



Quarterly Report

1 January 2011 - 31 March 2011

 westernpower

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*. The report reviews Western Power's performance for the period 1 January 2011 to 31 March 2011.





Achievements

Mid West Energy Project (Stage 1) receives Regulatory Test approval

In February we achieved a crucial milestone in our plans to build the State's biggest power line infrastructure project. The Economic Regulation Authority (ERA) confirmed that the southern section of the Mid West Energy Project (MWEP1) had passed the Regulatory Test as the most suitable means of providing power to the Mid West.

MWEP1 will connect Neerabup to Three Springs with a 330 kV double circuit line. This will enable a connection to the Karara Mine east of Three Springs and provide additional support to the Mid West by establishing a new 330/132 kV terminal substation at Three Springs.

Once constructed, the line will unlock significant new Mid West mining projects and provide a gateway for renewable energy to feed green energy to consumers across the South West Interconnected System (SWIS). The ERA found that we had used reasonable predictions of growth in demand for power and had conducted a suitable consultation process.

The ERA's recommendation follows a comprehensive and extensive public consultation process, with

a total of 37 public submissions, briefings, meetings and a series of public forums in Perth, Geraldton and Three Springs.

Currently we are preparing a submission to the ERA for pre-approval of the investment amount that satisfies the New Facilities Investment Test (NFIT) as the next step in the process to provide certainty around the value of the project.

Engagement with stakeholders in the community will continue over the next 12 months on Stage 2 of the project proposal through to Geraldton.

Reconnecting customers after devastating storms and fires

Through January and February, parts of the SWIS suffered extensive damage as a result of severe storms and fires.

On 29 January 2011, a series of severe summer storms hit the Mid West, Wheatbelt and parts of the Perth metropolitan area causing extensive damage and tragically, two deaths (one of which was electricity related). At its peak, the storm resulted in severe winds and cut power to 83,000 homes.

The strength of the winds was sufficient to snap a steel reinforced concrete pole in addition to 300 wooden distribution poles and 33 transmission poles.

In early February, fires in the Perth Hills and Swan Valley also caused extensive damage to the network including the loss of a further 73 power poles. At the height of the fire we had to cut power to more than 2,000 properties to ensure fire fighters were safe while they moved through the area. Restoration work was carried out quickly and efficiently with our crews working around the clock. Within 52 hours, power had been restored to 1,612 properties. During this time the Western Power community information caravan was located in Armadale to provide regular updates to affected residents and explain the process of reconnecting power.

In late February another storm with recorded winds of up to 150 kph hit Perth's north eastern suburbs resulting in 55,000 customers losing power. In 24 hours Western Power crews attended more than 200 emergency and hazard situations while our Customer Service Centre managed more than 120,000 calls in 36 hours.



Leading the way in energy conservation

Western Power and Synergy have joined forces as the Future Energy Alliance to implement the Minister for Energy's energy awareness and efficiency initiative known as *Switch the Future*. The Future Energy Alliance is designed to build widespread community awareness and create behavioural change that results in reduced peak consumption and improved energy conservation and efficiency.

In a similar way to the Water Corporation's successful *Waterwise* campaign, *Switch the Future* promotes the fact that taking action will limit damage to the environment, reduce the cost of building more peak demand infrastructure and save consumers money on their power bills.

The campaign uses the Chuditch, a Western Australian native marsupial that is "at risk of endangerment", to develop an emotional connection with the audience.

The messages delivered through the campaign instil a better appreciation of the need to conserve energy, and the understanding that if we continue to grow our energy usage at historical rates, we will be negatively impacting our environment.

The campaign provides practical measures consumers can adopt to take greater charge of their energy

use, like setting air conditioners to 24 degrees and running pool pumps after 9pm.

Getting the network ready for electric cars

In keeping with Western Power's determination to be at the forefront of modern technology affecting the electricity grid, we have taken delivery of the first two production electric vehicles to reach Western Australia – Mitsubishi's i-MiEV.

Due to their potential advantages over internal combustion engine vehicles (ICVs), electric vehicles (EVs) are making a comeback. EVs present exciting potential solutions for our energy future. Rather than from petrol in a tank, EVs get their energy from rechargeable, on-board batteries. Compared to ICVs, EVs produce much less greenhouse gas emissions even if charged by coal-fired electricity. If powered by wind or solar generated electricity the benefits are even greater.

