



QUARTERLY REPORT  
1 JULY 2010 - 30 SEPTEMBER 2010

# 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 Western Power's performance for the period 1 July 2010 to 30 September 2010.

# ACHIEVEMENTS AND CHALLENGES



## ACHIEVEMENTS

### NEW CUSTOMER FOCUSED WEBSITE

A new and improved Western Power website, featuring enhanced usability, simplified content for our customers as well as a new 'look and feel', was launched in August. The changes were a result of six months of investigation into how customers use the site, with the new design now reflecting our priority customer segments. Western Power's purpose of connecting our customers with energy was the driving force behind the redevelopment of the website. The new website is primarily targeted towards helping our customers find the information they need to obtain a power connection more quickly and effectively. Information on power outages has also been made more accessible. Both the navigational aspects and the content have been simplified such as making the highest hit pages more visible on the homepage, highlighting phone numbers, keeping language concise and simple and generally improving the way customers can view information.

The new website also features a dedicated section where visitors can make claims and report problems which assists our Customer Service Centre in responding to customer enquiries. One area of focus of the website redevelopment was aligning content to improve engagement with Local Government Authorities by creating a 'one-stop-shop' for the information they require. During September 39,000 visitors accessed information on the website.

### PLANNED OUTAGES

Western Power's works program requires a number of power outages or service interruptions each day to facilitate the safe maintenance and development of the electricity network. These outages can interfere with the lives of our customers and our increasingly 'open all hours' lifestyle. The challenge for Western Power has been to balance network needs with the impact of outages on customers, particularly businesses. Over the last quarter we have implemented a number of new processes and options that have resulted in a substantial decrease in complaints from customers.

By using generators, being more flexible with times, making compensation or alternative arrangements and better notice periods and processes, we have been able to conduct most of the work necessary and improve customer satisfaction.

### CUSTOMER MANAGEMENT SYSTEM - NETCIS

In the September quarter Western Power enacted the first stage of a new IT system that allows the recording and retrieval of customer interactions. This system will eventually be the basis of a program of improvements to facilitate better recording of customer transaction details, web-based self service, information distribution, new channels for notifications (email and text), improved efficiency in the customer contact centre and a platform for a business-wide customer system that will progressively link to other core Western Power IT systems.

## CONFIRMED STRATEGIC DIRECTION

The Western Power Board and Executive held its annual strategic planning engagement in September. The purpose of the engagement was to review the progress of our corporate strategy (*Transform the Core*), assess changes to the landscape and ensure that we are focussed on what we must achieve in the short to medium term. The Board confirmed our strategic direction and that the focus of the business over the next 12 to 18 months is to embed a stronger customer orientation throughout the business, continue to drive increased efficiency and cost savings, and ensure that Western Power secures a commercially sound and supported Access Arrangement.

## OPERATIONAL EXCELLENCE

Operational Excellence initiatives, identifying efficiencies and savings across the business, are continuing to deliver significant benefits. Cost savings for 2010/11 totalling \$56M have already been identified across the areas of *Engineering standards, Network investment strategy, Driving value for money, Supply chain and Works management*. Highlights for the September quarter include savings of \$4.7M in supply chain contract re-negotiations and a \$403M reduction in the operational work-in-progress account balance. The balance is now the lowest it has been in five years. Timely capitalisation of projects result in lower taxable income and lower capitalised interest resulting in more cash retained. This will deliver \$2.5M in annualised savings for 2010/11 along with significantly reduced borrowing requirements for the business.

## AA3

The development of Western Power's third Access Arrangement submission has been structured differently to how the process has been approached in the past. Key and senior people from within the business have been engaging with customers and key stakeholders to understand what is expected from our next five year investment plan. The first phase of a three phase engagement process is now complete and has been well received. Forums have been held in Perth, Bunbury, Kalgoorlie and Geraldton with the next phase scheduled to commence in October 2010. These engagements are central to preparing a submission that is supported by customers and government, and to Western Power establishing a reputation as a competent, credible and customer focused commercial organisation.



## MAJOR PROJECTS DELIVERY

Key projects advanced during the quarter were:

- **Southern Seawater Desalination Plant (near Binningup)** – the new 132 kV Kemerton Terminal switchyard, installed to supply power to the Water Corporation's proposed second desalination plant, was energised on 23 September. This is the first phase of a two phase project to supply an initial demand of 25 MW of electricity to the plant. Phase two, construction of a 10 km 330 kV transmission line between Kemerton Terminal and the proposed desalination plant, is about to commence.

Further capacity, allowing up to a 55 MW power supply, has been incorporated into the design to meet future electricity demand. Completion of the second phase is on track to meet the Water Corporation's scheduled commissioning date in early 2011.

