

11.6 UNDERGROUND POWER FINANCIAL MODEL

Attachments: 1. Underground Power Financial Model

RECOMMENDATION:

That Council

- 1. ADOPTS the Underground Power Financial Model outlined at Attachment 1 and Notes the following:**
 - 1.1 A maximum borrowing capacity of 50% has been assessed using the Western Australian Treasury Corporation's (WATC) Indicative Additional Debt Capacity Calculator.**
 - 1.2 Ratepayers will be provided the option to pay their service charges upfront payment or through a 4-year payback period option.**
 - 1.3 The 4-year payback period option will be available for up to an estimated maximum 70% of ratepayers per project and funded by either or a combination of 4-year fixed interest term loans borrowed from the WATC, the Underground Power Reserve and the Tamala Park Land Sales Reserve.**
 - 1.4 The Underground Power Reserve and Tamala Park Land Sales Reserve will be used during the life of the project.**
 - 1.5 Properties will be levied a service charge based their specific project area.**

PURPOSE OF REPORT:

To consider the adoption of the Underground Power Financial model for the 2022/23 financial year that will provide guidance for the City's delivery and implementation of the eight underground power projects.

BACKGROUND:

The City has undertaken extensive financial modelling of the underground power project and considered all options to find an equitable solution for both the City and ratepayers.

DETAILS:**Overview**

Program	Details
NRUP – Network Renewal Underground Program	This is a targeted program and prioritises Western Power assets that are in imminent need of replacement. These assets are near end of life and retain minimal residual value.
TUPP – Targeted Underground Power Program	This program is identical to the NRUP. The name was changed in November 2022 at the discretion of Western Australian's Minister for Energy.
RUP – Retrospective Underground Program	This is not a targeted program and captures areas that currently don't qualify for the TUPP

The variance in ratepayer's contribution across the projects will largely be dependent on the following factors:

- Western Power's contribution
- Existing ground mounted transformers
- Demographic and site conditions including residential density, block frontage, ground conditions and traffic management requirements

The City of Vincent is working collaboratively with Western Power to obtain the best possible deal for ratepayers with the majority of NRUP and TUPP projects receiving a Western Power contribution of at least 50%. The NRUP and TUPP projects are based on a network driven approach, targeting assets that are due for replacement. This allows Western Power to maximise its contribution to project costs in line with its regulatory framework.

The RUP projects areas are not on Western Power's current network driven priority list which may result in higher contributions from ratepayers as the overhead power assets are not near end of life and still retain significant value. The City's two RUP projects are scheduled to be delivered as the last projects commencing in 2030 and over time RUP projects may qualify for the TUPP program.

The City's project management team is actively engaged with Western Power to understand when the two RUP project areas may qualify for the TUPP program and will report back to Council when further information is available.

Underground Power Project Costs

The funding for the projects will be shared between Western Power and the City's ratepayers:

- Western Power will fund a portion of the network charge which will vary depending on the project
- Ratepayers will fund the remaining network charges and the connection fee