The batteries in EVs are also a form of energy storage. If aggregated, the benefit of this storage has enormous potential for the improved economic and environmental efficiency of the electricity system as a whole.

With these exciting benefits, however, come some serious potential challenges for the management of the electricity system. The biggest of these is the potentially significant extra demand that EVs could place on the system during the evening

peak period if large numbers of them were to be charged at this time.

By studying the interactions of our two EVs with the grid and using them to increase community awareness, Western Power is working to ensure we are well positioned to take advantage of their benefits while addressing their challenges so that the SWIS is better prepared for a potential EV future.

New Network Authority Card supports our safety focus

In the continuous pursuit of zero harm for our workforce and the general public, the minimum competencies and skill sets required to work on or near the Western Power network have been formalised. These compliance requirements will now be captured via an online database linked to a new Network Authority Card.

Anyone requiring access to a Western Power construction site must now be in possession of the new card. The card replaces existing 'orange books' and is designed to improve consistency and governance across our workforce and contractor competencies to ensure we remain aligned with national utility standards.

The new system will ensure all workers on Western Power assets are trained and qualified to national standards in basic first aid, construction and operations.



Transmission surges ahead with new technology

Western Power has introduced the use of new polymer surge arresters at substations, leading to better design options and cost benefits using the latest technology. Also known as lightning arresters, they act as a protective device at substations preventing damage caused by voltage surges from lightning or system surges.

With an expected lifespan of 20 to 30 years, the new polymer surge arresters will be a reliable quality product offering the best value for money. As new technologies and products become available, we have to look at new ways to implement these in our designs, but also re-visit the way things were done in the past.

Benefits of upgrading traditional porcelain surge arresters to polymer include better performance in polluted areas, lower costs in installation and washing, a lighter weight (making them easier to transport and install), and improved safety as they don't shatter like porcelain.

Challenges

Mid West Energy Project and Karara Mining Limited

Throughout the quarter, negotiations continued with Karara Mining Limited (KML) for the provision of access to the South West Interconnected System for their iron ore mine east of Three Springs.

Western Power and KML have executed a new Early Works contract to finalise the design works for the Western Power Three Springs Terminal site plus the ordering of long lead primary equipment. KML had cancelled an earlier contract. Western Power and KML have also executed a contract offer for carrying out the earthworks at the Three Springs Terminal site.

Together with the Department of State Development and KML we have been working to resolve a revised project delivery model. Several critical commercial issues remain to be resolved and the State Government has been requested by the parties to consider assisting with resolving these issues.

Applications to approve the connection of photovoltaic systems

Due to a range of State and Federal Government incentives in place for customers to install solar photovoltaic (PV) systems on their roofs, applications to approve the connection of these electricity generating systems to the network have skyrocketed in recent times.

In the first three months of 2010, Western Power received 3,923 PV connection approval applications. For the same period this year 15,983 applications were received. This four fold increase has created a number of challenges for the business. In response, the management of these applications has been streamlined by the creation of different processes for different sized systems (under 3 kW, 3 kW – 30 kW and over 30 kW systems). This allows the more popular smaller systems to be approved via a notification process as long as they comply with certain self assessed criteria. This process reserves the more comprehensive assessments required by Western Power for larger systems. In addition, a further 10 contractors have also been taken on to specifically target this area and improve our customer response times.

Details of the new process have been made available to customers via the Western Power website.



‘Voice of the Customer’ Update

Building Education Revolution Program

Western Power is on schedule to complete construction work for the Building Education Revolution (BER) program, the single largest component of the Federal Government’s \$42 billion national building stimulus package.

The program is being delivered across three construction phases spanning July 2010 through to June 2011. Overall, the total program is tracking on schedule with nearly 80 per cent of the projects complete. Customer feedback demonstrates a high degree of satisfaction with the communication and collaborative working relationships developed between Western Power and key construction partners across the program of work.

A potential increase in power capacity constraints has been identified following the Department of Education’s announcement to allow schools to add air conditioning units to the new BER buildings. Extensive stakeholder engagement and planning is underway to minimise the possible impacts.