■ **Collgar Wind Farm** – construction of Western Australia's largest renewable energy project continues. With more than 100 turbines across 13,000 hectares of land, the wind farm will be located at Collgar near Merredin, east of Perth. To date, all steel works, including major gantries, have been completed ahead of schedule. The project is tracking for delivery on time and budget to meet the early 2011 commissioning date.

■ **Southern River Works** – installation of 21 metal power poles to replace existing timber poles and improve reliability of the network was completed on 22 July, 10 weeks ahead of schedule. Delivered under budget, the new infrastructure provides a second power supply source to the Southern River substation.

■ **Mid West Energy Project (MWEF)** – Western Power commenced its regulatory test consultation on the MWEF with four public forums held in July. At the end of the consultation period 35 submissions were received, all supportive of the 330 kV double circuit line from Neerabup to Eneabba. Western Power subsequently received advice from the Office of Energy that the entire project between Neerabup and the Karara Mine site will need to pass the Regulatory Test before Western Power can commit to the project through either construction of assets or finalisation of lease arrangements. As a result, a second round of consultation was undertaken which considered the entire works and took into consideration the comments received from the first round of consultation. A further two submissions in support of the proposal were received. The results of these consultations will be incorporated into upcoming submissions to the Economic Regulation Authority (ERA).

## WINTER SAFETY CAMPAIGN

To coincide with the winter storm period, Western Power conducts an annual advertising campaign with the message 'trees growing too close to powerlines are a serious electrical safety risk'. As a commitment to our public safety strategy, the campaign targets the 400,000 homes in areas serviced by overhead wires and has three key objectives:

1. increase awareness of safe distances between trees and powerlines
2. remind owners that it is their responsibility to ensure trees near powerlines on their property are trimmed in preparation for winter storms
3. encourage property owners to use a professional pruner or arborists to prune trees near powerlines

Television, radio, newspaper and online advertising sought to bring about behavioural change through the emotive messages: *We can bring back your power, but not your loved ones and Trees and powerlines can be deadly together. Have a professional prune them this winter.*

Table 1 – Research demonstrated the winter safety campaign had successfully achieved its objectives in 2010 with the following good results

MEASURE	2010 RESULT*	2010 RESULT COMPARED TO 2009
Residents are aware of the need to trim trees ahead of winter	80%	N/A
Residents are aware that trimming trees on their property is their responsibility	90%	Steady
Community awareness of safe clearance zones	54%	Up 8%
Use of professional arborists by residents for safe pruning	28%	Up 7%

\*Synovate research conducted 22 - 31 July 2010



## CHALLENGES

### DISTRIBUTION DELIVERY PARTNERS

On 3 September Western Power imposed a suspension of services on Thiess Services Pty Ltd. It followed one of a series of safety incidents in breach of Western Power work practices and safety standards. During the suspension period, Western Power liaised closely with customers impacted by the reallocation of work to ensure no significant customer concerns. Thiess were reinstated on 20 September after presenting evidence that the reasons for the suspension had been rectified.

### MANAGING THE 2009 TOODYAY BUSHFIRE

Managing community expectations that have resulted from the inability of both EnergySafety and the Fire and Emergency Services Authority to positively determine the cause of the 2009 Toodyay bushfire, has continued to be a challenge for Western Power. In an environment charged with high emotion and media speculation, Western Power worked closely with the State Government throughout the quarter to finalise a financial assistance package

announced recently by the Premier that focuses on those adversely affected by the fire that were either uninsured or underinsured. Specifically Western Power will contribute a maximum of \$5 million in recognition of the hardship victims of the fire have and continue to encounter. It should be noted that after a widespread review of evidence, Western Power remains confident that it is not liable for the fire and has made it clear that the payment does not constitute admission of liability.

### SECURING ADDITIONAL FUNDS TO SUPPORT THE WORKS PROGRAM

The ERA released its further final decision on Western Power's second Access Arrangement revision submission in January of this year. Importantly this decision supported the collection of revenues to fund a \$3.6 billion capital investment program - a program needed to address a period of significant underinvestment in the network. The ERA's decision came at a time when the State's finances were under considerable pressure due to the global economic downturn making this program unaffordable in its entirety.

This affordability issue, coupled with the inherent regulatory risk associated with the ERA's *ex post* review of Western Power's capital investment, resulted in Government only committing \$2.1 billion to Western Power's capital expenditure program.

Concerned about the impact on service standards resulting from continued underinvestment, Western Power successfully negotiated an agreement with Government whereby additional debt-funded capital could be accessed through the Cabinet process. In this quarter, the result of this agreement has netted an additional \$155 million in funding commitments from Government for priority public safety programs with further submissions scheduled for Government consideration in October, November and December.

# PERFORMANCE REPORTING



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

Table 2 provides a summary of Western Power's performance at the end of the first quarter.