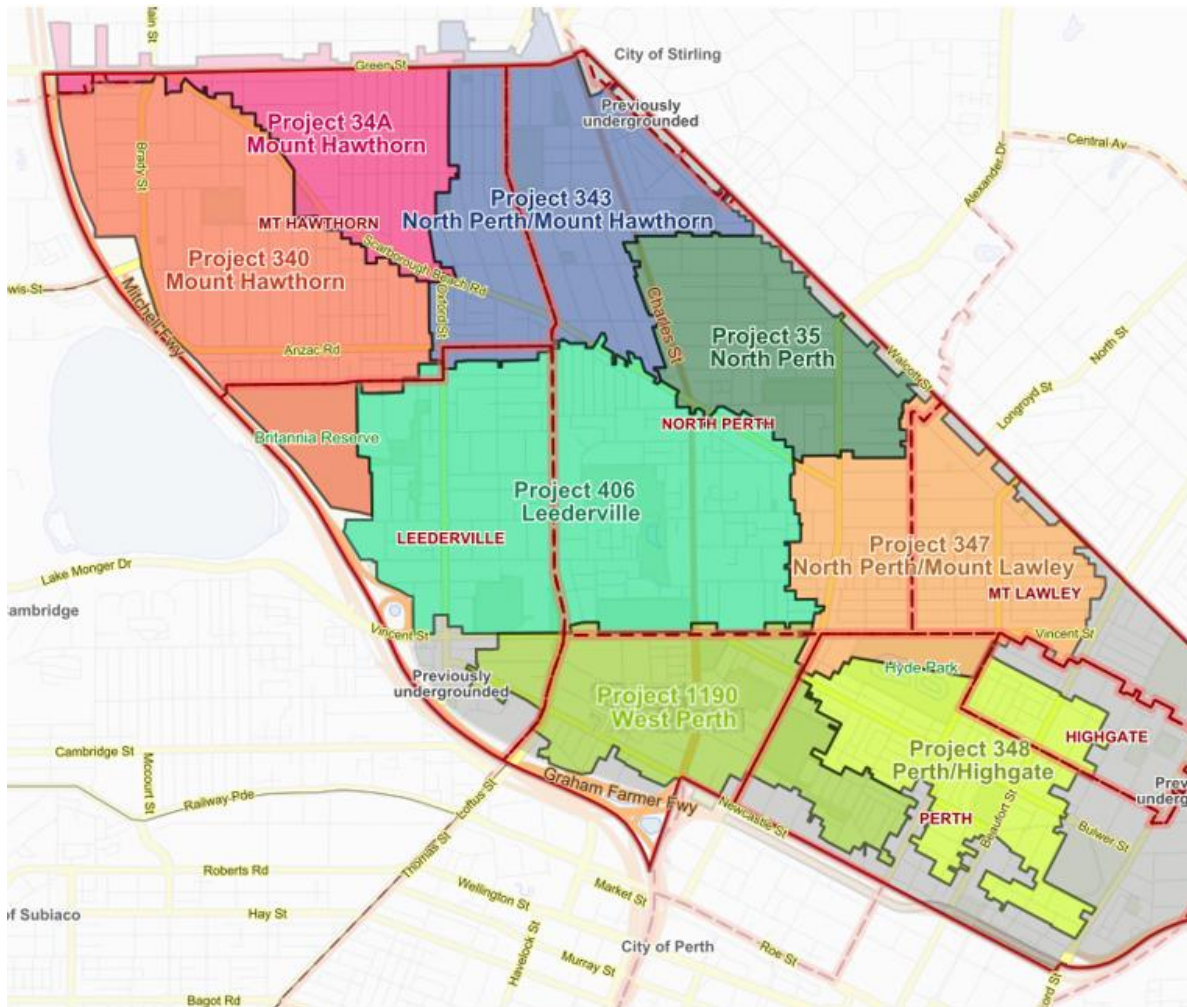
Western Power has provided an E30 cost estimate for the projects, meaning that costs may vary by +/- 30%. The E10 estimates will be provided to the City in due course, which is intended to be within an accuracy of +/- 10%.

The City's financial model includes a 10% contingency on the costs provided by Western Power. The majority of the cost of the underground power projects involve the undergrounding of overhead wires and poles, new street lighting installed to the Australian Standard and the installation of new transformers and switchgear.

The E30 estimates listed below are subject to change over the next 10 years of the project and are based on the information currently available from Western Power.

Ratepayers should not make financial commitments or plans based on the E30 estimates and should wait for the more accurate E10 estimates which will be available following the detailed design stage for each project.

Program	Project	No. of Customers (Estimate)	E30 Estimated Western Power Contribution	E30 Estimated Ratepayer's Contribution (including contingency and project management costs)
NRUP	North Perth/ Mount Hawthorn (Project 343)	1,681	\$13.1m	\$9.3m
NRUP	North Perth/ Mount Lawley (Project 347)	1,929	\$10.5m	\$7.2m
NRUP	Perth/ Highgate - including heritage sites (Project 348)	1,784	\$8.6m	\$5.6m
TUPP	Leederville/North Perth (Project 406)	3,328	\$18.4m	\$15.4m
TUPP	Mount Hawthorn (Project 340)	2,309	\$14.7m	\$15.9m
TUPP	West Perth/Perth/Leederville/East Perth (Project 1190)	2,508	\$8.0m	\$10.1m
RUP	Mount Hawthorn/Joondanna/Osborne Park (Project 34A)	1,079	\$6.0m	\$10.0m
RUP	North Perth (Project 35)	1,258	\$8.4m	\$6.3m
Total		15,876	\$87.7m	\$79.7m



Western Power Payments and Timeline

The proposed project timeline balances the financial constraints of the City and Western Power's project rollout. The City plans to negotiate payment terms and construction dates that align with the levying of service charges. These terms and considerations include:

- Western Power will only issue invoices at the later of; the construction start date or after service charges are raised for each project.
- The City will only levy service charges after Western Power has provided E10 estimates
- There are sufficient funds through loan borrowings, services charges, and reserves to manage Western Power cash calls.

