

08

> March Quarterly
Report 2007/08

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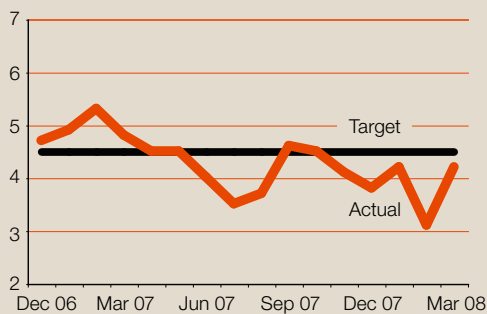
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> Introduction

This report has been prepared in accordance with Western Power's obligation to report to the Minister For Energy under Section 106 of the *Electricity Corporations Act 2005*. This report reviews the Corporation's performance for the period from 1 July 2007 to 31 March 2008.

> Safety - LTIFR

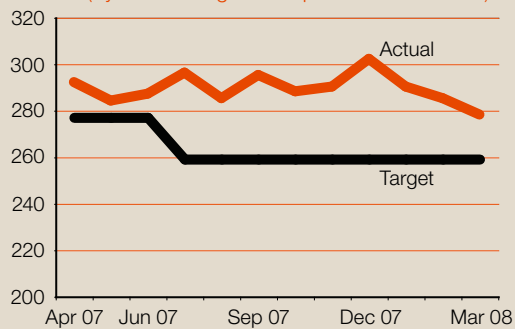
(Lost time injury frequency rate)



In the March quarter 2008 our LTIFR was 4.2 (LTIs / million hours worked) and was better than the organisation's targeted end of year performance (<4.5).

> Network reliability - SAIDI

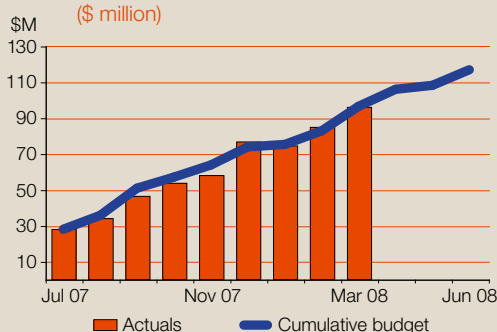
(System average interruption duration index)



There was an improvement in network performance throughout the South West Interconnected System, in the March quarter 2008, where reliability strategies have been implemented. A reduction in the impact of equipment failure, pole-top and bushfires, along with outages due to lightning also contributed to the improvement in network reliability for the quarter.

> Underlying earnings before tax

(\$ million)



Underlying earnings before tax is on budget YTD. Higher earnings from unregulated activities have offset above budget maintenance costs, the continuing result of sustained labour and materials cost pressures.

> Performance reporting

Western Power's performance is tracked against Key Performance Indicators (KPIs) detailed in the *Western Power Statement of Corporate Intent 2007/08 (SCI)*.

Table 1 provides a summary of Western Power's year-to-date performance.

The 2007/08 performance targets were approved by the Economic Regulatory Authority as part of the 2006 to 2009 Access Arrangement.

TABLE 1 – KEY PERFORMANCE INDICATORS AND TARGETS¹

Indicator description	March 2008 (YTD) Actual	2007/08 Full Year Target
Lost Time Injury Frequency Rate (LTIFR) ² (LTIs / million hours worked - employees)	4.2	<4.5
All Medical Frequency Rate (AMFR) ² (AMs / million hours worked - employees)	13.2	<18
System Average Interruption Duration Index (SAIDI) (Total duration of interruptions / customers per year)		
• South West Interconnected System (SWIS)	278	259
• Urban	239	226
• Rural	505	476
System minutes interrupted (mins)	6.8	7.8
Enquiries responded to within 10 days (%)	96	100
Complaints responded to within 20 days (%)	96	100
Earnings Before Interest and Tax, plus Depreciation and Amortisation (EBITDA) (\$M) ³	347.3	461.8
Earnings Before Tax (EBT) (\$M) ⁴	109.8	133.9
Return on Asset (%)	7.9	7.3

¹ Net Accruals to Government and Corporate Reputation KPIs that are provided in the *Statement of Corporate Intent 2007/08* are reported annually.

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

³ EBITDA March 2008 year-to-date (YTD) target is \$346.0 million.

⁴ EBT March 2008 YTD target is \$106.7 million.