Table 2 – Key Performance Indicators and targets for 2010/11

INDICATOR DESCRIPTION	MEASURE	SEPTEMBER 2010/11 ACTUAL	2010/11 FULL YEAR TARGET
Safety	Lost Time Injury Frequency Rate (LTIFR)	2.3	<2.2
	Public safety incidents	12 <sup>1</sup>	<11
Customer Charter Compliance	Charter compliance	94%	90%
Service Standards	System Average Interruption Duration Index (SAIDI)	206 <sup>2</sup>	221
	Transmission Network System Minutes (meshed network)	1	9
Financial	EBT (\$M)	103.3	107.4 (YTD target \$39.0)
Organisation culture	Organisational Health (%)	N/A <sup>3</sup>	75
AA#2 works delivery	Major work projects delivered on budget (%)	98.1 <sup>4</sup>	97.5
	Major work projects delivered over schedule (%)	3.9 <sup>5</sup>	5

<sup>1</sup> rolling 12 month average

<sup>2</sup> rolling 12 month average

<sup>3</sup> reported annually with results taken from the annual (February) Pulse Survey

<sup>4</sup> new major work projects metrics have been introduced by the Board to drive a stronger focus on accountability and commerciality. 'On budget' measures the aggregate major work projects costs forecasted at completion relative to original business case budgets

<sup>5</sup> 'over schedule' measures the length of time that major work projects are over schedule relative to original business case schedules

# COMMENTARY



## SAFETY AND HEALTH

Safety performance continued to improve this quarter. The Lost Time Injury Frequency Rate reduced from 2.6 injuries per million hours worked in the June quarter to 2.3 against the 2010/11 target of 2.2.

The All Medical Frequency Rate has remained steady at 11 injuries per million hours worked which reflects improvements in the early intervention of injuries against a background of improved incident reporting.

The Lost Time Injury Duration Rate (the average time lost per occurrence of injury) is currently at 9.5 days which reflects a 63 per cent reduction from the June quarter in the total number of days lost.

## PUBLIC SAFETY INCIDENTS

The 2010/11 annual rolling target for public safety incidents is no more than 11 incidents per month. The annual rolling average for the quarter ending September 2010 was 11.8. The thirteen incidents in the quarter were well down on previous quarters due to the relatively cold weather.

## CUSTOMER CHARTER

The Customer Charter result over the last quarter has averaged a 94 per cent result, above the 90 per cent target. All six areas of responsiveness: energisation, streetlights, enquiries, complaints, telephone handling and faults reflect high performance levels.

## NETWORK PERFORMANCE

The System Average Interruption Duration Index (SAIDI) target for 2010/2011 is 221 minutes. Over a rolling 12 month period, our performance as at 30 September 2010 was 206 minutes (total duration of power interruption in minutes per year). This represents an improvement of 11 minutes on the last quarter.

In comparison to the same quarter last year, there has been a decrease in outages that have been caused by strong winds, vegetation, vehicles, lightning activity, as well as a reduction of equipment failures of overhead assets in country areas - particularly where power line reinforcement work has been conducted.

The Transmission System Minutes (meshed network) target for 2010/2011 is nine minutes. Our performance for the September 2010 quarter is 0.902 system minutes. We are performing well ahead of target, due to only minor interruptions caused by equipment issues in substations.



## FINANCIAL PERFORMANCE

Year to date EBT of \$103.3M is \$64.3M above budget due to higher than expected tariff revenue (\$39.9M), lower capital contributions (\$4.8M), lower operating expenses (\$18.6M), lower depreciation (\$4.3M) and lower interest (\$3.7M).

Regulated Tariff Revenue is \$39.9M above target. Unseasonably cold weather resulted in an eight per cent increase on year-to-date (YTD) in energy consumption which accounts for \$21.0M of the variance. The resolution of historic metering exceptions accounts for the remaining \$18.9M.

Capital contributions revenue is \$4.8M under budget, mainly driven by lower revenue from distribution gifted assets (\$9.7M) and the State Underground Power Program (\$1.9M), offset by higher customer access revenue (\$3.8M) and transmission line relocation revenue (\$3.7M) from the high wire load corridor project. The customer access revenue variance is due to additional revenue from the *Building the Education Revolution* project which was not budgeted for.

Operating expenses are \$18.6M under budget, with the works program underspent by \$13.4M, \$8.9M in distribution and \$3.9M in transmission. In corporate areas, \$4.3M is currently underspent YTD.

Depreciation and interest expense are both lower than budgeted, owing to lower than expected capital expenditure through 2009/10, and consequently lower interest-bearing debt.

## MAJOR PROJECTS DELIVERY

Major work projects on budget is currently behind target at 98.1 per cent. Management are working to reduce major work project costs to achieve target performance of 97.5 per cent. Major work projects over schedule is currently ahead of target at 3.9 per cent.

Highlights of major works projects delivered during the quarter can be found in the 'achievements' section at the beginning of this report.