Details on the estimated construction timelines, service charge dates and payment dates are included in **Attachment 1**.

Service Charges

Pursuant to Section 6.38(1) of the Local Government Act 1995 and Regulation 54 of the Local Government (Financial Management) Regulations, every property will be levied a service charge based on the total project costs of their area and paid through their annual rates notice. As the City recognises the significant cost per property, ratepayers will be provided the option to elect for upfront payments or a 4-year instalment plan; the latter option being available for up to 70% of ratepayers per project. The City does not intend to average out any costs across the eight projects.

The underground power's service charges applicable to ratepayers will consist of two main components:

- Network charge – this is determined by the property type, which relates to the capacity provided by Western Power in their cables and network equipment
- Connection fee – this is dependent on whether the property has existing underground connection

Other components of the service charge that will be recoverable from ratepayers include:

- Interest incurred on borrowings; applicable to ratepayers who elect for the 4-year instalment option. The interest rates will be subject to applicable WATC rates at the time the loan funds are drawn.
- Project management costs incurred by the City

The method and design of the service charge allocation for both residential and commercial properties is currently being investigated by the City and will be presented to Council for consideration later in the year.

Properties with an existing underground power connection will pay a reduced service charge. An indicative cost range based on current E30 estimates for an average ratepayer is listed below. Further detailed costings are yet to be received from Western Power so the averages provided below are subject to change once further information is received.

Programs	No. of Customers	Indicative Average Underground Power Service Charge	Median Rates based on GRV \$20,800	Total indicative annual cost including rates (\$)	
				Upfront	4 Year (excluding interest costs)
NRUP, TUPP & RUP	15,876	\$3,000 to \$9,000	\$1,565	\$4,700 to \$10,700	\$2,500 to \$4,000

Owners of properties that hold either a Commonwealth issued Pensioner Concession Card or Commonwealth Seniors Health Card together with a WA Seniors Card are entitled to a 50% discount on underground power charges, proportionate to their share of the property. If they choose to pay by instalments this 50% discount is available for each year that instalment payments are applicable.

State Government Seniors Card holders (i.e. not pensioners) can access a fixed rebate of \$100, for payment in full (proportionate to their share of the property).

