

Major Capital Projects

Power utility – New power station business case and related procurement strategy



Background

A vertically integrated utility supplies electricity to around 45,000 customers in Western Australia's north west.

The challenge

In 2010, and based on demand forecasts, the client identified a future supply shortfall likely to be experienced in 2016-17. To address this, it required departmental approval to build a new power station, with an approximate cost of \$500 million. The client had not, however, delivered a major project of this scale before.

How we helped: Scope and approach

We developed a business case that presented a clear need for additional generation capacity to meet demand growth.

As the client had not previously delivered a project of this scope and scale, experienced external advisers were required to help drive a range of tasks and complement the client's existing capabilities.

A key requirement for the business case was to ensure that, apart from delivering the best value for money, the investment was to be considered an off-balance sheet transaction so as not to adversely impact the state's credit rating.

To deliver a privately funded solution required an innovative and collaborative approach with other potential off-takers, such as large mining companies. Previously, major miners built power generation capacity for their sole use – collaboration was not the norm. We worked closely with them on the merits of our approach and designed an appropriate risk sharing arrangement and business model.

In finalising the business case, we reviewed demand projections and existing supply options, assessed various off balance sheet options, conducted financial modelling and analysis, worked with technical advisors and consulted with senior client management and the state government.

The business case was approved and the client proceeded with the recommendation to go to market to contract with an independent power producer (IPP) for additional generation capacity, along with two large miners.

We subsequently assisted in designing a procurement strategy and documentation, with legal and technical advisors, financial and commercial evaluation of tender response bids, selecting a preferred IPP and presenting our final recommendation.

The 220 megawatt combined cycle gas turbine (CCGT) power station is being built with the regional utility and the mining client as foundation customers. The project is on track to begin delivering electricity from summer 2017.

Contacts



Mike Lynn

Partner

Tel: +61 8 9365 7125

Mob: +61 411 068 777

mlynn@deloitte.com.au



Michael Rath

Partner

Tel: +61 3 9671 6465

Mob: 61 413 758 057

mrath@deloitte.com.au

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is, by means of this publication, rendering professional advice or services.

Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 6,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte's web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2015 Deloitte Touche Tohmatsu.

MCBD_HYD_04/15_051494