Inaugural Designers Forum

Western Power successfully held its first quarterly Designers Forum in March. It was held in response to feedback from Local Government and Main Roads Western Australia, wanting to understand more about Western Power’s design and construction processes and technical standards. The workshop was run in a collaborative and informal approach harnessing a two-way exchange of information.

Attended by more than 100 representatives from local government and Main Roads WA, Western Power subject matter experts covered service improvements, streetlight responsibilities, development in high voltage areas, application processes, future design and the Capital Contribution Policy.

Customers indicated that they wanted to understand more about how Western Power operates. Feedback from the forum was unanimously positive, and provides us with a better understanding of customers’ needs, to assist and drive our change process. At least 50 per cent of attendees said each subject was of high relevance to their role.

Feedback provided by one attendee also noted the change in customer approach by Western Power, *“I found the workshop was a useful information session and also note that there is a significant shift in Western Power’s customer approach compared to a few years ago.”*

Western Power is also working with Main Roads WA to provide five regional workshops in conjunction with the Main Roads WA Black Spot Roadshow.

Unlocking Our Potential 3

The third series of Unlocking Our Potential (UOP) training commenced with the theme of Enterprise Customer Focus. UOP is a formal leadership program designed to help Western Power realise its vision of becoming a world class commercial enterprise.

The Enterprise Customer Focus UOP3 will provide formal leaders with knowledge and tools to help them make a difference to our customers and be a part of transforming the customer experience. At the core of the training is our customer value proposition, encompassing: *Understand me, Make it easy, Keep me informed and Keep your promises.* Successful pilot sessions have been held and all 400 formal leaders are booked to attend the one day course during April.



Complaints

Complaint data is a rich source of information regarding customer sentiment, which Western Power analyses carefully to help inform how we can improve the experience for our customers.

Decreasing complaint volumes are evidence of the continued efforts of Western Power to engage with our stakeholders and customers to improve their felt experience. Complaints have decreased by almost 20 per cent over the last three years and are projected to drop again in 2010/11.

The top four complaint categories in the third quarter were Planned Outages (46%), Claims (14%), Customer Funded Work (12%) and Reliability (7%).

165 of the 172 planned outage complaints (96%) were claims for a service standard payment where Western Power provided less than three working days notice of the outage. The new dedicated planned outage management team now have an automated process for identifying customers affected by an outage. Previously, project managers identified affected customers

manually; a process that was prone to human error.

There were three significant events that caused extensive network damage during the quarter; the Wheatbelt storm on 29 January, Roleystone fire on 6 February and Perth Hills storm on 28 February. These events triggered increased complaints about damages claims that were declined, as a result of Western Power being unable to approve compensation claims where the damage was storm or fire related.

Complaints received





Performance reporting

Western Power's performance is tracked against Key Performance Indicators (KPIs) detailed in the *Western Power Statement of Corporate Intent 2010/11 (SCI)*.

Table 1 provides a summary of Western Power's performance at the end of the third quarter.

Table 1 - KPIs, targets and Year To Date (YTD) performance for 2010/11

Indicator description	YTD actuals as at 31 March 2011	2010/11 target	Status
Safety			
Lost Time Injury Frequency Rate (LTIFR) ¹	2.2	<2.2	●
Public safety incidents ¹	10	<11	✓
Service standards			
System Average Interruption Duration Index (SAIDI) ¹	180.0	221	✓
Transmission Network System Minutes (meshed network)	8.4	9 (YTD 6.8)	✗
Customer Charter compliance			
Charter compliance	93%	90%	✓
Financial			
Earnings before tax (EBT)	\$188.5M	\$107.4M (YTD target \$85.2M)	✓
Net accruals to Government (NATG) ²	\$63.2M	\$11.7M	✓
AA2 works delivery			
Major work projects delivered on budget	94.7%	97.5%	✓
Major work projects delivered on schedule	95.7%	95%	✓
Organisational culture			
Organisational health	74%	75%	●

¹ Rolling 12 month average (minutes)

² Made up of dividends and current tax

Status key

- ✓ performance is currently, or forecast to be, better than target
- ✗ performance is currently, or forecast to be, worse than target
- performance is currently, or forecast to be, marginally worse than target (within defined limits for each measure)



Commentary

At the third quarter point of the 2010/11 financial year, Western Power is performing positively in seven of our 10 SCI KPIs.