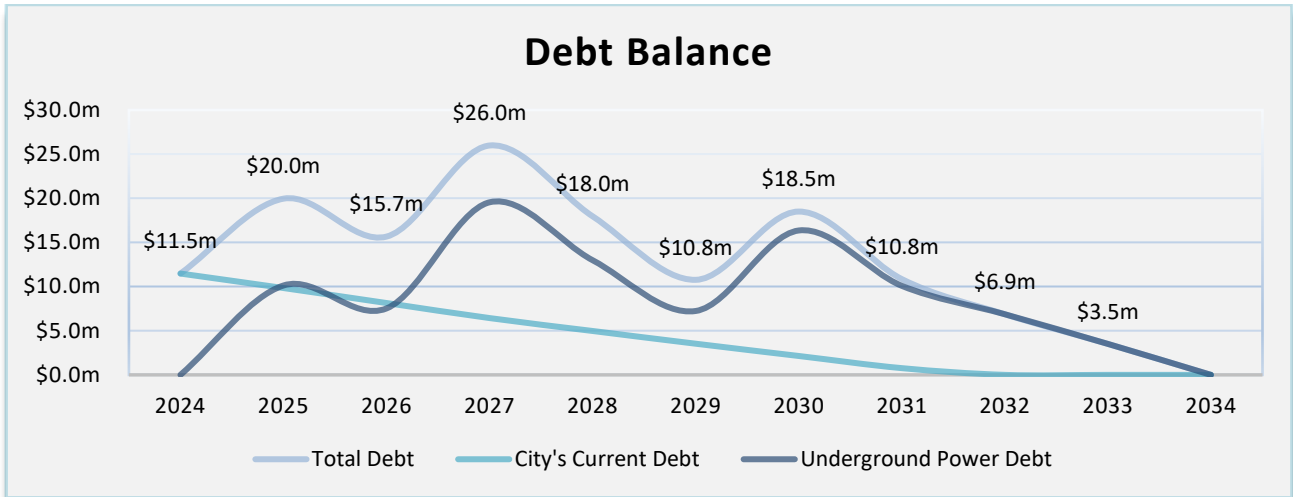
Borrowings

The City's adopted Long Term Financial Plan 2022/23 to 2031/32 was used to assess borrowing capacity against the Western Australian Treasury Corporation's (WATC) Indicative Additional Debt Capacity Calculator. Based on a minimum debt service coverage ratio of 2.3 and maximum target net debt ratio of 50%, the calculations showed that the City would have a maximum borrowing capacity of up to 50% of the total costs for each project. All loans will be subject to approval by the WATC.

Pursuant to Section 6.20 of the Local Government Act 1995, individual loans will be borrowed for each project to fund ratepayers that have elected for the 4-year instalment plan. Each loan will have a 4-year fixed interest term that will be financed through the WATC and repaid through service charges. The interest rate charged will be determined on the day the loan is drawn and is based directly off the prevailing interest rates that WATC securities trade on the market.

The model assumes that the City will reach maximum borrowing capacity and will not borrow funds for other projects during the life of the underground power project. Due to the limit on the City's borrowing capacity, a combination of debt and reserve funding will allow for up to 70% ratepayers to elect for the 4-year instalment plan. Priority for this option will be provided to pensioners and those experiencing financial hardship.

The City's debt levels over the life of the project; including existing loans are shown below:



Reserves

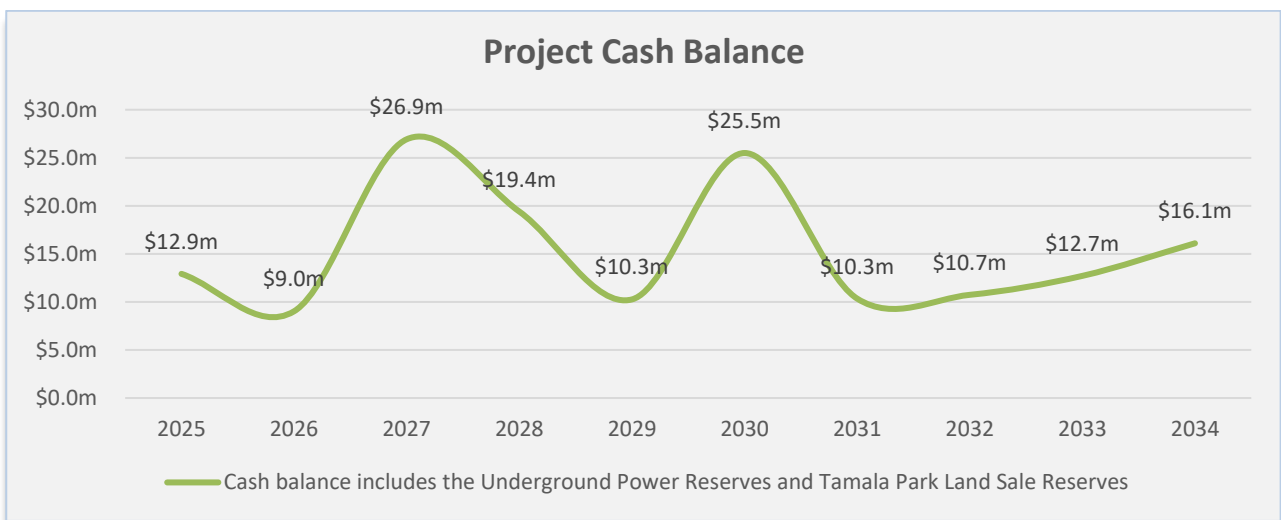
The use of reserves allows 4-year instalment options for up to 70% of ratepayers, helps manage service charge recoverability timing issues and potential project cost escalations. The City has calculated the level of reserves required to maintain sufficient liquidity throughout the project. The reserves below will be used during the life of the underground power project:

- Underground Power Reserve
- Tamala Park Land Sales Reserve

The balance of the Underground Power Reserve is projected to be \$2.3m at the start of 2024/25.

