



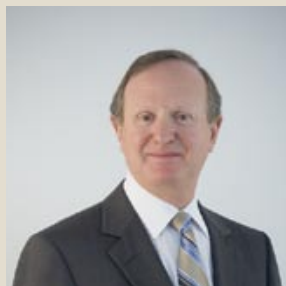
Annual Report '06

Contents

OPERATIONS REVIEW 2006

CHAIRPERSON'S AND MANAGING DIRECTOR'S REVIEW	3
BOARD OF DIRECTORS	7
ORGANISATION CHART	8
ORGANISATIONAL STRUCTURE	9
MAP OF THE SOUTH WEST INTERCONNECTED SYSTEM	11
OVERVIEW OF BUSINESS OPERATIONS	13
MANAGING AND IMPROVING THE NETWORK	15
CARING FOR THE ENVIRONMENT	18
WORKING WITH THE COMMUNITY	19
KEY PERFORMANCE INDICATORS	22
REVIEW OF FINANCIAL PERFORMANCE	25
CORPORATE COMPLIANCE DISCLOSURES	29
GLOSSARY	31

Looking forward



Peter Mansell Chairperson



Doug Aberle Managing Director

We are pleased to present the first Annual Report for Western Power, Western Australia's new electricity transmission and distribution business. It is Western Power's responsibility to maintain the integrity of the power system and provide network access services to generators, retailers and other users.

The essence of our business is to safely transport and distribute electricity in Western Australia's south west to meet the needs of our customers, communities and stakeholders in a way that engages and enriches our people.

The creation of Western Power was the result of a major undertaking to separate the former Western Power Corporation into four independent businesses. While we have been able to use the strong foundation of our predecessor, we are on a journey of creating a strong and confident business that can meet dynamic market demands, without compromising the delivery of the essential service we provide.

Our separation from the Western Power Corporation provides a great opportunity; no longer are we part of a bigger business with competing demands for dollars and effort. We are on our own with a sole focus on the safe, reliable and efficient distribution and transmission of electricity.

The formation of the business was almost seamless, and is testament to the enormous effort of our people over the past few years, both those directly involved in the changeover, but also their colleagues who took on extra responsibility so that business as usual activities could be maintained.

For a business that is only three months old, and which was created amidst concurrent significant external changes, we have already made great achievements in

identifying what we need to do to meet the needs of our customers and stakeholders, and putting the measures in place to ensure that we can meet, and if possible exceed, these expectations.

PEOPLE

We have welcomed new people to the executive team and to many other areas of the business, who each bring new ways of thinking, new skills and knowledge. Together with our existing staff, with their experience and talent, we have a formidable combination that will be able to drive the business into the future.

One of the early hallmarks of our business has been the level of enthusiasm and energy of our people. After years of uncertainty, the business has a clear direction. Our people have welcomed the certainty that this clarity of role has created and have warmed to the challenge to create a strong and vibrant business of which they can be proud.

NEW OPERATING ENVIRONMENT

The transition to a 'new' Western Power coincided with a major reform of the Western Australian energy market. The most significant change for Western Power has been the establishment of the Economic Regulation Authority (ERA), which is responsible for overseeing our operations in a new regulated environment. In a similar vein, the Independent Market Operator (IMO) has been created to manage the operation of the new Wholesale Electricity Market (WEM).

A notable milestone in our short history was the submission, in May 2006, of a proposed new Access Arrangement, which the ERA is expected to approve by late 2006. This arrangement, which was created in a spirit of cooperation between Western Power and the ERA, clearly outlines our work plans, budgets and the terms and conditions under which all generation and retail businesses must operate to access the network. We welcome the certainty the arrangement provides in knowing what we are expected to deliver and the agreed investment to achieve this.

The arrangement also sets out exactly what is expected of Western Power in respect to safety and reliability performance, as well as providing new capacity to meet the ever-increasing demand for electricity, and preserving the integrity of the network, currently valued at about \$3 billion.

The advent of the new WEM was the trigger to restructure Western Power's System Management division and for it to be financially 'ring fenced' so that it can fulfil its responsibility under the new market rules.

LOOKING TO THE FUTURE

The introduction of the One Step Ahead program is a clear demonstration of our reinvigorated approach to business performance. The One Step Ahead program is a business transformation project that is reviewing the way we conduct all aspects of our business to improve efficiency, performance and customer service. Through better purchasing and contracting strategies, we are already achieving considerable savings and freeing-up valuable resources to attend to more business-critical work.

By improving the way we communicate with customers and process customer requests, we have reached new standards in customer service. A new system for work and resource scheduling will make it possible to complete an unprecedented volume of work while containing costs.

We have renewed our commitment to safety with a new vision and action plan that will entrench safety as a core business value. This recommitment to safety involves more than reviewing processes; it involves creating a cultural mind shift to ensure that the safety of our people, our contractors and the community we serve is paramount in every business decision.

We are continuing the work started in 2004-05 to upgrade the electricity network. A record investment of \$2.23 billion over the four-year period to 2008-09 will help us to meet new reliability targets and improve the safety and quality of power across the South West Interconnected System (SWIS).

A significant proportion of this capital expenditure will contribute to the development of the network to cater for future growth.

A fresh, new logo and corporate colours have been introduced, which capture the spirit and energy of our new business and clearly position Western Power as a new entity. We have also bolstered our communications efforts to strengthen our relationship with stakeholders. This has included embarking on a more proactive media campaign and consultative process with the communities in which we work to improve the understanding of the nature of our work.

Finally, we welcome our new Board of Directors, whose breadth of experience will help guide Western Power in the new market environment. Like us, they are excited about the future of the business. The Board is confident that we will cement our credibility as a high-performing business that delivers on its expectations and which positions itself to meet the challenges of the future.



Peter Mansell
Chairperson



Doug Aberle
Managing Director

25 September 2006

“Our separation from the Western Power Corporation provides a great opportunity; we are on our own with a sole focus on the safe, reliable and efficient distribution and transmission of electricity.”