Safety

Safety is core to everything we do at Western Power. Our safety performance during the March quarter was an improvement on the December quarter with both rolling 12 month averages coming down to be close to or below target.

Service standards

The performance of the distribution network improved further on December's already better than target result. In rural areas there has been a reduction in power interruptions attributed to inclement weather and equipment failures, including areas where Western Power has targeted maintenance and reinforcement for reliability driven programs.

There was only one sustained system outage on the transmission network in March, which was due to a partial blackout of the Cook Street substation. While transmission performance in terms of system minutes lost is tracking worse than target, some events that occurred during significant storms this year are subject to a *force majeure* classification.

This *force majeure* classification is expected to be determined within the next month.

Customer Charter compliance

Customer charter performance remains above target (93% v 90%) although there was a slight decrease during the quarter due to a direct impact of three major power interruption events. These events affected large numbers of customers and required diversion of resources, which in turn, resulted in a back log of normal business activity.

Financial

EBT is \$103.3M above target as at 31 March 2011 due to higher than expected revenue (\$30.4M), lower operating expenses (\$51.6M), lower interest (\$19.7M) and lower depreciation (\$1.5M).

Revenue from regulated tariffs was \$806.9M, which is \$21.8M or 2.7% higher than target. This variance is mainly being driven by higher than expected recognition of revenue from previous financial year (\$25.5M), which is slightly offset by energy delivered volumes tracking 0.5% or \$3.7M lower than target.

Operating expenses are \$51.6M under budget. Our approved asset maintenance program is underspent

by \$37.7M, \$23.6M in distribution, \$10.0M in transmission and \$4.1M in Customer Services. Distribution is underspent primarily due to fewer faults and less corrective work as a result of mild weather across the south of the state for much of the year and from the changes in some preventative work projects. Transmission is underspent principally due to resources redeployed to corrective maintenance activities, work not scheduled to be maintained until after summer and 200 kV and 330 kV lines not requiring the extent of the maintenance planned. There is also an underspend of \$8.1M YTD across corporate areas.

Interest expense is \$19.7M under budget. This variance is largely due to a combination of a lower opening debt position (\$2.8M), lower than budgeted interest rate (\$3.3M) and lower borrowings in the current financial year (\$7.0M).

Net Accruals to Government as at 31 March 2011 are \$63.2M. This is based on the current tax expense and dividend payments. There is no current tax liability this year and the only net accruals to Government relates to the final dividend payment from 2009/10. This dividend payment is 65% of net profit after tax (NPAT) based upon the Cabinet endorsed dividend policy (\$97.3M for 2009/10).



AA2 works delivery

'On Budget' performance has improved on the result at the end of the second quarter by 3.1% to 94.7%. Distribution capex projects are forecast to spend \$17.2M less than business case value due to competitive pricing from the Distribution Delivery Partners as well as reductions in scope that have decreased overall funding requirements. Transmission capex projects are forecast to spend \$7.5M less than aggregated business cases primarily due to the Binningup desalination plant which underspent because of a range of factors including that some of the anticipated risks of the project did not eventuate and a customer initiated reduction in the scope of the project. Some costs of the project, which were estimated during the economic boom period, were also lower than anticipated when delivered during the downturn. Transmission opex is forecast to be delivered \$5.6M below original budget due to the substation combined maintenance initiative and year to date performance.

'On Schedule' performance moved from 96.1% at the end of the second quarter to 95.7% for this quarter primarily due to distribution pole maintenance (forecast lower volumes as 40% of YTD conditions require no action) and projects in Wembley Downs (delayed due to late delivery of the transmission component), Wangara (substation recloser failed after energisation) and Margaret River

(project delayed due to community issues resulting in additional noise mitigation work).

Organisational culture

The Organisational Health Indicator result as part of the recent *Pulse* survey was 74% - up on last year's 70% result. Even though this unfortunately falls just short of our 75% KPI target, it is the highest score achieved since we started *Pulse* in 2007. This is a very positive indication of our growth in ensuring Western Power continues to become a better place to work.