



QUARTERLY REPORT

1 OCTOBER 2009 TO
31 DECEMBER 2009

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 1 October 2009 to 31 December 2009.

ACHIEVEMENTS AND CHALLENGES



ACHIEVEMENTS

Safety programs

Western Power unveiled a new safety and health strategy during the quarter to support the corporation's journey towards zero harm encompassing three key themes:

- I want to be safe and healthy
- I know how to work safely and healthily
- I'm in control of my own safety and health

Other initiatives implemented during the quarter include a WorkSafe campaign to coincide with Safe Work Australia Week and the introduction of the 'Set Out for Safety' brand which reminds the workforce that whilst we recognise we still have some work to do, by setting out to be safe we are on our way to zero harm.

An employee engagement campaign around personal safety was the focus in December. The campaign was the first in a series of three, to be followed by Healthy Minds and Healthy Lifestyles during the first half of 2010.

Major projects delivery

Key projects delivered during the quarter were:

- **Summer Ready program** – nineteen projects were completed including a new substation at Hazelmere and additional power transformers at Darlington, Waikiki, Rangeway, Chapman, Piccadilly and Meadow Springs substations. The delivery of these projects has increased the power capacity and reliability of our power system in supplying our customers during the summer.
- **Kwinana Power Station** – a new 550MVA 330/132kV transformer was installed in the existing Kwinana switchyard to support the 132kV network. The 550MVA transformers are the largest in our system and weigh 350 tonnes, posing a significant logistical challenge. Four hundred metres of 330kV underground cable was installed; the largest cable in Western Power's network in terms of power transfer capacity. The transformer is due for commissioning in January 2010.

- **Low Voltage Spreaders** -

the purpose of the Low Voltage Spreaders program is to install new spreaders along coastal areas, replacing out-dated equipment. The spreaders help keep the low voltage wires apart, improving safety and reliability by reducing the risk of wires down and conductor clashing. The program is currently ahead of target with 40 per cent of the 8,006 spreaders installed since commencement in September 2009. Completion of this program is on schedule for the end of February 2010.

- **North Country Bundle** - the North Country Bundle project was developed to improve delivery of maintenance works including pole replacement, pole maintenance and high voltage conductor clashing. Network assets identified for maintenance are 'bundled' into groups by geographical area and the maintenance schedule allocated to a single contractor. This means one contractor will perform all maintenance conditions across a targeted region, rather than having multiple contractors operating within the same area, ensuring efficient and consistent delivery of works. Major cost savings were made across the business, as well as closing 1,734 maintenance conditions on distribution assets. Similar 'bundling' projects were also implemented in the Metro and Western Capes areas and are scheduled for completion by March 2010.

ACHIEVEMENTS (cont)

• Rural Power Improvement Program (RPIP) - completion of four RPIP projects that improved reliability in rural areas:

- rebuild of 16.8 km of three-phase line sections in Jurien
- rebuild of 22 km of the Toodyay feeder
- final closure of the Rock Gully/ Frankland Quangellup feeder extension
- completion of the Coolup pole refurbishment project - refurbishing 209 single and three-phase poles in the region

• Binningup Desalination Plant - Western Power and the Water Corporation concluded negotiations and in October executed an Interconnection Works Contract for works in the Kemerton area to supply the Southern Seawater Desalination Plant (Binningup) from the 132kV network.

Collective agreement

negotiations – Western Power and the Australian Services Union (ASU) reached agreement in principle on the terms and conditions of the new collective agreement on 23 October 2009. Protected Industrial Action ceased immediately upon the in principle agreement being reached. The new agreement, titled the ASU and Western Power Enterprise Agreement 2009, was

endorsed by employees in a vote held on 13 November 2009. A 95.02 per cent acceptance rate was achieved, with 936 employees voting in favour of the agreement and 49 against it. Western Power lodged the agreement, which will run for four years, with the Workplace Authority in late November 2009 and awaits its ratification.

Final AA2 submission – Western Power's final response to the Economic Regulation Authority's (ERA's) draft determination on its Access Arrangement 2 (AA2) proposal was submitted in full and on schedule on 24 December 2009.

On 19 January 2010, the ERA announced approval of AA2 for the period up to 30 June 2012 and approved Western Power's proposals for a \$3.5 billion capital investment plan and \$1.3 billion for network maintenance over the three year regulatory term.

The capital investment over the AA2 period will be influenced by actual load growth, the level of investment needed to meet nominated service standards and affordability. Consistent with the process agreed with Government, business cases will be submitted to the Minister that clearly justify the expenditure required to meet committed AA2 performance.