Peter Mansell

CHAIRPERSON

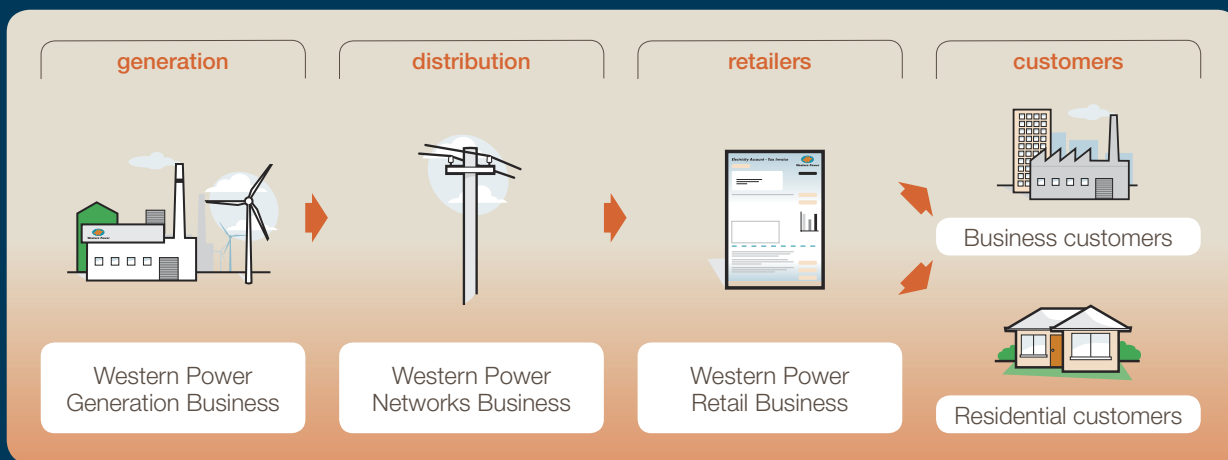
Doug Aberle

MANAGING DIRECTOR

Changes to Western Power

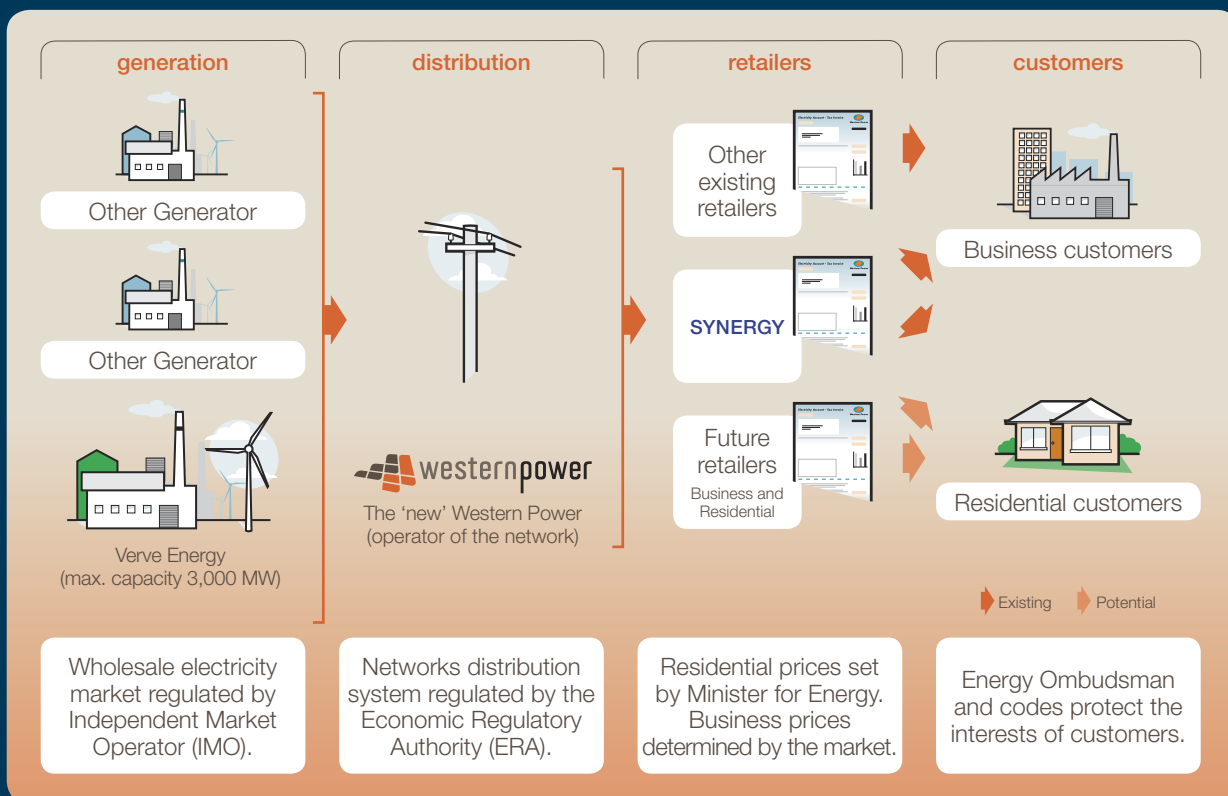
BEFORE APRIL 2006

How Western Power operated prior to April 2006 in the South West Interconnected System (SWIS).

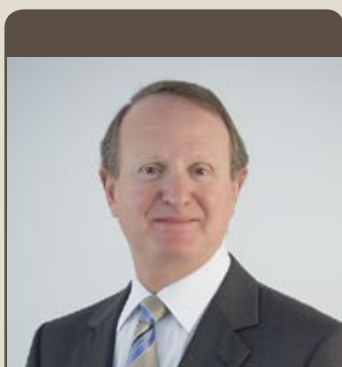


FROM APRIL 2006

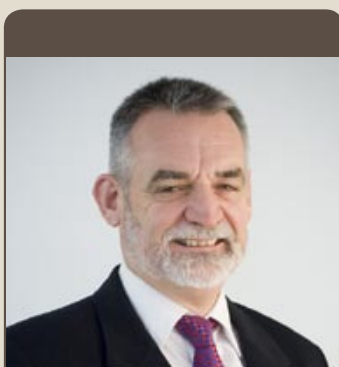
How the four new businesses operate from April 2006 in the SWIS.



