
December quarterly report
2006/07



31 January 2006

1 Introduction

This report has been prepared in accordance with Western Power's obligation to report to the Minister for Energy under Section 106 of the *Electricity Corporations Act 2005*. This report reviews the Corporation's performance for the period from October to December 2006.

2 Key Performance Indicators

Western Power's performance is tracked against Key Performance Indicators (KPIs) detailed in the *Western Power Statement of Corporate Intent 2006/07 (SCI)*. Table 1 provides a summary of Western Power's performance for the December 2006 quarter.

Table 1 – KPI Performance¹

Indicator description	Strategic Result Ar	December 20 (YTD) Actual	2006/07 Full Year Target
Lost Time Injury Frequency Rate (LTIFR) ² (LTIs / million hours worked - employees)	Safety	4.7	<5
All Medical Frequency Rate (AMFR) (AMFs / million hours worked - employees)	Safety	20.9	<20
System Average Interruption Duration Index (SAIDI) (Total duration of interruptions / customers per year)			
- South West Interconnected System (SWIS)	Reliable	268	277
- Urban	Reliable	233	242
- Rural	Reliable	472	509
System minutes interrupted (mins)	Reliable	6.7	7.8
Enquiries responded to within 10 days (%)	Reliable, Efficient	99	96
Complaints responded to within 20 days (%)	Reliable, Efficient	96	92
Subdivision Energisation rate (%)	Reliable, Efficient	92	>80
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (\$m) ⁴	Efficient	178.7	414.1

¹ Net Accruals to Government and Corporate Reputation KPIs that are provided in the Statement of Corporate Intent 2006/07 are reported annually.

² LTIFR data does not include statistics from Western Power contractors.

⁴ EBITDA actual is a December Year To Date figure.

3 Key Performance Indicators: continued

Western Power's enhanced focus on safety and health has been reflected in its Lost Time Injury Frequency Rate (LTIFR), which remained below the target level of 5 for employees throughout the December 2006 quarter.

The organisation's All Medical Frequency Rate (AMFR) for employees was marginally above the target of 20, a result that is expected to improve.

All System Average Interruption Duration Index (SAIDI) reliability performance in the South West Interconnected System during the December 2006 quarter was better than targeted performance.

The System Minutes Interrupted result of 6.7 for the 6 month period was due to environmental related incidents at the North Beach and Moora substations.

Western Power's performance in customer service has progressed well with response to complaints and enquiries achieving target performance. In the December 2006 quarter, subdivisions were energised within the organisation's target performance level.

Tracking behind the annual target of 414.1, the December 2006 (YTD) Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was \$178.7M, with performance impacted by lower network energy sales resulting from the mild weather conditions.

Operational cost pressures continue to be felt caused by the continued growth in the Western Australian economy and associated challenging labour and material market.

Western Power's underlying performance, adjusted for the impact of the new regulatory environment, is an EBITDA result of \$198.7M. The underlying performance illustrates that after future price adjustments to cover known regulatory corrections are incorporated, Western Power's financial performance is close to the organisation's target level (refer to Appendix 1 for detail).

4 Performance overview

Western Power made further progress, during the December 2006 quarter, towards completing programs that reflect the organisation's focus on providing **safe, reliable** and **efficient** network services.

4.1 Safety

Western Power's 100 Day Plan on Safety, which was completed on 5 October 2006, saw the organisation focus on more than two dozen initiatives designed to reinforce the role of safety as a core value and make the organisation a safer place in which to work.

Under this plan, Safety LifeSavers, a revised set of essential safe work practices, was developed and rolled out across Western Power to all employees and contractors. The program supports the organisation's safety and health vision: to conduct work in a manner where people are free from injury and harm.

4.2 Our customers

Western Power provides an extensive range of products and services to a wide range of customers, from individuals and small business operators to large corporations.

In the December 2006 quarter, the organisation completed work on a revised Trouble Call Management plan. When implemented, this will deliver an enhanced fault call management process that meets the Economic Regulatory Authority's licence requirements.

Western Power also implemented processes to meet Electricity Code and Customer Charter targets and further support its customer service performance.

A customer-focused process for new subdivisions was completed by Western Power in the December 2006 quarter. Developed in consultation with stakeholders, the new subdivision process will be progressively implemented with relevant industry bodies.

4.3 Our stakeholders

In the December 2006 quarter, Western Power continued to work with its key stakeholder groups to further understand their expectations, and to ensure that their interests were considered in the delivery of the organisation's work.

Processes and systems were implemented by Western Power to comply with the Independent Market Operator's requirements for meter data to support the Wholesale Electricity Market structure.

4.4 The network

Western Power is working to improve the performance of the existing South West Interconnected System and is upgrading its capacity to meet the ever-increasing demand for electricity.

Under Western Power's 'Summer Preparedness' program contingencies were developed to manage any residual risk to the network. This included ensuring mobile transformers and generators were available if required.

Further, a mock crisis management exercise was successfully conducted in early December 2006.

On 10 December 2006, the Minister for Energy launched Western Power's Bushfire Readiness Plan for summer 2006/07. It was announced that a record \$128 million would be committed over three years, with \$37.5 million to be spent in 2006/07. The plan incorporates a comprehensive vegetation management program; a public safety awareness campaign; and aerial network inspections by helicopter. Also under the plan, network upgrades using new technology are being considered, such as using steel poles that are designed to withstand bushfires and storms.

Other ongoing Western Power commitments include the Rural Power Improvement Program, with a budget of \$60 million over the next two years, and the Blackspot Feeder Program, with a \$10 million budget this financial year for the 20 worst feeders in the State.