CHALLENGES

Toodyay bushfire restoration

On 28 December bushfires devastated the town of Toodyay, destroying more than 40 homes and leaving 200 customers without power. Western Power crews and contractors responded immediately and worked tirelessly to restore power to the area, replacing more than 200 poles and 55 transformers that were destroyed. All customers that could be connected had power restored by Tuesday 5 January, with 80 per cent of these being reconnected by Sunday 3 January. Western Power's Community Communication Caravan was mobilised in the area, offering support and advice to affected residents throughout the restoration period.

As required by the *Electricity (Supply Standards and System Safety) Regulations*, Western Power has investigated what caused the incident and provided its report to EnergySafety on 22 January 2010. The investigation report follows an intensive examination and includes eye witness statements and a

number of reports from several experts in relevant fields.

As the regulator responsible for safety in the electrical industry, EnergySafety will review the information provided from Western Power's investigation as part of its own review of what caused the incident and confirm or challenge the evidence before ultimately delivering its independent findings.

Until EnergySafety has completed its review and issued its findings it is premature to speculate on what caused the fire or liability related issues.

Pole replacement program

The objective of Western Power's pole replacement program is to improve safety and reliability by bringing the unassisted wood pole failure rates closer to the national average of 0.35 pole failures for every 10,000 poles.

Progress of the pole replacement program continues on schedule, with 4,626 poles replaced year to date against a full-year target of 8,142. For pole repair, 100 per cent of planned work year to date is complete (6,706 conditions).

Western Power is working to further improve its pole replacement program to address issues identified in EnergySafety's Wood Pole Management Audit conducted in 2008. The first set of deliverables was delivered to EnergySafety on time on 31 December 2009. The second set of deliverables is due by 31 January 2010 and is on target.

The wood pole management process has also been included in the major business improvement initiatives being undertaken by Western Power in 2009/10.

A business case will be presented to the Western Power Board to increase the 2009/10 target of 8,142 to 10,000 poles. A business case has also been developed requesting the Department of Treasury and Finance to increase funding for pole replacement in the AA2 period.



CHALLENGES (cont)

Alliances

Western Power has monitored its Alliances with Tenix Alliance Pty Ltd and Downer EDI Engineering Power Pty Ltd (Power Alliance); and Transfield Services (Australia) Pty Ltd (Transfield Alliance) since inception in April 2008.

Performance concerns became evident in the Power Alliance in the areas of safety, productivity, efficiency and value for money towards the end of 2008. In February 2009, Western Power initiated a comprehensive review of its Alliance Strategy in light of changes in market conditions as a result of the global financial crisis and a significant reduction in the volume of transmission capital works in Access Arrangement 2.

On 11 December 2009 Ministerial approval was obtained for execution of amendments to the Program Alliance Agreement with Transfield Services (Australia) Pty Ltd; and the termination of Western Power's Program Alliance Agreement with Tenix Alliance Pty Ltd (Tenix) and Downer EDI Engineering Power Pty Ltd (Downer).

On 14 December 2009 Western Power notified Tenix and Downer of its intention to terminate the Program Alliance Agreement.

Western Power received responses from Tenix and Downer on 29 January 2010. Consistent with the obligation to act in good faith and in accordance with the terms of the Alliance Agreement, Western Power is fully considering these responses to determine whether to proceed to issue a Notice of Termination to Tenix and Downer.

If the Notice of Termination is issued Western Power expects the Power Alliance to complete alliance work by the end of April 2010. A transition strategy has been designed to limit customer impact.

Status of transmission project approvals 2010/11

2010/11 transmission project approvals have been delayed due to additional internal scrutiny on the scope of work. This has impacted forecast expenditure for the transmission capital program. The mitigation plan includes performing design work and plant procurement prior to regulatory pre-approval and fast-tracking the review by addition of expert resources transferred from elsewhere in the business.

Distribution Transformer Replacement program

Due to budget constraints and an increasing number of transformer replacements required (mostly as a result of overloading, aging and weather conditions), prioritising and monitoring the Transformer Replacement program has become a vital challenge. Currently 90 per cent of the overall program has been scoped and planned. The program is 60 per cent complete and is on track to be delivered on budget.

PERFORMANCE REPORTING



Western Power's performance is tracked against Key Performance Indicators (KPIs) detailed in the *Western Power Statement of Corporate Intent 2009/10*. Table 1 provides a summary of Western Power's performance at the end of the second quarter.