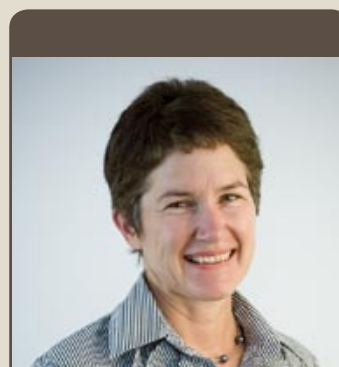
Board of directors



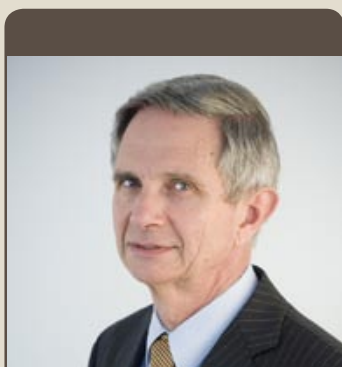
Peter Mansell
Chairperson



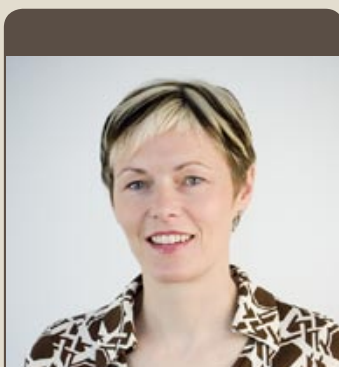
Doug Aberle
Managing Director



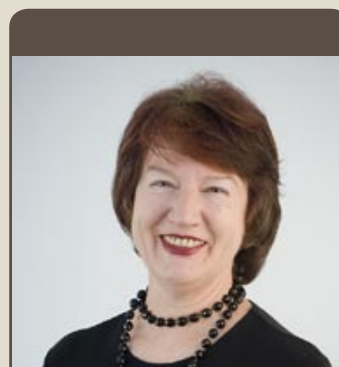
Jenny Seabrook
Deputy Chairperson



Mervyn Davies
Non-Executive Director



Sally Farrier
Non-Executive Director



Karen Field
Non-Executive Director

Organisation chart

as at 25 September 2006

EXECUTIVE		MANAGERS		
	Doug Aberle Managing Director			
	Mark de Laeter General Manager Asset Management	Laurie Curro Manager System Planning	Mike Lu Manager Customer Solutions	Nyrie Anderson* Business Improvement Manager
		Syd McDowell Manager Network Performance	Mark Wilshusen Manager Standards, Policy and Data Quality	Steve Hughes* Expenditure Optimisation Manager
	Rod White General Manager Works Delivery	Duncan Whitfield Manager Program Enablement	Brett Hartman Manager Commercial	Rod Smith Manager Program Delivery
		Gino Giudice Manager Customer Services	Mehdi Toufan Executive Manager Engineering	
	Anne-Marie Clark General Manager Field Services	Rob Walker Manager Business Services	Dennis Smith Manager Country	Graham Rowe Manager Field Engineering and Works
		Kevin Collyer Manager Metro	Rob Atkin Manager Substations	Jim Kafanelis Manager Business Improvement
	Ken Brown General Manager System Management	Phil Kelloway Manager Planning and Market Operations	Murray Caston Manager System Operation Control	
		Shane Duryea Manager Network Operations	Rod Newton Manager SCADA and Information Systems	
	Malcolm Peacock Chief Financial Officer	Guy Burnett Manager Corporate Accounting and Taxation	Ann Hughes Manager Risk Management	Leigh Sprlyan Chief Information Officer
		Gair Landsborough Manager Business Analysis	Jane Wedgwood Manager Treasury	
	Phil Southwell General Manager Strategy and Corporate Affairs	Gavin Forrest Manager Strategy	John Pease* General Counsel, Company Secretary	Jennifer Heron Manager Corporate Affairs
		Peter Mattner Manager Regulation, Pricing and Access Development	Brendan Carvalho Manager Risk Assurance and Audit	Miriam Borthwick* Media Advisor
	Greg Monkhouse General Manager Human Resources	Marissa Connolly Manager Workforce Capability	Frank Loss Manager Safety and Health	Geoff Weaver Manager HR Operations and Organisational Development
		Kathleen Drimatis Manager Employment Relations	Lionel Barnett* Administrative Services	
	Martin Sims A/General Manager Business Transformation	Steve Blake Manager Consulting		
		TBA Executive Analyst		

* direct reports to General Managers

direct reports to Board and Managing Director

Organisational structure

Western Power's organisational structure and business model have been developed to provide a concentrated focus on priority areas and to promote a culture based on achievement, customer awareness and responsibility.

Our eight divisions, their purpose and functions:

ASSET MANAGEMENT

Asset Management determines the work necessary to optimise the performance of the SWIS. The division develops maintenance and network improvement strategies, and plans electricity infrastructure extensions to accommodate future growth. It is also responsible for standards, policies and safety compliance.

Asset Management is the main interface with Western Power's major customers – the independent generators and retailers, who require access to the network.

WORKS DELIVERY

While Asset Management determines what work needs to be done and when, Works Delivery arranges the resources and contracts to make it possible. This includes land acquisition, project and contract management, transmission and distribution design, procurement of materials and equipment, and customer support.

FIELD SERVICES

Field Services carries out the extensive work program – safely, reliably and efficiently.

The division provides network construction, communication and maintenance services, as well as operational support and training for both Western Power and external customers.

Field Services employs more than 1,130 staff in 26 operational depots across the SWIS.

These three divisions make up the Western Power Works Engine, described on page 16.

SYSTEM MANAGEMENT

System Management operates the transmission and distribution network by centralised control to dispatch available generation capacity to meet demand; to ensure the network is correctly configured to meet security criteria; to manage power restoration in the event of an outage; and to carry out its responsibilities in the WEM.

FINANCE

Finance delivers the financial, commercial and information services necessary for Western Power to carry out its work. This includes corporate accounting, business analysis, risk management, treasury and information technology.

STRATEGY AND CORPORATE AFFAIRS

Strategy and Corporate Affairs is responsible for internal and external communications including staff, government, media and stakeholder liaison, and community partnerships; Western Power's strategy planning process; and leading the pricing and economic regulatory management process. It also delivers core legal, company secretariat, risk assurance and audit functions across Western Power.

HUMAN RESOURCES

The Human Resources division develops strategies and systems to attract, develop and retain people with the skills and capabilities to achieve Western Power's business goals. Its functions include managing workforce capability, employment relations and providing a full range of human resource services, including payroll and health services.

BUSINESS TRANSFORMATION

Western Power needs to develop innovative ways of operating if it is to meet the challenges of the new commercial and regulatory environment and a larger work program. Business Transformation coordinates and supports change initiatives aimed at developing greater capability and capacity in the organisation. This innovation helps improve safety, efficiency, reliability and customer service.

A man in a light-colored checkered shirt and a striped tie stands with his arms crossed in front of a large metal power transmission tower. The background shows a cloudy sky and some trees.

Clinton Perry

**NETWORKS ENGINEER,
DISTRIBUTION DESIGN ENGINEERING**

"I recently completed my three-year graduate rotation program at Western Power, where I gained a wealth of experience across the business. This allowed me to attain my chartered status with Engineers Australia. Since completing the program I've been working in Distribution Design and enjoying the many challenges that it presents."

