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Inquiry into State Underground Power Program Cost Benefit Study  
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Dear Sir/Madam

### **STATE UNDERGROUND POWER PROGRAM COST**

The City is pleased that the Economic Regulation Authority is undertaking a review of the costs and benefits of the State Underground Power Program.

Let me first say that the City supports the Process for Major Residential Projects described in figure 2.1 of the Issues Paper to the extent that it believes the evaluation of EOI proposals should be in terms of network reliability and performance requirements. Where the City differs on the process after this point is, that the City believes it should only be approaching its residents to determine their appetite for living with a major disruption to their lives while underground power is installed, plus some relatively small cost to connect their properties to the underground power dome installed for their service. The City is firmly of the view that the State should be shouldering a greater proportion of the cost of upgrading its network infrastructure and that there should not be costs shifting of this to local governments or individual property owners affected by the undergrounding of power in their immediate area.

The City believes that the flow-on benefits of underground power are of much greater value to the State than local government or individual property owners. The benefits to local governments and the community lie predominantly in the tangibles such as reduced tree pruning costs (approximately \$50 per tree/per annum) and some improvement in power reliability.

The benefits to the State include:-

- An increase in network stability during periods of storm, bushfires and other environmental events.



- A reduction of costs in corrective emergency repairs as a result of storms, bushfires and other environmental events which, according to Western Power's 2007/2008 annual report, amount to 60.5% of all maintenance expenditure in that year.
- An increase in network reliability through reduced power outages.
- A reduction in line, pole and pole-top maintenance costs including labour, materials and associated on-costs.
- A reduction in line and pole inspection costs.

In terms of the review being undertaken, a benefit cost analysis may be an appropriate starting point for a "clinical" analysis of whether underground power projects should be undertaken or not. However, if a benefit costs analysis shows that a project should be undertaken and the project is to be funded significantly by residents of the area, other matters need to be considered if equity is to be assured. The Issues Paper refers to **possible** property value increases of between 1.25% - 2.5%. On this basis, lower value properties may only appreciate by the amount that the undergrounding of the power has cost the resident. A lower income family in a \$400,000 house that they are struggling to pay off, would very likely not have the funds at their disposal to pay some \$4,000 towards undergrounding power which **may** raise the value of their property by \$5,000 - \$6,000. If they had that sort of money to spare they would clearly be much better off paying it directly off their mortgage and in the long run, realising a significantly higher equity in their home. The reality is that they won't have a spare \$4,000, will need to borrow it and pay the necessary interest and the reality is that they will be no better off for having underground power installed in their area.

Of course in higher value property areas, while similar arguments may be made for the difficulty in finding the money for the undergrounding of the power in the first place, a 1.25% rise in the value of an \$800,000 or \$1million property makes the investment much easier to justify and in reality, people in these properties are more likely to be able to afford to make the payment in the first place.

These equity issues would be resolved if the State pays to underground the power in both areas.

On a slightly different issue but one that may equally relate to residential underground power projects, the City was recently forced to withdraw from a Local Enhancement Project because of the significantly increased costs to ratepayers as a result of the projects being undertaken over an extended period of time, in this case almost four years, with major cost increases being unsupported by increases in project funding by the State.

In the Issues Paper, much is made of the higher maintenance costs and shorter life of underground power installation. This begs the questions of why the State insists on new subdivisions having underground power installed, if it is know that this will be a growing burden on State resources.

Irrespective of the benefits and disbenefits of underground power, there is a strong desire expressed by the community that underground power is their preference. The real issue is that there is currently insufficient funding being directed to undergrounding power to make any substantial impact on the sinking of the aboveground network in anywhere near a reasonable timeframe.

The City supports the 'optimised approach' to undergrounding power. It provides a better long term outcome for the network and further enhances the argument that the service provider should fund underground power installation.

The City acknowledges that it may not be possible to underground all powerlines in the short or even medium term but more needs to be done than at present. The City looks forward to the Draft report addressing the problems with the Underground Power Program.

Yours faithfully

**R J LUTEY**  
**DIRECTOR – TECHNICAL SERVICES**