TABLE 1 - KEY PERFORMANCE INDICATORS AND TARGETS FOR 2009/10

INDICATOR DESCRIPTION	DECEMBER 2009 ACTUAL	2009/10 FULL YEAR TARGET
Lost Time Injury Frequency Rate (LTIFR) ¹ (LTIs / million hours worked - workforce)	3.1	<3.0
All Medical Frequency Rate (AMFR) ¹ (AMs / million hours worked - workforce)	12.7	<11
Public safety incidents ²	12	<12
System Average Interruption Duration Index (SAIDI) (total duration of power interruption in minutes per customer per year)	220	230
Customer Charter compliance (%)	92	88
Net Profit After Tax (NPAT) (\$M) year-to-date	34.0	11.5
Major Projects on Budget: Delivery of major projects +/- 10% of cost estimate (%) year-to-date	96.7	95
Major Projects on Schedule: Delivery of major projects within +/- 3 months of schedule (%) year-to-date	98.4	95
Value of role in energy efficiency and sustainable solutions (%)	N/A ³	71
Corporate Reputation (%)	N/A ³	67
Organisational Health (%)	N/A ³	70

¹ Performance is measured over a rolling 12 month period (December 08-November 09)

² Performance is measured over a rolling 12 month period (January 09-December 09)

³ Reported annually, performance data available at year-end

COMMENTARY

SAFETY AND HEALTH

The workforce Lost Time Injury Frequency Rate (LTIFR) has plateaued since the September quarter tracking at 3.1 against a target of 3.0. Western Power's new safety and health strategy encourages transparency in the workplace and a range of initiatives will be implemented over the next 12 months to address issues raised with the aim of significantly reducing the LTIFR and promoting our program of working together towards zero harm.

Although the workforce All Medical Frequency Rate is tracking at 12.7 against a target of 11, a steady reduction in the number of contractor medical treatment cases has been observed over the last six months. This can be attributed to a continued focus on contractor safety education.

NETWORK PERFORMANCE

Network performance for the December 2009 quarter was 220 minutes (total duration of power interruption in minutes per customer per year), an increase of two minutes on the last quarter.

In comparison to the same quarter last year, there has been an increase in outages caused by pole top fires, asset damage from bushfires and cable faults. There has been a reduction in outages caused by vegetation coming into contact with wires, as well as inclement weather.



CUSTOMER CHARTER

Customer Charter compliance has achieved an excellent result across all customer response categories during the quarter, resulting in an overall performance of 92 per cent.

Streetlight performance has decreased by one per cent to 88 per cent in both metropolitan and regional areas.

FINANCIAL PERFORMANCE

At the end of December 2009, Western Power's year to date Net Profit After Tax (NPAT) position was \$34 million against a full year target of \$11.5 million. This above target performance is mainly due to higher levels of gifted assets being receipted, well above SCI estimates.

Operating expenditure is currently \$11.9 million underspent year to date due to underspend across most divisions, offset by overspend on the maintenance program of \$5 million.

Total capital expenditure is \$5.2 million underspent year to date comprised of:

- Transmission capex underspend of \$27.9 million across capacity expansion, customer access and asset replacement regulatory categories due to slower than anticipated project and customer approvals.
- Distribution capex overspend of \$27.2 million year to date. This is primarily due to \$36.5 million higher gifted assets than budgeted and a \$6.6 million overspend on asset replacement.
- Other capex, comprising IT, Mobile, Plant, Fleet and Depot works are underspent by \$4.4 million due to phasing of work being weighted to the next six months..

Non Approved Works Program capex is \$5.2 million underspent - this category of spend includes SPoW, Vista and Fleet.

MAJOR PROJECTS DELIVERY

Delivery of major projects on schedule is exceeding target, with 98.4 per cent of major projects tracking within agreed timeframes. Delivery of major projects on budget is also ahead of target, currently at 96.9 per cent.

Highlights of major projects delivered during the quarter can be found in the 'achievements' section on page three of this document.

STRATEGIC PLAN 2009/10

Western Power's final AA2 proposal was submitted to the ERA on 24 December. Recruitment for the AA3 Project Manager also commenced during this quarter and despite the necessary focus on the AA2 submission, regulatory reform and performance initiatives were advanced.

Overall the North Country Reinforcement (NCR) project is behind schedule. However, during the quarter the planning options assessment for northern stage augmentation was completed, an Infrastructure Australia funding submission was lodged for the Mid West Energy project and Gindalbie (Karara Mining Limited) commercial negotiations progressed.

The South West Bulk 330kV project is expected to be deferred three - five years as the generator project for which the increased network capacity is required seems unlikely to proceed.

The IT SPoW program achieved a number of significant milestones during the quarter. The Vista program delivered the head office 5th floor refurbishment to schedule and budget but has been delayed by funding constraints.

Strategic initiatives to position the business for the future are progressing to schedule. The Perth Solar City program consortium agreements were completed, signed and SmartGrid AMI contract negotiations completed. Western Power's public safety campaign and energy education services continue to deliver positive outcomes. The Workplace Electrical Safety Initiative (WESI) is progressing to schedule. Other initiatives are progressing satisfactorily.