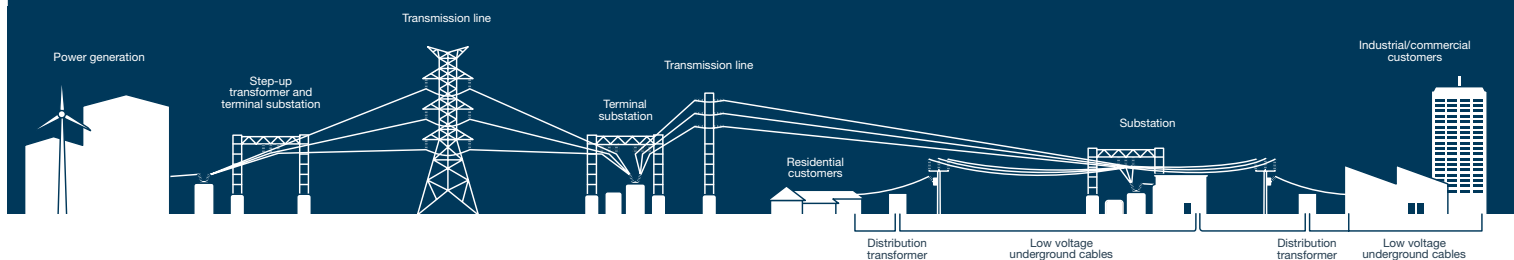
South West Interconnected System



Distribution lines In addition to the transmission lines in the South West Interconnected System, a network of distribution lines (not shown) supplies power to more than 840,000 properties (residential and businesses) and 150,000 streetlights.

'Poles and wires'

How is power distributed? Generators create electricity at power stations owned by energy companies and supply this electricity to transformers. Transformers convert the electricity from low to high voltage for efficient transport using the transmission system. A substation converts the high voltage electricity to a lower voltage for transport via distribution lines to properties (residential and businesses). Western Power is responsible for the 'poles and wires' and underground power infrastructure. Retailers purchase energy from energy companies and sell this to customers in the South West Interconnected System.



Overview of business operations

THE NEW ACCESS ARRANGEMENT AND WHOLESALE ELECTRICITY MARKET

The introduction of a new economic regulatory regime represents the single biggest shift in the business environment for Western Power. A proposed Access Arrangement (AA) was submitted to the Economic Regulation Authority (ERA) in May 2006. Final approval is expected by late 2006.

The AA is a comprehensive access regime, approved by the ERA, under which Western Power will facilitate access to its network during the three-year period to 2009. It provides approved network tariffs, revenue projections, and the levels of capital and operating expenditure aimed at meeting prescribed performance standards over the three years.

Throughout the term of the AA, the ERA will continue to assess large transmission and distribution project proposals to ensure they achieve the best long-term economic solutions for customers.

Western Power also completed preparations for the start of the Western Australian Wholesale Electricity Market (WEM) on 21 September 2006. The System Management division assisted in the development of the market rules and procedures and will continue its involvement by being represented on relevant committees and working groups. A financial ring fence was created to enable the team to fulfil its responsibilities under the Market Rules, which include outage planning, load forecasting and the future assessment of system adequacy. All of this required us to install new information technology systems, including a communications interface with the Independent Market Operator (IMO), to write new operating procedures and to provide appropriate staff training.

From April to end June 2006, Western Power also renegotiated existing access contracts to bring them in line with the requirements of the AA and WEM.

A NEW STRATEGY

Western Power's strategic intent is represented as a set of defining characteristics – safe, reliable, efficient. These three words define the way Western Power will operate and measure its success.

Further, these characteristics have been incorporated into Western Power's organisational structure and business model and will continue to be intrinsic to every plan, project and program.



Western Power crews are switched onto safety.

Safe

THE 100 DAY PLAN

In June 2006, a 100 Day Plan on safety was launched to help establish a culture where safety is a core value, both for the organisation and for each of us individually.

The plan was divided into three phases - analysing the issues, identifying the solutions and implementing the changes. It also included a review of safety leadership training, incident reporting and investigation, contractor safety management and public safety issues. Five short-term safety projects were approved for implementation across the organisation and significant progress was made on 16 longer-term workstream projects.

These projects will complement ongoing safety initiatives such as Switch On Mate, which is aimed primarily at line-based teams. Both promote a culture of safety in all workplace behaviour and personal responsibility for identifying and acting on potential hazards.

Reliable

IMPROVING NETWORK PERFORMANCE, LISTENING AND RESPONDING TO OUR CUSTOMERS

In 2005-06, Western Power embarked on a four-year program to achieve a 25 per cent improvement in reliability, through targeted maintenance and asset replacement programs. These are described in more detail later in this report.

Along with this we embarked on major recruitment programs, both in Australia and overseas, to ensure we had the resources to carry out both network improvements and customer-driven work. We also made progress in improving our reputation with customers and stakeholders and introduced technology to increase our ability to give customers timely and accurate information during network events.

Efficient

ONE STEP AHEAD

An analysis of its business and operations by the former Western Power Networks Business Unit identified several opportunities to increase efficiency and performance. A change program, known as One Step Ahead (OSA), was started so these efficiencies and other benefits could be realised. The program is made up of a number of projects that aim to:

- improve customer service;
- improve the way work is planned, prioritised, scheduled and resourced;
- improve the methods and standards for undertaking operational, maintenance and capital works; and
- make the purchasing and procurement strategies for materials and services more cost effective.

We will seek efficiency benefits in both capital and operating expenditure. A range of business cases has been developed and is being implemented. By the end of 2005-06, efficiencies had been achieved in the areas of procurement services, resource planning and work scheduling, and customer complaints handling.

An efficiency target of \$20 million was built into the Access Agreement for 2006-07 and the OSA Program is assisting the business achieve this target. Efficiency benefits, once achieved, are expected to continue in subsequent financial years.



Western Power's new look.

Managing and improving the network

One of the objectives of the State Government's reform process was to improve the reliability and capacity of Western Australia's electricity networks. The new regulatory measures, and the establishment of Western Power as a dedicated networks business, provide greater focus on network investment and service standards.

Following the Government's announcement of a \$2.23 billion networks expenditure program in 2004, Western Power started a comprehensive program to improve network safety and reliability and target poor performing areas of the network. The program also includes developing our infrastructure to accommodate the State's rapid growth.