4.5 Business efficiency and improvement

Western Power aims to streamline the way it conducts its business, to gain maximum output for effort: to do a job once and to do it well.

To support this, the organisation is reviewing the way it develops and implements its policies, procures goods and services and ensures that good governance principles are adopted.

During the December 2006 quarter, the following improvements were made:

- a revised Delegated Financial Authority policy and procedure was issued across the business.
- a new Risk Management framework and Corporate Risk Profile was developed.
- a 'Business Analyst' model was deployed throughout the organisation, centrally reporting to Western Power's Finance Division.
- an Information Technology and Telecommunications (IT&T) strategic program of work was approved and the IT&T strategic direction has been developed.
- standards and specifications were revised as part of capital efficiency initiatives under the organisation's now complete change program One Step Ahead.
- a legislative compliance and policy framework was developed and implemented.

It is a concern to report that actual spending on distribution maintenance (operating costs) have exceeded budget on a year to date basis due to a number of factors including higher unit costs and increased activity levels. Western Power is taking this very seriously and is preparing an action plan to address these cost overruns.

Scheduled delivery of distribution projects is currently behind internal performance targets, largely due to reallocation of resources to higher priority work. A plan to minimise the impacts on Western Power's commitments is being developed.

4.6 Our people

Western Power is committed to ensuring the organisation's people are safe, motivated and engaged. To help achieve this, the following programs were completed in the December 2006 quarter:

- a Performance Management System was implemented, with formal leaders receiving training to support the system.
- new induction protocols and supporting material were issued to formal leaders.

4.7 Our community

Western Power is a key contributor to the Western Australian community on a number of levels. The organisation aims to be a responsible corporate citizen that develops innovative partnerships, and supports local communities.

The following programs were completed in the December 2006 quarter:

- a waste minimisation program to 'reduce, reuse and recycle' was introduced across the workplace.
- Western Power's Community Partnership program was reviewed to ensure alignment with the organisation's key focus areas.

Appendix 1 – Financial statements

Western Power Profit & Loss Statement

\$m	Q1 06/0	Q2 06/0	Dec 06 (YTD)
Income			
Regulated Tariff Revenue	125.2	129.9	255.1
Developer Contributions	34.6	32.1	66.7
Other Revenue	29.3	29.0	58.3
Total income	189.1	191.0	380.1
Expenditure			
Operating Expenditure	77.0	89.6	166.5
TEC	17.4	17.4	34.9
Operating Expense	94.4	107.0	201.4
EBITDA	94.7	84.0	178.7
Depreciation	30.2	33.6	63.8
Earnings Before Interest and Tax	64.5	50.4	114.9
Interest	31.8	34.0	65.8
Operating Profit Before Tax	32.7	16.4	49.1
Income Tax	9.8	4.9	14.7
Profit after Tax	22.9	11.5	34.4

Western Power underlying position

Western Power's profitability is impacted by the regulatory treatment of expenditure by the Investment Adjustment Mechanism and revenue variations that result in annual K-factor price adjustments. In order to provide the underlying position, the baseline results are adjusted for the following factors:

- \$19.3M unfavourable variance in regulated tariff revenue and \$10.3M of non-reference service revenue due to the delayed introduction of the Access Arrangement,
- \$9.7M 'excess' capital contributions over that included in the Access Arrangement,

- Increase of \$4.1M in interest expense and \$1.3M in depreciation costs associated with the capital investment that is deferred to the next regulatory period.

The underlying position based on the December quarter 2006/07 results is shown below.

Underlying Earnings (\$m)	Dec 06 EBITDA	Dec 06 EBT
December Result	178.7	49.1
Network Tariff Revenue	19.3	19.3
Capital Contributions	-9.7	-9.7
Non-reference Services	10.4	10.4
Total Revenue Impact	20.0	20.0
IAM Depreciation	-	1.3
IAM Interest	-	4.1
Total Expense Impact	-	5.5
Underlying Position	198.7	74.6

Western Power Balance Sheet

\$m	Q1 06/07	Q2 06/07
Total Current Assets	178.4	175.4
Non-Current Assets		
Propoert Plant & Equipment	3,152.8	3,299.3
Other Non-current Assets	50.3	57.8
Total Non-current Assets	3,203.1	3,357.1
Total Assets	3,381.5	3,532.3
Total Current Liabilities	264.0	289.3
Non-Current Liabilities		
Borrowings	2,191.4	2,330.0
Other Non-Current Liabilities	104.0	70.8
Total Non-Current Liabilities	2,295.4	2,400.8
Total Liabilities	2,559.4	2,690.1
Net Assets	822.1	842.2
Contributed Equity	6.0	6.0
Retained Earnings	816.1	836.2
Total Equity	822.1	842.2

Western Power Cash Flow Statement

\$m	Q1 06/07	Q2 06/07	Dec 06 (YTD)
Opening Cash Balance	50.6	6.2	50.6
Inflow of Funds			
Cash receipts	240.7	237.2	477.9
New borrowings	67.7	138.7	206.4
Total inflow of funds	308.4	375.9	684.3
Outflow of funds			
Wages & salaries	36.1	47.2	83.3
Creditors & contractors	278.1	270.6	548.7
Payments to Government	0.0	8.9	8.9
Interest	34.0	35.0	69.0
Other payments	4.6	8.5	13.1
Total outflow of funds	352.8	370.2	723.0
Closing Cash Balance	6.2	11.9	11.9