> Key performance indicator results for the March quarter 2008

SAFETY AND HEALTH

During the March quarter 2008, our Lost Time Injury Frequency Rate was 4.2 (LTIs / million hours worked) and was better than the organisation's targeted end of year performance (<4.5). Similarly, our All Medical Frequency Rate was within targeted performance at 13.2 (All Medicals / million hours worked), against the end of year target of <18.

In mid-March our Extended Management Team (EMT) met to address two significant areas of concern – road safety and electrical safety. We are working with the Office of Road Safety to identify and implement opportunities in business-wide road safety improvements for our employees.

Some of our other safety and health initiatives during the March quarter 2008 included:

- FebAware, an internal campaign linked to WorkSafe's 'Come home safe' communications. FebAware was introduced following a review of safety performance showing February to be a high-risk period for increased risk of injury at Western Power
- a Driver Safety awareness campaign (mid-February to March) which included variable message signs in metropolitan and country areas to encourage our drivers to adopt safe driving practices
- cross-business Fit for Work awareness training continued, with 80 per cent of our people informed about the effects of fatigue, drugs and alcohol on performance at work and in the community

NETWORK PERFORMANCE

There has been an improvement in network performance throughout the South West Interconnected System where reliability strategies have been implemented. A reduction in the impact of equipment failure, pole-top and bushfires, along with outages due to lightning also contributed to the improvement in network reliability for the quarter. The System Average Interruption Duration Index (SAIDI) tracked at 278 minutes, which is seven per cent higher than our financial year performance target of 259 minutes.

A further improvement in the network reliability performance is anticipated in the fourth quarter of the 2007/08 financial year as benefits of implemented reliability improvement strategies continue.

We have implemented the following three key programs to improve reliability:

- automation project – involves installing hundreds of automated protection devices in targeted areas to reduce the impact on customers of an unplanned interruption, including reducing the time taken to locate faults
- targeted upgrading of distribution feeders – involves reinforcing the first few kilometres of powerlines from substations to improve reliability. This is important because a fault close to a substation can affect all the customers on a line
- 40 Worst Feeder Program – a targeted program directing maintenance work to the 40 poorest performing feeders in the network: 20 in metropolitan areas and 20 in regional areas

CUSTOMER FOCUS

Western Power has a Customer Charter (available on our website) that details our service commitments to our residential and small-use business customers in the South West Interconnected System.

In the March quarter 2008, 96 per cent of our customer enquiries were responded to within 10 days, with 87 per cent of those enquiries responded to within five days. Similarly, 96 per cent of our customer complaints were completed within 20 days, with 83 per cent of those complaints completed within 10 days.

Further, 91 per cent of all fault reporting telephone calls received by Western Power's Call Centre were answered within 30 seconds.

Customer Survey

A comprehensive customer satisfaction survey was completed in the March quarter 2008. The survey was designed to:

- target specific customer segments and investigate both overall service provision as well as the specific products and services received by various customer segments
- establish a baseline for future performance tracking

Overall the trend in results was positive with 79 per cent of respondents indicating that they rated Western Power's performance favourably. Most demonstrated a good understanding of Western Power's role and of the Western Australian energy market retail functions. The majority of customers indicated a preference for Western Power to continue to focus on core services and reliability of supply.

The survey feedback is being incorporated into a range of targeted initiatives and strategic projects throughout the next 12-18 month period.

Streetlights

In the March quarter 2008, Western Power's new streetlights team began implementing a new business model that will provide a single point of contact for business and residential customers. The team has established a new contract with an external service provider to improve streetlight maintenance and repair times, and has made significant changes to technical systems that will improve data management and fault reporting.

Black Spot project

Western Power has worked in partnership with Main Roads to gain a better understanding of the support requirements to tackle Black Spot risk areas on roads. A project team has been established to:

- develop an alternative approach to timely relocation of electricity infrastructure in Black Spot areas
- improve communications, timeliness and delivery of service, better coordinate work and share forward planning between the two organisations
- develop more clearly communicated contact points within Western Power, with a dedicated project manager
- explore alternative delivery solutions to prioritise black spot project work over general maintenance work

Working in partnership with Main Roads, Western Power aims to support safer roads for the benefit of the wider community.

FINANCIAL PERFORMANCE

Western Power has continued to face increases in network demand, development and customer driven work in the March quarter 2008, resulting in a positive impact primarily on network tariff and unregulated revenue.

Increasing cost pressures from labour shortages and rising material costs have offset this rise in revenue. An internal cost reduction commitment was implemented in the December quarter 2007 in an attempt to offset these cost pressures and, to date, this commitment is tracking to target.

The overall impact of these pressures is that Western Power's net position remains on target for 2007/08.

