

Submission to Western Power on the
Distribution Headworks Scheme

By the Urban Development Institute of Australia (WA Division)



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12 October 2007

Mr. Gregory Turnbull
Capital Contributions Policy
Distribution Headworks Scheme Feedback
Western Power
GPO Box L921
Perth WA 6842

By email: edgeofgrid@westernpower.com.au

Dear Greg

Re: Distribution Headworks Scheme

The Urban Development Institute of Australia (UDIA) WA is pleased to take this opportunity to respond to the Distribution Headworks Scheme proposed for the South West Integrated System. UDIA WA has been part of the Industry Working Group that has overseen development of the Scheme and is therefore familiar with the discussions of various options for the calculation and application of the headworks charge. We appreciate that Western Power's operating environment requires it to be cost neutral in providing network enhancement and that the headworks charge is considered a more equitable and transparent approach than the prohibitive first-mover-pays-all capital contributions approach previously used. However, UDIA has serious concerns about the impact of the headworks charges, particularly for regional development and housing affordability in the affected areas.

The process has again highlighted the urgent need for the State government to commit to a State Infrastructure Strategy. The Government must take a strategic and long-term approach to the determination of priorities that ensure timely supply of appropriate infrastructure capacity. Strategic planning across agencies must become a priority for government.

The land development industry in Western Australia operates in a complex and at times conflicting policy environment. The statements in this response reflect industry's concerns regarding the proposed headworks charge and it is UDIA's hope that Western Power will give the industry's position due consideration and recognition in its reporting.

Sincerely

A handwritten signature in black ink, which appears to read 'Debra Goostrey', is positioned above the printed name.

Debra Goostrey
Chief Executive Officer

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Who is UDIA?

The Urban Development Institute of Australia (UDIA WA) is the peak body representing all sectors of the property development industry in Western Australia. We are a membership organisation comprised of developers, planners, financiers, professional consultants, lawyers, engineers and state and local government agencies.

Our purpose is to promote excellence and innovation in the creation of sustainable communities for the benefit of all West Australians.

The development industry is a major financial contributor to the Western Australian community employing over 38,000 persons with a total of \$2,148M of direct and indirect wages and salaries, producing an estimated total value of \$8,430M including lot production, group dwelling construction and single residence construction¹.

The development and residential dwelling industries are significant contributors to the state economy. It is incumbent on the government to invest in the future of the state by providing high quality infrastructure in appropriate locations to ensure that affordable residential development is available to the whole community, including communities in regional areas.

Impact of the headworks charges on regional development

High rates of population growth, not only in the Perth metropolitan area, but also across regional Western Australia, necessitate significant infrastructure requirements, which is made all the more difficult because of the State's large geographical area and low population density.

Population growth in the Great Southern region is well documented and will likely be higher than current projections given the impact of future activities associated with the Ravensthorpe Nickel Project. Table 1 indicates relatively high rates of growth in the Great Southern and Goldfields. Growth will be uneven across the region with the highest growth occurring in coastal areas with decline in some of the smaller interior local government areas.

¹ 2005/2006

Table 1: Population Projections in the Great Southern Region

	2005	2010	2015	2020	2025	2030
Great Southern	54,600	56,900	59,400	61,700	63,200	63,800
Goldfields	55,900	58,500	60,500	62,600	64,100	65,200
Total Population	110,500	115,400	119,900	124,300	127,300	129,000
% change		4%	4%	4%	2%	1%

*Source: Department for Planning and Infrastructure (2005.) WA Tomorrow Population Report No. 6
Prepared for the Western Australian Planning Commission*

The residential labourforce associated with the Ravensthorpe Nickel Project will be higher than the 300 workers plus families originally forecast². The preference for a high proportion of the labourforce is to locate in Hopetoun; however prohibitive headworks charges of \$10,000 per lot in Ravensthorpe for residential subdivision will act as a strong disincentive to people locating in these areas. In addition, the prices for headworks charges for commercial subdivision will be even more devastating on the viability of retail or service industries which might otherwise have located there.