The balance of the Tamala Park Land Sales Reserve is projected to be \$5.0m at the start of 2024/25. The reserve is expected to receive another \$6.6m in dividends by the end of 2030/31 through land developments by the Tamala Park Regional Council (TPRC). The projected amounts are provided by the TPRC and are based on a 10-year long-term forecast that may be subject to changes on an annual basis.

The City's project cash balance for the life of the underground power project including reserves is shown below:



Sensitivity Analysis

Sensitivity analysis (**Attachment 1**) has been conducted on various scenarios to determine the financial impact of potential cost increases, reduced recoverability and varying levels of upfront payments. The financial model has been developed to allow for sufficient reserve funding and debt capacity to allow for up to 70% of ratepayers to elect for the 4-year instalment option.

CONSULTATION/ADVERTISING:

Subject to E10 estimates and detailed property costings to be provided by Western Power, public consultation will be undertaken with residents in the specific project areas to determine the level of debt funding required from the WATC.

LEGAL/POLICY:

The Underground Power Financial Model is not considered legal and binding. The main purpose is to assist with the City's future planning and provide guidance for the delivery and implementation of the eight projects.

RISK MANAGEMENT IMPLICATIONS

Low: It is low risk for Council to approve the Underground Power Financial Model. The funding agreement for each project will be reviewed and require Council approval prior to construction commencing.

STRATEGIC IMPLICATIONS:

This is in keeping with the City's *Strategic Community Plan 2022-2032*:

Enhanced Environment

Our urban forest/canopy is maintained and increased.

Thriving Places

Our physical assets are efficiently and effectively managed and maintained.

Sensitive Design

Our built form is attractive and diverse, in line with our growing and changing community.

Innovative and Accountable

Our resources and assets are planned and managed in an efficient and sustainable manner.

SUSTAINABILITY IMPLICATIONS:

This is in keeping with the following key sustainability outcomes of the *City's Sustainable Environment Strategy 2019-2024*.

Urban Greening and Biodiversity

PUBLIC HEALTH IMPLICATIONS:

This is in keeping with the following priority health outcomes of the City's *Public Health Plan 2020-2025*:

Reduced exposure to environmental health risks

FINANCIAL/BUDGET IMPLICATIONS:

There are no financial implications to the City for 2023/24.

The financial model will inform the City's negotiation in the Co-Funding Agreement, which will need to be signed by Western Power and the City of Vincent prior to the construction commencing.

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Underground Power Financial Model 2022/23



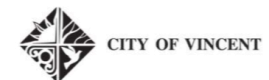
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Underground Power Model – Indicative Timeline

Project End Date: June 2031

	North Perth/ Mount Hawthorn	North Perth/ Mount Lawley	Perth/ Highgate - including heritage sites	Leederville/ North Perth	Mount Hawthorn	West Perth/Perth/ Leederville/ East Perth	Mount Hawthorn/ Joondanna/ Osborne Park	North Perth
Service Charges Levy Date	July 2024	July 2024	July 2025	July 2026	July 2027	July 2030	July 2030	July 2030
Construction period	Jan 24 to Aug 25	Apr 24 – Sept 25	Jun 25 to Aug 26	Jul 26 to Jan 29	Jan 27 to Mar 29	Feb 30 to May 31	Jun 30 to Aug 31	Jun 30 to Jun 31
Deferred Start Western Power Payment Date	Oct-24	Oct-24	Aug-25	Sep-26	Aug-27	Aug-30	Aug-30	Aug-30