Please refer to Appendix 1 for an overview of Western Power's financial performance in the March quarter 2008 (on p. 7).

> Key network projects

KOJONUP TO ALBANY TRANSMISSION LINE

On 31 March 2008, Western Power announced the preferred corridor for the Kojonup to Albany 132,000 volt (132 kV) double-circuit transmission line. This decision was made following an extensive consultation process with the local regional community and key stakeholders, and a sustainability assessment of 13 corridor options.

The preferred corridor performed best overall in an assessment by our independent consultants, GHD, and was identified as the least overall impact corridor considering social, environmental, economic and technical impacts. The project's Stakeholder Advisory Group provided input to the decision-making process and was personally briefed on the outcome of the assessment.

Western Power will now work closely with affected landowners to determine the most suitable line route within the 2 km-wide corridor. A series of community information sessions will be held in late April 2008.

SMARTER ENERGY USE IN DENMARK/WALPOLE

Western Power has established its first community working group as part of a more collaborative approach to addressing power capacity needs and energy efficiency.

The South Coast Power Working Group (SCPWG) was formed in mid-2007 with key Great Southern community stakeholders, including the Shires of Denmark and Manjimup and is examining options to support growth in Denmark and Walpole.

In the March quarter 2008, Western Power progressed its work with the group to explore alternative energy solutions for the longer term. The group is looking at a range of technical options and techniques to influence power-use patterns of behaviour in the interest of energy efficiency and sustainability.

Western Power remains committed to a \$14 million program of works to improve power quality and increase the amount of capacity available in Denmark and Walpole, and recognises the local appetite for applying more innovative thinking.

The SCPWG will introduce a range of initiatives including household appliance auditing, replacing traditional light globes with energy efficient globes and educating locals and visitors about ways to help better manage their electricity use.

CASE STUDY: BLUEWATERS TERMINAL SUBSTATION



In response to increased consumer electricity demands, Western Power is working together with Griffin Energy, to upgrade an existing 330 kV transmission line to support future regional development.

Stage one of the new Bluewaters Terminal Substation, located 10 kilometres from Collie, was successfully energised in mid-March 2008. This is a major milestone for the transmission upgrade for the South West corridor of the South West Interconnected System.

The Bluewaters Substation will also accommodate the new Bluewaters Power Station, a Griffin Energy initiative, which is due to begin generating power in November 2008.

CASE STUDY:
AERIAL WASHING FOR WESTERN POWER LINES



This summer, helicopters patrolled powerlines to carry out vital line washing in wheatbelt areas including Northam, Cunderdin, Tammin, Kellerberrin, Merredin and Southern Cross.

Line washing is an important part of the maintenance of Western Power's 322,000 square kilometre network of lines.

The use of helicopters to wash the lines and insulators clean of dust that accumulates during the long hot months is an innovative solution to the challenge of maintaining the reliability of Western Power's vast network of lines.

Built up dust, especially after harvest, can enable electricity to leak from the lines, over the insulators, and cause pole-top fires and faults.

The helicopters carry specially trained crews who use a high-pressure spray of demineralised water to remove dust and residue from insulators.

The helicopters also allow us to transfer crews very quickly around the network, identify defects on lines and carry out numerous tasks we could not otherwise carry out as effectively or economically.

COOL COMMUNITY - CLEAN FUTURE

Western Power's first air conditioner demand side management trial was completed this summer. More than 1,000 residents in Nedlands, Claremont and Dalkeith volunteered to reduce their air conditioning power use, with 337 homes participating in the trial through the use of a small switching device operated by Western Power.

Significantly, trial participants reduced their peak electricity demand by 27 per cent (or 3.5 kilowatts) during selected periods of peak demand days. Further analysis will be undertaken to establish the long-term validity of this result.

> Appendix 1 - Financial statements

WESTERN POWER PROFIT AND LOSS STATEMENT

\$M	Quarter ended 30 September 2007	Quarter ended 31 December 2007	Quarter ended 31 March 2008	YTD	2007/08 Full Year Target
Income					
Regulated Tariff Revenue	152.0	152.9	167.6	472.5	617.3
Developer Contributions	34.6	40.3	31.0	106.0	158.7
Other Revenue	48.1	38.8	37.2	124.0	78.9
Total income	234.7	232.0	235.9	702.5	854.9
Expenditure					
Operating Expenditure	106.0	89.7	105.8	301.5	321.4
TEC	17.9	17.9	17.9	53.7	71.6
Operating Expense	123.9	107.6	123.7	355.2	393.0
EBITDA	110.7	124.5	112.2	347.3	461.9
Depreciation	40.1	32.7	35.2	108.0	153.6
Earnings Before Interest and Tax	70.6	91.8	77.0	239.3	308.3
Interest	39.3	47.8	42.5	129.6	174.4
Earnings Before Tax	31.3	44.0	34.5	109.8	133.9
Income Tax	9.4	13.1	10.6	33.1	40.2
Profit after Tax	21.9	30.9	23.9	76.7	93.7