We developed a broad range of programs to achieve these objectives, including:

Safe

BUSHFIRE MANAGEMENT PLAN

This ongoing plan includes strategies to address all aspects of bushfire management in both the short and long-term. Among these are improved vegetation control and additional, targeted maintenance. The holistic approach also covers planning, design, standards, data management, environment, training and community education.

The benefits of this approach are already evident, with no significant bushfires during the 2005-06 financial year and a significant reduction in vegetation-related faults.

REPLACEMENT OF CUSTOMER SERVICE CONNECTIONS

Western Power completed the first stage of a program to replace older, overhead customer service connections with a modern, safer attachment. This stage represented a trial of the process and replacement of about 2,500 service connections. In stage two, starting in October 2006, a further 45,000 connections will be replaced, followed by remaining, older connections throughout the SWIS.

Reliable

40 WORST FEEDERS PROGRAM

This program, which targets feeders with the poorest reliability performance, is now in its second year. Feeders are high-voltage distribution lines, and associated 'spur' lines, that make sure power is available to properties. A number of suburbs can be 'fed' by one feeder, and a number of feeders can 'feed' power into one suburb or town.

Of the more than 700 feeders throughout the SWIS, 40 feeders were identified with 70 per cent of these lines undergoing comprehensive inspections. Work to rectify the problems identified will be completed in 2006-07 and, at the same time, a new set of 40 feeders will be added to the program.

AUTOMATION PROJECT

Western Power has embarked on a \$2.4 million project to install automated field protection devices on the overhead distribution network to reduce both the impact of faults on customers and the time it takes to restore power.

RURAL POWER IMPROVEMENT PROGRAM

Western Power continued to target poor reliability in rural areas of the distribution network during the third year of the \$48 million Rural Power Improvement Program. In 2005-06 the program focused on upgrading specific rural lines by providing additional capacity and backup capability to the areas they serve. Customers in Dongara, Kalbarri, Merredin, Dandaragan, Watheroo, Narrogin and Collie benefited. The program will continue for a further year.

STATE UNDERGROUND POWER PROGRAM

The State Underground Power Program was introduced in 1996 to improve network reliability by converting overhead powerlines to underground power. In 2005-06, Western Power completed projects

in Victoria Park South, Gosnells North and Shenton Park. Significantly, the program budget for the 2006-07 financial year has been doubled, allowing current projects in Round Three to be completed and work to start on the seven new projects which make up Round Four.

SUMMER PREPAREDNESS

Western Power continued with this program to ensure the network is ready for summer by identifying distribution transformers and low-voltage lines which may be prone to overloads and upgrading them.

Efficient

NEW CONTROL CENTRE MANAGEMENT SYSTEM

The introduction of a new network management system in the Western Power Control Centre is already improving the collection of fault data and fault job management. ENMAC (Electricity Network Management and Control) has been introduced gradually over the past three years and is now being extended to country areas. We are currently trialling new software to complement this system and replace the Trouble Call Management System, developed by Western Power in the 1990s. The new trouble call system, also an ENMAC product, will further improve fault response times and allow us to provide more accurate information to customers about faults and restoration times.

Work is also in progress to provide a new Energy Management system for the Control Centre to dispatch generation and to operate the transmission network. The XA/21 system was commissioned in August 2006 in time for the start up of the Wholesale Electricity Market.

Technology is also improving the efficiency of line inspections with the use of Thermal and Corona Cameras in helicopter patrols of the distribution and transmission networks. These cameras register infra-red and ultra-violet rays to detect potential problems on pole-top equipment which could not otherwise be detected.

RECRUITMENT PROGRAM

The unprecedented growth in Western Australia has put pressure on the labour market and increased demand for electricity. Western Power took steps to solve its labour shortages by completing a successful overseas recruitment drive for trainee line workers and electrical apprentices. In 2006-07, 33 new trainee line workers and

12 electrical apprentices relocated to Western Australia to take up positions with Western Power. Other initiatives, such as the development of a partnership with Skilled Engineering to fast-track apprenticeships, helped boost the number of skilled technicians.

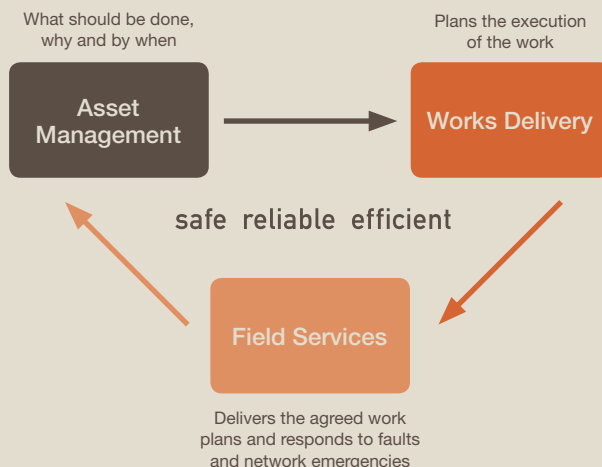
GETTING THE JOB DONE - THE WESTERN POWER WORKS ENGINE

With the new business came the development of a new operating model, known as the Works Engine. The term is used to describe the combined effort and energy of more than 2,000 people from the Asset Management, Works Delivery and Field Services divisions.

These three divisions are working together to deliver the three-year work program covered in the Access Arrangement. This includes maintaining and upgrading existing network infrastructure, as well as extending the network to new industrial and residential developments.

The model enables each division to focus on its specific area of expertise and meet its responsibilities while working closely with other divisions towards our common goal of delivering the work on time. Essentially, Asset Management decides what work needs to be done, Works Delivery plans how the work will be executed and resourced, and Field Services is responsible for carrying it out – safely, reliably and efficiently.

This collaboration will help Western Power make clear investment decisions, plan work more efficiently and deliver effective solutions for our customers.



“We are on a journey of creating a strong and confident business that can meet dynamic market demands, without compromising the delivery of the essential service we provide.”

Peter Mansell

CHAIRPERSON

Doug Aberle

MANAGING DIRECTOR

Caring for the environment

Western Power is committed to protecting the environment and continuing to improve its environmental performance. To coincide with the launch of the new business, Western Power developed, and has adopted, a new Environmental Policy, which sets the level of environmental responsibility and performance.

It builds on the successes of previous policies and establishes a range of strategies and actions, many of which go beyond standard environmental compliance.

The Board of Directors also endorsed an Environmental Governance Framework, which provides a systematic and responsible approach to environmental management and establishes environmental due diligence across the business.