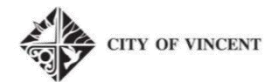
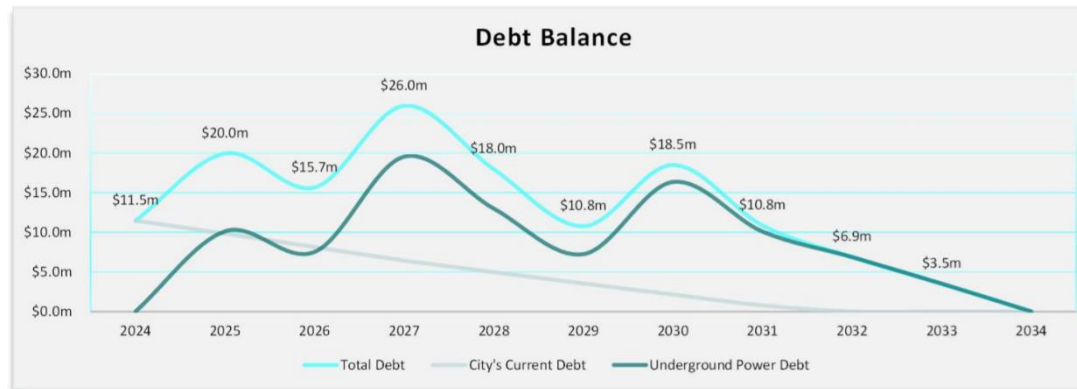
The timelines above are indicative and have been provided by Western Power. These are subject to change depending on the time taken for Western Power to complete their design, procurement and internal review process.



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Underground Power Model - Borrowing

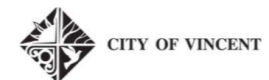
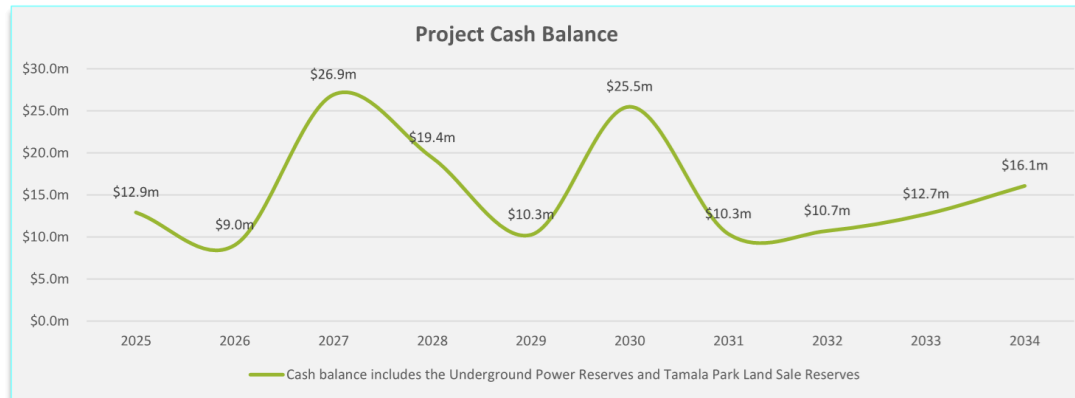
Financial Metrics	Explanation
Loan Term	4-year fixed interest term loans to be repaid through service charges. The interest rates will be subject to applicable WATC rates at the time the loan funds are drawn.
Peak Debt	Estimated to be \$26m in 2026/27
Borrowing Capacity	To extend the City's borrowing capacity up to 50% per project - Minimum target debt service coverage ratio - 2.3 - Maximum target net debt ratio – 50%



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Underground Power Model – Cash & Reserves

Financial Metrics	Explanation
Available reserves to manage cashflow	- Underground Power Reserve - \$2.3m - Tamala Park Land Sales Reserve - \$5.0m to \$11.6m
4-year payback period option	Available to up to 70% of ratepayers through a combination of debt and use of reserves



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Sensitivity Analysis – Lowest Cash Balance

- The use of reserves allows 4-year installment options for up to 70% of ratepayers, helps manage service charge recoverability timing issues and potential project cost escalations
- The minimum cash balance during the project life is estimated for the three scenarios below based on varying level of upfront ratepayers
- A reduction in recoverability of rates and project cost increases may impact the amount the City is able to borrow for each project

Scenario	30% Pay Upfront	40% Pay Upfront	50% Pay Upfront
Base case	\$9.4m in FY29	\$10.5m in FY29	\$11.8m in F29
Reduction in recoverability by 5%	\$6.8m in FY31	\$8.6m in FY31	\$9.1m in F29
Cost increase 20%	\$7.6m in FY31	\$9.0m in FY29	\$10.2m in F29

Lowest Cash Balance