1. Other revenue includes that generated by monopoly external works, unregulated revenue and contributions from the external sale of materials. In the September 2008 quarter, an adjustment was also made for the recognition of \$11.1 million of unregulated revenue relating to the Alinta Wagerup project.
2. Also in the first quarter, \$9.7 million operating expenditure associated with this project was recognised. The increase in operating expenditure in March 2008 quarter was partially due to seasonal influences, and an increased focus on key areas of streetlights and vegetation management.

WESTERN POWER UNDERLYING FINANCIAL POSITION

Western Power's profitability is a function of underlying performance and, importantly, the treatment of expenditure and revenue variations by the ERA in the regulatory framework. The regulatory framework provides two mechanisms (Investment Adjustment Mechanism and annual K-factor price adjustments) but these operate on a retrospective basis over a number of years. In order to provide the underlying position, the baseline results are adjusted for the following factors:

- favourable variances in:
 - regulated tariff revenue (\$30.7 million)
 - capital contributions (\$0.2 million)
 - non-reference service revenue (\$0.9 million)
 Favourable variances are the result of revenue received in excess of those levels in the Access Arrangement. An increase in sent out and sales levels over those forecasted have increased tariff revenues with capital contributions and non-reference services meeting target levels in the Access Arrangement.
- an increase of \$13.5 million in interest expense and \$4.6 million in depreciation costs associated with the capital investment that is deferred to the next regulatory period

The underlying position based on the March quarter 2008 results is shown below and is marginally above target.

Underlying Earnings (\$M)	March 2008 (YTD) EBITDA	March 2008 (YTD) EBT
March Result	347.3	109.8
Network Tariff Revenue	-30.7	-30.7
Capital Contributions	-0.2	-0.2
Non-reference Services	-0.9	-0.9
Total Revenue Impact	-31.8	-31.8
IAM Depreciation		4.6
IAM Interest		13.5
Total Expense Impact		18.1
Underlying Position	315.5	96.1

WESTERN POWER BALANCE SHEET

\$M	As at 30 June 07	As at 30 September 2007	As at 31 December 2007	As at 31 March 2008
Total Current Assets	154.8	196.0	237.3	202.8
Non-Current Assets				
Property Plant & Equipment	3,606.5	3,737.7	3,889.8	4059.1
Other Non-current Assets	45.8	42.3	21.2	10.1
Total Non-current Assets	3,652.3	3,780.0	3,910.9	4,069.2
Total Assets	3,807.1	3,976.0	4,148.2	4,272.0
Total Current Liabilities	299.6	372.7	354.5	381.6
Non-Current Liabilities				
Borrowings	2,552.0	2,655.0	2,828.8	2,918.0
Other Non-Current Liabilities	90.7	62.3	63.4	46.1
Total Non-Current Liabilities	2,642.7	2,717.3	2,892.2	2,964.1
Total Liabilities	2,942.3	3,090.0	3,246.7	3,345.7
Net Assets	864.8	886.0	901.5	926.3
Contributed Equity	807.1	806.8	806.8	806.8
Retained Earnings	57.7	79.2	94.7	119.5
Total Equity	864.8	886.0	901.5	926.3

WESTERN POWER CASH FLOW STATEMENT

\$M	Quarter ended 30 June 2007	Quarter ended 30 September 2007	Quarter ended 31 December 2007	Quarter ended 31 March 2008
Opening Cash Balance	9.8	7.0	8.4	11.5
Inflow of Funds				
Cash receipts	171.1	243.6	270.0	283.5
New borrowings	98.4	103.1	172.1	87.6
Total inflow of funds	269.5	346.7	442.1	371.1
Outflow of funds				
Wages & salaries	53.4	52.9	57.0	52.5
Creditors & contractors	143.2	251.0	312.8	265.8
Payments to Government	38.1	0.00	27.0	9.4
Interest	37.6	41.4	42.2	45.2
Other payments	0.0	0.0	0.0	0.0
Total outflow of funds	272.3	345.3	439.1	372.9
Closing Cash Balance	7.0	8.4	11.5	9.7