The proposed headworks will have a cumulative negative effect on the economic and social development of these areas. Without small to medium sized enterprises being established, there will be no town centre development, no employment growth, no service industry growth to support the mining industry and no residential development. The state government must be alert to, and take responsibility for, the damaging consequences the lack of public utilities will have on the economic and social development of the region.

The government has set a target of 60 per cent reduction in greenhouse gas emissions by 2050 and if they wish to achieve the reduced emissions target it is incumbent on them to make the necessary financial investment in infrastructure that enables Western Power to deliver services in an affordable manner to the regions and promote local residential development.

The growth rates detailed in Table 1 are higher than the growth rate Western Power applies to project future kVA demand. It is a major concern for industry that Western Power relies on historical averages to determine future load when population data indicate that substantially higher demand is likely. Western Power’s forecasting and planning processes need to be overhauled to ensure the growth projections create a trigger point for new substation provision. There are large inefficiencies built into the Western Power model of waiting till the load reaches 90% before a new substation is planned. This approach will continue to condemn regional populations to poor public utilities provision and exorbitant costs.

² Country Land Development Program, Annual Review 2006,(WAPC, June 2007).

While UDIA appreciates that cost of providing infrastructure in regional areas is high, it is our view that Western Power should be more proactive in determining future demand and develop new substations ahead of demand. Western Power must identify strategic items of infrastructure that precede demand and pave the way for regional development. The Electricity Access Code should include a social impact assessment to facilitate this outcome.

Impact of the headworks charges on housing affordability

UDIA appreciates that Western Power’s operating environment requires it to be cost neutral in providing network enhancement and that the headworks charge is considered a more equitable and transparent approach than the prohibitive first-mover-pays-all capital contributions approach previously used. However, UDIA has serious concerns about the impact of the headworks charges on housing affordability in the affected areas.

UDIA recently undertook a national study: *An industry report into affordable home ownership in Australia* (UDIA August 2007), that analysed housing affordability in Australia. The findings indicate that Western Australia is the least affordable state in the country with only three urban centres (refer Figure 1) remaining where median priced dwellings are affordable to the average household.

Figure 1 indicates that Albany, without the headworks charge, has an affordability crisis, which makes it imperative that government be aware of the strong negative impact the charge will have on urban centres in the affected area.



Based on data from the UDIA/Matusik Affordability Measure, 2007

Figure 1: WA Affordability Index Rating (based on data from the UDIA/Matusik Affordability Measure, 2007)

UDIA WA's own studies into affordability and cost components of land development show that a significant proportion of the value of land is attributable to taxes and charges imposed at a Local, State and Federal level. Figure 2 shows the impact on the total of taxes and charges applied during the development process³ when the headworks charge is added⁴.

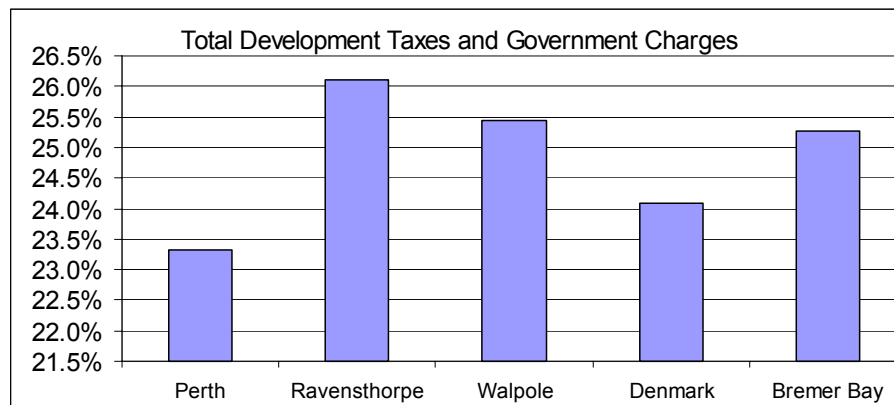


Figure 2: Total Development Taxes and Charges (Based UDIA WA lot price analysis 2007)

In reality the impact is greater than simply the increased cost of the headworks as it is compounded by other taxes and charges, most notably those applied at sale of the lot. GST for example in Figure 2, would be an additional \$1,000 in Ravensthorpe, \$750 in Walpole and \$685 in Bremer Bay.