Two notable initiatives were also revealed. Firstly, a new strategic approach to possum management aims to reduce the incidence of possums coming into contact with live conductors and pole-top equipment, resulting in

network outages. Secondly, the Organic Farm Program demonstrates environmental leadership in business and the community. It aims to ensure that no synthetic chemicals are used on or around Western Power assets, located on organic produce farms, during maintenance.

Western Power laid the foundations for three new environmental partnerships which, as well as supporting community environmental initiatives such as tree planting, fauna conservation and education, will assist in promoting a culture of environmental awareness within the organisation.

ENVIRONMENTAL CASE STUDY No.1

SAVING THE WHITE-BELLIED FROG



The white-bellied frog Geocrinia alba

Photograph courtesy of Marion Anstis

The white-bellied frog, *Geocrinia alba*, is so special that the route of an important Western Power distribution line was changed to protect its habitat.

This tiny creature is significant because there are so few white-bellied frogs in the world and their population is declining.

It is 25 millimetres long and lives in a small part of the south west between Karridale and Witchcliffe, south of Margaret River.

When Western Power became aware of the white-bellied frog's habitat close to a proposed distribution line in Karridale, a kilometre section of the line was redesigned and moved away from the wetland area.

The line was completed in May, well away from the frog community which, we hope, will prosper.

Helping to protect the white-bellied frog is one of several ways Western Power is caring for the environment.

Working with the community

STAKEHOLDER AND COMMUNITY COMMUNICATIONS

The formation of a new electricity transmission and distribution business, along with the increasing complexity of the Western Australian energy market, make the need for clear corporate communications essential.

Our stakeholder relations team is working actively with community groups, local governments, media and peak industry bodies to seek their input, and keep them informed, as we plan and implement network improvements.

SPONSORSHIP AND THE COMMUNITY

Western Power continued to support a range of community, environmental, sporting and cultural activities and events throughout Western Australia.

Our sponsorship program focuses on 'grass roots' activities that promote health, fitness and the arts; strengthen communities; educate and build skills; or promote safety. In 2005-06 we invested some \$670,000 in community sponsorships and charitable donations.

Western Power's ever-popular energy and environmental education centre, World of Energy, had another busy year. During 2005-06 more than 72,000 students and adults visited the centre or participated in education programs – an increase of 26.5 per cent on the previous year. The education program includes visits to primary and secondary schools across the State to teach students about electrical safety. Teachers from both Western Australia and overseas bring their students to the facility to extend classroom learning.

COMMUNITY CASE STUDY No.1

SAFETY AND THE COMMUNITY



Shock Proof! student Charlotte.

Western Power's ever-popular Shock Proof! Program was extended to include kindergarten children, a move much appreciated by teachers and parents.

One parent wrote to Western Power's World of Energy to congratulate it on the program.

"Our daughter Charlotte identified the 10 electrical hazards in one of the handouts. We found this amazing, as she is only three years old. She did an excellent job at identifying and explaining why they were electrical hazards."

The Shock Proof! Program messages have been simplified for the younger audience and the talks are designed to be fun and interactive.

COMMUNITY CASE STUDY No.2

WORKING WITH THE COMMUNITY



Restoring power after the Clarence Street Substation fault.

In May 2006 a fault at the Clarence Street Substation in South Perth left about 10,000 customers without power. It was an unusual fault, the likes of which have occurred only four times in the past 25 years.

The damage required us to feed power to customers from neighbouring substations, however our ability to do this was limited because South Perth is bound on two sides by the Swan River.

In spite of these circumstances, Western Power people responded quickly and enthusiastically, many of them working tirelessly through the night to minimise the impact on customers. These included field crews, switching operators, control centre teams and asset management and planning staff.

Western Power's Rapid Response Transformer was deployed as backup and 15 portable generators were placed in strategic locations around South Perth while major equipment was repaired.

The incident gave us an opportunity to test our crisis and contingency planning, including the use of a customer response team, whose members called on affected residents and businesses during the incident to keep them informed and address particular concerns. At the same time a proactive media campaign kept the broader public informed.

This tremendous team effort resulted in power being restored safely and as quickly as possible in the circumstances and an overwhelmingly positive response from the community.



Natasha Lam

**GRADUATE ELECTRICAL ENGINEER,
TRANSMISSION PRIMARY
ENGINEERING**

"While working at Western Power I've developed a range of technical and managerial skills, especially in areas such as self-management and demonstrating a responsible attitude to safety and the environment. The training and mentoring from senior engineers has been excellent."

Key performance indicators

We have identified a range of measures to track the business's operations and to drive ongoing improvements in Western Power's performance.

In accordance with the Electricity Corporations Act 2005, our performance targets are set out in our Statement of Corporate Intent, which will be tabled in State Parliament each year. Our first set of performance targets produced for the new business took effect from 1 July 2006 (beyond the timeframe of this document) and will be reported against in the Western Power Annual Report 2007.

The Western Power Corporation Statement of Corporate Intent 2005-06 and the performance targets detailed within were produced specifically for the former company. As such, it is not appropriate to track the new Western Power networks business against targets set for the former Western Power Corporation.

PERFORMANCE INDICATORS

Financial performance	Actual 01/04/06 to 30/06/06
Average unit cost (cents) / (Total expenditure before tax / kWh sold)	5.7
Return on capital employed (%) / (EBITDA / average non-current assets)	2.8
Debt to equity ratio / (Capital structure geared to debt)	73/27
Return on equity / (Net profit after income tax / total equity)	2.1
Profit after tax (\$m)	\$17.07
Revenue (\$m)	\$184.56
Earnings before interest and tax (EBIT \$m)	\$54.78
Corporate reputation performance	Actual 01/07/05 to 31/03/06
Corporate reputation (% viewed as positive)*	-
Safety performance	Actual 01/07/05 to 30/06/06
Safety - Lost time injury frequency rate (LTIs / million hours worked)	4.7
Safety - All medical frequency rate (AMFs / million hours worked)	19

* Corporate reputation is an annual performance measure and will be tracked next in late 2006.

RELIABILITY AND QUALITY PERFORMANCE INDICATORS

In analysing the reliability and quality performance indicators detailed below, it is important to note that the 12-month reporting period reflects nine months of operations under the former Western Power Corporation, with the remaining three months reflecting performance of the new Western Power business.

Western Power's network performance is measured against Major Event Days (MED) Exclusion Target figures – in accordance with guidelines set by the Steering Committee on National Regulatory Reporting Requirements and the Institution of Electrical and

Electronic Engineers, Standard 1366 (Guide for Electric Power Distribution Reliability Indices).

