The high voltage upgrade needs investigating, as this is not something that the ratepayers should be paying for in the PUPP fee.	Covered in response to Submission from Tabling Member (refer to #5)