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STATEMENT OF CORPORATE  
INTENT

2010/11

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## Executive Summary

Welcome to our Statement of Corporate Intent (SCI) 2010/11.

The SCI provides Western Power business objectives, major activities, performance reporting and financial management, as agreed with Government.

Western Power's purpose is to connect people with energy. We are responsible for the transmission and distribution of electricity in the south west of Western Australia, including Perth.

Consisting of nearly 88,000 kilometres of powerlines stretching from Kalbarri in the north, to Kalgoorlie in the east and south to Albany, our electricity network is one of the largest isolated networks in the world. Everyday we power more than 965,000 homes and businesses and around 150,000 streetlights.

By closely monitoring the amount of electricity flowing in the South West Interconnect System (SWIS) and carrying out regular maintenance, we ensure the network is safely meeting the energy needs of all our customers.

The current and future functions and responsibilities of Western Power are defined in the *Electricity Corporations Act 2005 (WA)*, the *Electricity Industry Act 2004 (WA)* and referenced instruments. The Acts and various codes also specify the way in which the Western Power's core functions will be undertaken, in terms of the obligations and powers of the Corporation. As a Corporation, Western Power makes commercial business decisions, as set out in our governing legislation.

Western Power has recognised the need to take stock of progress achieved since the inception of the new organisation in 2006 and shifts in the broader environment. With the foundational elements now in place, the strategic direction of Western Power over the next three years is based on the logic of moving to simplify and improve the customer orientation, responsiveness and commerciality of our business. We will do this through targeted engagement with our customers and stakeholders and a focus on achieving efficiency and improvements. As a result, we will drive increased returns as well as more efficient use of scarce capital and build a platform for future growth that will benefit Western Australia.

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## Introduction

Western Power is responsible for the safe, reliable and efficient transmission and distribution of electricity in the south west of Western Australia. This encompasses connecting electricity to homes and businesses, and maintaining the electricity network. Everyday we power more than 965,000 homes and businesses and around 150,000 streetlights. As a Corporation, Western Power makes commercial business decisions, as set out in our governing legislation.

Consisting of nearly 88,000 kilometres of powerlines stretching from Kalbarri in the north, Kalgoorlie in the east and Albany in the south, our electricity network is one of the largest isolated networks in the world (as shown in Appendix A).

Western Power is a statutory corporation established by the *Electricity Corporations Act 2005 (WA)* (the Act). It is owned by the State Government of Western Australia and is accountable to the Minister for Energy (the Minister).

The Economic Regulatory Authority (ERA) oversees the performance of Western Power's business within a prescribed regulatory period. The second Access Arrangement (AA2) was approved by the ERA on 19 January 2010 and came into affect for the period 1 March 2010 to 30 June 2012.

The Access Arrangement prescribes both service performance targets and network tariffs and charges that are efficient and consistent with the principles defined in the *Electricity Networks Access Code 2004*.

The Corporation's accountability requirements in the Statement of Corporate Intent (SCI) are agreed annually with the Minister. This SCI outlines our objectives, major activities and performance targets for the financial year beginning 1 July 2010 consistent with the Government's policy and budgetary requirements.

The SCI has been prepared in accordance with the requirements of the Act and should be considered in conjunction with the State Budget Papers.

### Our Corporate requirements

The current and future functions and responsibilities of Western Power are defined in *the Electricity Corporations Act 2005 (WA)*, the *Electricity Industry Act 2004 (WA)* and referenced instruments. The Acts and various codes also specify the way in which Western Power's core functions will be undertaken, in terms of the obligations and powers of the Corporation.

The safety of the community, customers and our workforce is paramount to Western Power. Western Power has always placed safety as its overarching value and actively pursues improvements in this area.

### Our Operating Environment

There are a number of issues which will influence Western Power's ability to support the delivery of energy sustainability, security and prosperity for Western Australia. These include:

- Customers are demanding better **service**, more **information**, improved **reliability** and **greater control** over their energy use in response to economic and environmental drivers
- Regulatory, market and budget requirements are driving the need for **substantial efficiency and productivity improvements**
- A **lack of spare capacity** requiring new infrastructure to support forecast demand from new major customers and generators to connect over the next five years

- An **aging asset base** which will require significant investment including investments that will facilitate assets operating beyond their original design life expectancy in order to maintain existing levels of service
- **Competition for key skills** as specialist technical resources remain in short supply
- Maturing of the regulatory framework and identification of a number of market inefficiencies are strong drivers for **continuing energy market reform**
- Signs of **an economic recovery** are appearing however the State's financial position remains challenging in the face of competing infrastructure and recurrent expenditure demands
- Growing community and government expectations for **a more environmentally sustainable energy system**
  - The development and roll-out of **smart meter and smart grid technologies** is opening up a number of non-network energy solutions precipitating a shift away from a traditional power system to a network that supports increased bi-directional energy flow
  - Continued **investment in intermittent generation** (including small scale renewable energy sources) resulting in increased system complexity, which creates challenges for system reliability and security

# Our Corporate Objectives

## Purpose

Western Power's purpose is to connect people with energy.