MED targets are equivalent to the performance targets included in the former Western Power Corporation's Statement of Corporate Intent 2005-06, minus the impact of major event days on the business's network performance.

The CAIDI performance figures detailed below can be attributed to less outages occurring on the network, but with the average duration of each outage lasting longer. This is due to a range of factors including time-consuming underground cable repair work in the central business district (CBD); and in other areas of the SWIS, the availability of staff to respond to the faults, the location of the faults and the nature of the fault.

RELIABILITY AND QUALITY PERFORMANCE INDICATORS

CBD area ¹	12 months to June 2006	
	Actual with MEDs Excluded	MED Exclusion Target
SAIDI – total duration of outages per customer (minutes)	11	22
CAIDI – average duration of incidents (minutes)	218	68
SAIFI – average number of incidents	0.05	0.33
Urban area²		
SAIDI	221	252
CAIDI	119	72
SAIFI	2.73	3.50
Rural and country area³		
SAIDI	434	531
CAIDI	119	123
SAIFI	3.64	4.30
SWIS total		
SAIDI	250	289
CAIDI	88	81
SAIFI	2.85	3.64

¹ CBD area is the area supplied by the Hay Street and Milligan Street zone substations.

² Urban area includes those components of the SWIS that supply the following areas:

- Perth Metropolitan area but excluding the CBD area;
- local government district of Mandurah;
- local government district of Murray; and
- town sites of Albany, Bunbury, Geraldton and Kalgoorlie.

³ Rural and country area is the SWIS other than the CBD and Urban areas.

<p>SAIDI System Average Interruption Duration Indicator</p>	<p>The total duration of interruptions per customer for the year</p> $\text{SAIDI} = \frac{\text{Total duration of interruptions for one year}}{\text{Average number of customers per year}}$
<p>CAIDI Customer Average Interruption Duration Indicator</p>	<p>Average duration of interruptions for the year</p> $\text{CAIDI} = \frac{\text{Total duration of interruptions for one year}}{\text{Total customers interrupted for one year}}$
<p>SAIFI System Average Interruption Frequency Indicator</p>	<p>Average number of interruptions per customer for the year</p> $\text{SAIFI} = \frac{\text{Total customers interrupted for one year}}{\text{Average number of customers per year}}$

Review of financial performance

As required by the Electricity Corporation's Act 2005 (Part 5, Division 3, Section 108) Electricity Networks Corporation (the Corporation) is required to prepare an Annual Report for the period 1 April 2006 to 30 June 2006. The comments below form a brief overview of the financial results of the Corporation for the three-month period.

INCOME STATEMENT

Total revenue was in line with the Corporation's expectations. Expenditure, particularly on materials and maintenance, was higher than expected. This is due to increased demand as a result of the sustained high growth in the local economy, an increased commitment to service reliability and the added emphasis on safety. Interest costs were in line with the anticipated amount. Net profit after interest and tax is \$17.1 million.

BALANCE SHEET

The balance sheet is dominated by revenue generating assets and borrowings. Our assets (\$3,032.0 million) are primarily made up of electricity distribution and transmission lines. Borrowings (\$2,150.0 million) are made up of loans from Western Australian Treasury Corporation and are to fund capital expenditure.

Current assets (\$234.4 million) are primarily made up of cash, receivables and inventory. Current liabilities (\$278.3 million) include trade and other payables, provisions and other liabilities. Current liabilities include deferred revenue, which will not require future cash outflows. In assessing the Corporation's working capital requirements deferred revenue should be excluded. Based on this approach, the Corporation has an excess of current assets over current liabilities to the value of \$81.8 million.

The Corporation has an obligation to support past pension and superannuation scheme liabilities (\$32.7 million) where the Corporation is obliged to pay a pre-determined retirement value to individuals under those schemes.

Equity is primarily made up of Contributed Equity (\$774.0 million), being the net value of the Corporation's assets and liabilities taken on at 1 April 2006 from Western Power Corporation.

CASH FLOW STATEMENT

The cash flow statement demonstrates the underlying strength of the Corporation's asset base with a positive flow from operations of \$35.2 million. Cash flows in investing activities (principally assets such as transmission lines) of \$169.9 million demonstrate the Corporation's commitment to upgrading and extending its network. Borrowings support the shortfall between cash generated from operations and invested in infrastructure.

Summary of statement of financial performance

Three months ending 30 June 2006 \$'000

Most of our revenue was earned from our core electricity-related services

Revenue earned from annual service and usage charges and from developers	161,730
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Revenue received from interest on our investments, miscellaneous fees and charges, rents and sale of assets	22,827
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Revenue from Operations	184,557
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The total cost of operating our business comprised:

Operations, maintenance and administrative costs associated with providing services	102,090
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Borrowing costs and other financial expenses	30,444
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Depreciation and amortisation of system assets, land and buildings, plant and equipment and computer software.	27,684
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Cost of Operations	160,218
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Revenue less costs left an operating profit before tax of	24,339
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We provided for income tax expense of	7,272
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Which left us a profit after income tax of	17,067
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We also added back to retained earnings, the value of the actuarial adjustment to Retirement Benefit Obligations of	938
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Leaving us with retained profits available to fund future growth of	18,005
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Summary of statement of financial performance

as at 30 June 2006 \$'000

Our total assets are divided between 'current' and 'non-current' as follows:

Current assets are those we expect to use in the next 12 months and include monies owed to us, inventory, prepayments and cash on-hand. 234,396

Non-current assets are those we do not intend to realise within 12 months, including:

System assets such as distribution and transmission lines 2,361,438

Land and buildings 86,116

Leasehold improvements and intangible assets 12,926

Works in progress 583,735

Trade and other receivables, future income tax benefits and derivative instruments 31,857

Non-current assets total 3,076,072

Current assets together with non-current assets give us total assets of 3,310,468

Liabilities are also 'current' and 'non current'

Current liabilities are monies we owe for goods and services received, deferred income from developer and customer contributions, provisions for employee entitlements and other liabilities 278,295

Non-current liabilities include:

Long-term borrowings 2,150,486

Provisions for liabilities including employee entitlements and restoration costs and other liabilities 73,121

Non-current liabilities total 2,223,607

Current liabilities, together with non-current liabilities gives us total liabilities of 2,501,902

Deducting total liabilities from total assets leaves us with net assets of 808,566

These have been funded by:

The contributed equity, which is the value of net assets of Western Power Corporation transferred to Electricity Networks Corporation 773,973

Equity adjustments 10,237

Contributions received during the period 6,000

Monies held in reserves from hedging activities 351

Profits earned in the current prior years and retained in the business to fund future growth 18,005

Which represents total equity in the business of 808,566



Glenn Dillion-Smith

TRAINEE LINE WORKER

“Western Power has given me the opportunity to forge a career in the electricity industry starting as a trainee line worker. I install, repair and maintain overhead powerlines and cables, so I usually spend most of my day working outdoors on live powerlines. Safety is paramount in everything I do on the job, in training and with my peers.”