The proposed headworks charge will inevitably further reduce housing affordability in one of two ways:

- by being passed on to the new landowner through increased property costs; or,
- through land supply constraints brought on by developers not bringing land onto the market because the headworks charges have rendered projects unviable.

The impact of unaffordable land in areas of demand such as Ravensthorpe will be to price local families who are not working in the mining industry out of the market and to increase the practice of fly-in/fly-out or long distance driving with the resulting increase in emissions and associated safety risks.

The Government must support local residential land development without the constraints of unrealistic government charges that negatively impact on affordability.

³ Does not include taxes and charges applied at sale such as Stamp Duty and GST.

⁴ For the purposes of comparison only the headworks charges have been adjusted, all other inputs remained constant.

Reducing demand for power

UDIA is actively involved in strategies to reduce power consumption in new residential land developments. This includes the orientation of lots to maximise solar efficiency, the construction of energy efficient housing and the education of local residents of living efficiently and reducing their ecological footprint. The reduction in power consumption will in the longer term reduce demands on the grid and should be actively supported and encouraged by Government.

It is UDIA's view that the proposed headworks charge must provide incentives to developers to design subdivisions that reduce energy demand. This will drive innovation and the use of alternative energy sources. The objective of solar orientation of lots for subdivision design and Five Star Plus for housing design is to significantly reduce the demand for power. The proposed headworks charges should show a commitment by the Government to provide benefits to industry for achieving reductions in kVA consumption.

The proposed rebate scheme

The headworks charge is a locational distance based price with a government rebate for areas where the price is highest. The geographic areas subject to a rebate are relatively small and generally remote which suggests few actual rebates will be paid and that the majority of new connections will not receive a rebate at all.

UDIA proposes that the rebate be applied more strategically with higher rebates paid to those areas within identified growth corridors along the coast or in regional towns and the rebate removed from remote locations. In this way, remote locations are encouraged to utilise alternative energy sources (a more viable option than extending the network) and higher subsidies in identified growth areas will facilitate a less dispersed settlement pattern resulting in greater efficiencies and cheaper headworks charges.

UDIA is also concerned that the headworks charges are indexed but the proposed subsidies are not. The value of the subsidy will thus erode over time and serve to further reduce government commitment to facilitating affordable housing in regional areas. It is also worth noting that there appears to be no formal long term commitment on the part of the government to retain the subsidy, which gives little assurance to the industry or future residents in these areas.

It is recognised that the cost of rebates will increase when applied to growth areas however the taxes that are collected from the development industry are considerable. Table 2 below indicates taxes generated for the year to June 2006 are \$948 million with Land Tax and MRIT adding an additional estimated \$319.9M and \$54M respectively (Overview of State Taxes Western Australia, 2005–06, Department of Treasury and Finance).

To give an indication of the contribution that land development has on these taxes, the additional tax on sub-divided land is approximately 290% greater than for en-globo land prior to sub-division approval.

Given the operating environment of Western Power enforces a revenue neutral approach, money generated through taxation should be utilised to:

- extend the rebate scheme to facilitate regional development, or
- fund investment in strategically located sub-stations in regional areas

Table 2: Total taxes paid by the Land Development and Residential Construction Industry in WA

TOTAL TAXES - Land Development and Residential Construction Industry in WA	
	\$M
GST	600
PAYE	190
Stamp Duty	119
Payroll Tax	40
Land Tax	*
MRIT	*
TOTAL	948

Source: *Economic Impact Study 2007, UDIA (WA)*

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Commercial Subdivisions

The focus of this submission is the impact on residential land development however appropriate regional employment is an integral and key contributor to regional development. Major barriers to business, including establishment costs, will stifle future growth. The impact on business is greater than is foreshadowed on page 10 of the Distribution Headworks Scheme Information Sheet as many commercial activities, even something as simple as a fish and chip shop, utilise far higher levels of power than the 22kVA and 33 kVA identified in the information provided.