Central to this are our primary functions of transporting and distributing safe, reliable and efficient electricity in the south west of Western Australia. Western Power also provides the System Management functions, as presented in the Market Rules to ensure system security and support market efficiency.

## Values

The Western Power values are:

- **Put safety first:** In everything we do, we are committed to putting safety first
- **Respect our customers:** We stay committed to our customers to achieve the best energy solutions
- **Work together:** We work collaboratively to achieve consistent results that are in the customers' and Western Power's collective interests
- **Make a positive difference:** We are focused on being innovative and creative when adding value to customers and accept accountability for delivering results
- **Earn trust:** We work to earn the trust of others and deliver on commitments
- **Act like it's our own business:** Western Power is our business and our actions will always reflect this

## Strategic Direction

Western Power has recognised the need to take stock of progress achieved since the inception of the new organisation in 2006 and shifts in our broader environment. This insight has assisted in taking a fresh view of our purpose, current and emerging challenges, long term direction and strategy. Within this context, we have applied a commercial orientation taking into account customer needs, broader stakeholder feedback and business opportunities.

On this basis we have chosen *Transform the Core* as our strategic direction for the period 2010 to 2013. This conscious choice is in recognition of our need to prepare a stronger platform as a basis for future growth and the changing demands of the network. The focus the next three years is based on the logic of moving to simplify and improve the customer orientation, responsiveness and commerciality of our business. We will do this through targeted engagement with our customers and stakeholders and a focus on driving efficiency throughout the organisation. As a result, we will drive increased returns as well as more efficient use of scarce capital and build a platform for future diversification that will benefit Western Australia.

*Transform the Core* consists of four strategies:

- **External connections:** Focusing on customer service and stakeholder engagement. We recognise we need better, proactive engagement with our customers to understand their expectations and to build our business activities around meeting their requirements.
- **Operational Excellence:** Optimising our core operations. We will focus on efficiency improvements to simplify core operations, improve performance for our customers and drive cost efficiencies and investment in a sustainable manner, thus improving our commerciality.
- **Regulatory Excellence:** Optimising the nature of our regulated business. Ensure the regulatory framework facilitates certainty and good outcomes for WA and Western Power, and that our internal processes are based on a deep regulatory and commercial understanding.

- **Future Positioning:** Seeding investment to support future growth and regulatory objectives. We will continue to make targeted commercial developments in moving towards a smarter grid, and identify seed investment opportunities to protect and leverage our natural advantages.

The strategies are supported by a continuing focus on our enabling strategies of investing in people and culture, continuing our safety journey and maintaining a broad focus on sustainability.

To realise our strategic direction we recognise that:

- Western Power people are the foundation of our future;
- Current energy solutions provide the platform for the future, building on our organisational focus on being safe, reliable and efficient;
- Existing infrastructure must be leveraged to facilitate changes to the energy system including increased renewable energy;
- There is a need for an outward looking orientation in developing solutions;
- Sustainability is central to our decision making; and
- Connecting constructively and openly with each other, our customers and our stakeholders is core to our success.

## **Investment Program**

The electricity network is a key social and economic enabler supporting the development and maintenance of healthy and vibrant communities within Western Australia. Investing in operational and capital programs is essential to maintaining the long-term health of our network. Western Power's capital expenditure needs relate to the stewardship of existing network assets, handling any increased requirements of existing customers and addressing the direct and indirect impacts of connecting new customers.

Western Power's investment program has been tailored to reflect the availability of internal and external resources, including State funding, and the need to ensure that expenditure is executed efficiently. As part of this Western Power will be working with government through an endorsed process to ensure we have sufficient funding to meet customer and regulatory commitments.

## **Key Network Projects**

A number of major activities will continue to be a large part of our investment program to deliver a safe and reliable network in accordance with our regulatory contract. These include:

- Safety, reliability and environmental activities – maintaining the network to standards consistent with agreed State funding.
- Asset replacement and refurbishment – for existing lines, transformers, circuit breakers and other equipment due to age, performance or risk issues.

Other major committed projects include the design, construction and installation of infrastructure to support:

- Customer driven activities – connection of new subdivisions and construction of new substations.
- Capacity expansion – upgrading and construction of new substations and lines to deliver increased network capacity in response to general demand growth.