Corporate compliance disclosures

ELECTRICITY LICENCES

The licensing framework in the Electricity Industry Act 2004 (WA) came into operation on 1 January 2005. As consequence an electricity supply licence is required for participants in the electricity industry who generate, transmit, distribute or sell electricity.

On 30 March 2006 the Economic Regulation Authority granted transmission and distribution licences to Western Power Corporation, noting that on 1 April 2006 it would disaggregate into the Electricity Networks Corporation (the Licensee).

The licences were issued for the construction and operation of transmission and distribution systems in the licence area covered by the South West Interconnected System.

Particular requirements of the licences include performance auditing, an Asset Management System and auditing thereof, reporting, provision of information and the development of a trouble call fault management plan.

OBSERVANCE OF THE CODE OF CONDUCT FOR WESTERN POWER

Section 33 of the Electricity Corporations Act 2005 ('the Act') requires the Board of Electricity Networks Corporation (the Board) to provide to the Minister,

at the same time as delivering its Annual Report, a separate report on the observance of its Code of Conduct by members of staff.

The Board confirms that consistent with Section 31 of 'the Act', the Western Power Code of Conduct was developed after consultation with the Commissioner for Public Sector Standards and was adopted by the Board at its meeting on 24 March 2006.

The Code of Conduct has been circulated to employees of Western Power and is available on the Western Power website for employee reference.

The Board and the Chief Executive Officer, under delegated authority, assign accountability to formal leaders in the organisation to ensure observance of the standards of conduct and integrity by members of staff.

As at 30 June 2006 there have been two reported incidents of staff breaching the requirements of the Code of Conduct:

- one incident of inappropriate internet usage resulting in termination of employment of the offending employee; and
- one incident of a breach of company policy in the use of a company credit card resulting in formal disciplinary action being taken.

ENVIRONMENTAL LICENCES

A summary of licences held by Western Power's facilities is provided below.

ENVIRONMENTAL LICENCES	
	Total
Western Australian Department of Environmental Protection Licence	1
Department of Consumer and Employment Protection Dangerous Goods Storage Licence	3
Water and Rivers Commission Underground Water Pollution Control Area Permit	1

STATE RECORDS ACT 2000

Western Power maintains and supports quality record keeping practices in its day-to-day business activities. All records are managed according to the requirements of the State Records Act 2000 and Western Power's approved Record Keeping Plan. Regular reviews are conducted of the corporate record keeping systems and practices to ensure their efficiency and effectiveness. New staff and contractors are provided with information on the record keeping systems both at induction and at compulsory training in the use of the system. The training programs are reviewed on an ongoing basis to ensure they reflect any new business requirements.

PUBLIC INTEREST DISCLOSURE ACT 2003

The Public Interest Disclosure Act came into effect on 1 July 2003. The Act facilitates disclosure of public interest information by providing protection for those who make disclosures and those who are subject of disclosures.

Western Power is committed to the aims and objectives of the Act. These recognise the value and importance of contributions by staff to enhance administrative and management practices and strongly supports disclosures being made by staff regarding corrupt or other improper conduct. In support of this a set of procedures was developed that outlines the manner in which Western Power will comply with its obligations under the Act. The Manager Risk Assurance and Audit was appointed as the Public Interest Disclosure Officer for Western Power.

There were no public interest disclosures made in the three months ended 30 June 2006.

WESTERN AUSTRALIAN ELECTORAL ACT 1907

In accordance with the requirements of Section 175ZE of the Western Australian Electoral Act 1907, the following information in respect to expenditures (excluding GST) incurred by, or on behalf of Western Power during the period 1 April 2006 to 30 June 2006 is disclosed as follows:

Advertising Agencies:	\$208,710.97
303 Advertising Pty Ltd, Hermes Precisa Pty Ltd, Marketforce Advertising Ltd, Mindfield Group Pty Ltd and TMP Worldwide Pty Ltd.	
Market Research Organisations:	\$25,167.50
Synovate (new trading name of Market Equity).	
Media Advertising Organisations:	\$12,440.69
Media Decisions WA	
Total expenditure was	\$246,319.16

ENVIRONMENTAL DUE DILIGENCE

Western Power's operational sites are subject to State and Federal environmental legislation, and some require State environmental licences. Complying with all regulatory and licence requirements is an integral part of Western Power's value of practical environmental care at all times.

Environmental due diligence in Western Power is provided by a corporate Environmental Management System (EMS), which is driven by an intranet based documentation and management tool (EMISWeb) to facilitate the process of environmental governance and management in the company.

ENVIRONMENTAL INCIDENTS

During the period 1 April 2006 to 30 June 2006, there were no environmental incidents or regulatory breaches requiring formal reporting to regulatory bodies.

Glossary

TERM	DEFINITION
AA	Access Arrangement. The financial rules and policies submitted by Western Power to the ERA that set out the terms and conditions under which the business will facilitate access to its network during the regulatory period from July 2006 to June 2009.
ACCESS CODE	Electricity Networks Access Code 2004. The code under which access to the South West Interconnected Network (SWIN) is regulated by the ERA.
CAIDI	Total average duration of interruptions during a 12-month period.
EMS	Environmental Management System.
ERA	Economic Regulatory Authority.
IMO	Independent Market Operator, responsible for ensuring there is sufficient generation capacity in the wholesale electricity market - previously a function of the former Western Power.
KPI	Key Performance Indicator.
MARKET RULES	A code of conduct relating to the operation of the WA Wholesale Electricity Market, introduced by the Minister for Energy and updated, as required, by the Independent Market Operator.
SAIDI	System Average Interruption Duration Index - or the total duration of interruptions per customer over a 12-month period.
SAIFI	System Average Interruption Frequency Index - or the average number of interruptions per customer over a 12-month period.
SCI	Statement of Corporate Intent.
SCNRRR	Steering Committee on National Reliability Reporting Requirements.
SDP	Strategic Development Plan - in which the approved budget is defined.
SWIN	South West Interconnected Network.
SWIS	South West Interconnected System.
WEM	Wholesale Electricity Market, introduced on 21 September 2006.