Commercial load allocations are stated in the Information Sheet as 25kVA per lot. This means that subdivisions, based on the Western Power policy provision of 200kVA per ha, will have lots with an average size of 1250sqm. These are very small commercial lots and most will pay headwork charges substantially higher than those listed in the Information sheet due to the lower lot yield per ha. This makes the establishment of small to medium enterprises patently unviable.

Need for State Infrastructure Strategy

The process has again highlighted the urgent need for the State government to commit to a State Infrastructure Strategy to direct development across the state. Current and future needs for economic and social infrastructure must be identified and a plan for the optimal delivery of this infrastructure developed. This plan must also provide for appropriate contributions by the private sector and all tiers of government to the development of new and replacement infrastructure within the State that will support future growth.

The Government must take a strategic and long-term approach to the determination of priorities that ensure timely supply of appropriate infrastructure capacity. Strategic planning across agencies must become a priority for government. The complex competing issues of the provision of major infrastructure, environmental preservation, the location of transport corridors and land uses must be resolved collectively ahead of the development industry moving into an area.

In a period of unprecedented economic growth and continuing record budget surpluses in Western Australia, it is insupportable that residential development in regional areas not be provided with infrastructure at an affordable rate. The government must provide Western Power with the funding to develop new substations in strategic locations that will facilitate economic growth in the SWIS catchment.

How will headworks charges be spent?

The stated "discount" of 1% against the historic 3% increase in power demand for existing/historic trends seems inconsistent with recent significant increases in the design requirements for new lots. This would assume that only 33% of the additional power demand in the SWIS will come from existing customers and that 67% is from new developments. UDIA queries where the justification for this 'discount' is? Should it be higher? UDIA would like assurances that the charges per lot will remain static and act independently from likely future increases in the design requirements for new lots (in terms of kVA/lot).

Scheme may delay the delivery of substations

With no scheme contributions being collected within 25km of a substation, UDIA is concerned this will influence the timing/delivery of new substations due to commercial considerations within Western Power. If major feeder lines are funded by development, would the decision be made to deliver new substations that would ultimately reduce scheme contributions? This is a further reason for substations to be planned and funded independently of the scheme, and this planning to be clearly communicated to the public.

Major strategic works

Specifically identified "major works" during the next 25 years should be explicitly removed from the calculation. The State Government should be identifying and funding the delivery of significant, strategic and/or major works (e.g. significant feeder line upgrades to service new development corridors) as exceptional items that should not be funded under the Headworks

Scheme. This will help to encourage development along sensible corridors and will discourage disjointed and inefficient developments.

Summary

The key position of UDIA in relation to the proposed headworks charges is, despite the intention to distribute the costs more equitably, the application of the charges will be detrimental to regional development. The impact on housing affordability in the affected areas will be real and immediate and can only be resolved by government investment in strategic infrastructure, namely additional substations in the SWIS. In addition, the charges need to provide incentives to encourage innovation and reduced energy consumption, particularly in view of the government's commitment to a 60% reduction in greenhouse gas emissions by 2050.

UDIA advocates strongly for the State government to invest a proportion of the current record budget surplus in power infrastructure. UDIA's own data demonstrate the development industry contributed \$1.32 billion in state taxes in 2005/06 a large proportion of which should be returned to the community in infrastructure spending.

While the proposed rebate scheme goes some way to alleviating the worst impacts of the headworks charges, it does not go far enough. There are no formal guarantees of continuing government commitment to the rebate stated in the document and it is our view that it would benefit from a more strategic and targeted approach where rebates are paid only to the southern corridor or in designated regional and tourism centres in the SWIS.

The property development industry has received much criticism in recent months for holding back land supply and inflating the cost of land for their own pecuniary interests. The government must understand that it has a key role to play in the delivery of affordable land to the market. It must reassess the funding it provides to Western Power for network enhancement that will allow Western Power to take a more strategic approach to infrastructure provision that will drive regional growth and economic development.