Further detail regarding our investment planning criteria and reinforcement projects is provided as part of Western Power's Annual Planning Report on our website.

# Performance Reporting and Financial Management

As a Government Trading Enterprise, and in accordance with the Act, Western Power will provide the Minister with a quarterly report, for the first three quarters and an Annual Report for the whole financial year.

## Quarterly Reporting

Quarterly reports monitor performance against the targets outlined in Appendix B.

As part of this quarterly reporting, Western Power also provides highlights of important achievements, financial statements and relevant accompanying notes.

## Annual Reporting

The Annual Report will be provided to the Minister, following the end of the financial year within the time specified by the Act 2005.

In addition to the financial statements, the annual report will include an overview of major achievements, an appraisal of future prospects, a comparison of performance with the SCI targets, and other information required to be included by the Act.

Additional reporting is provided at the Minister's request.

## Access to Information

Copies of Western Power's major public documents including the SCI and Annual Reports can be accessed through our website [www.westernpower.com.au/](http://www.westernpower.com.au/).

## Network Pricing and Tariffs

Western Power's network pricing policy and tariffs are reviewed and published on an annual basis.

A key determinant of network tariffs is the aggregate annual revenue requirement (AARR) for Western Power to invest in new assets, operate the network and earn a reasonable commercial return on its asset base. The ERA plays a crucial role in reviewing Western Power's AARR submitted for each regulatory period to ensure that Western Power is operating in a manner that is economically efficient and will continue to provide value for money network access and infrastructure services.

## Community Service Obligations (CSO's) and Payments from Government

In total, it is expected that Government will make payments to Western Power for the State Underground Power Program (SUPP) and Edge of Grid Program totalling \$5.8m in 2010/11.

## System Management

The role of System Management has been financially segregated within Western Power to reflect its "market" functions.

On 1 April 2010 the ERA approved System Management's allowable revenue from participants in the wholesale electricity market for the three-year period commencing 1 July 2010.

## Accounting Standards

Western Power's accounting policies are consistent with Corporations Law requirements as specified in Schedule 3 of the Act. Financial statements adopt the historic cost convention and reflect the

accrual basis of accounting. The accounting policies for 2010/11 are not expected to be materially different from those listed in our latest Annual Report.

### **Dividend Policy**

Dividends are agreed annually according to accepted profit results and in keeping with maintaining an overall satisfactory level of payments to Government. Dividends are based upon the dividend policy of 65% of Net Profit after Tax (NPAT) being payable, which reflects the cabinet decision made in early 2010. Amounts are paid 6 months in arrears and the dividend for 2010/11 has been aligned with the State budget forward estimates. Western Power will continue to discuss the dividend policy with Government, and subject to agreement, any proposed changes will be reflected through the mid-year review process.

## Appendix A. Map of Western Power's Electricity Network

The Western Power Electricity Network is the largest 'interconnected' network in Western Australia. It extends from east of Albany in the south, to Kalgoorlie in the east and Kalbarri in the north, as shown below.

**Figure 1 – Western Power's Electricity Network**



## Appendix B. Key Performance Indicators and Targets

**Table 1 – KPIs and Targets for 2010/11**

<b>Indicator description</b>	<b>Target</b>
Lost Time Injury Frequency Rate (LTIFR)	<2.2
Public Safety Incidents	<11
System Average Interruption Duration Index (SAIDI)	221
Transmission Network System Minutes (meshed network)	9
Customer Charter compliance (%)	90
EBT (\$m)	107.4
Net Accruals to Government (\$m)*	11.7
Major Projects on Budget (%)	97.5
Major Projects on Schedule (%)	95
Organisational Health (%)	75

\* Net Accruals to Government are shown on an accrual basis, in contrast to State Budget forward estimates which are stated on a cash basis

## Glossary

AA2	The second Access Arrangement – is the set of financial rules and policies submitted by Western Power to the ERA. It sets out the terms and conditions under which Western Power will sell access to its network during the regulatory period, from March 2010 to June 2012.
AARR	Aggregate Annual Revenue Requirement
AMFR	All Medical Frequency Rate
CSO	Community Service Obligation
ERA	Economic Regulatory Authority
LTIFR	Lost Time Injury Frequency Rate
NPAT	Net Profit After Tax
SAIDI	System Average Interruption Duration Index
SCI	Statement of Corporate Intent
SUPP	State Underground Power Program
Tariffs	All retailers pay the network business for the use of the network to transport energy from the generators to their customers. Those charges are determined from a set of published network tariffs.