

07

> September Quarterly
Report 2007/08

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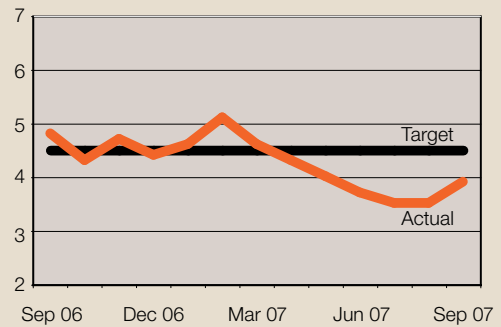
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> Introduction

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 30 September 2007.

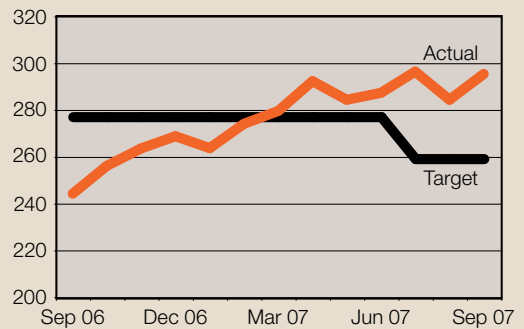
> Safety - LTIFR

(Lost time injury frequency rate)



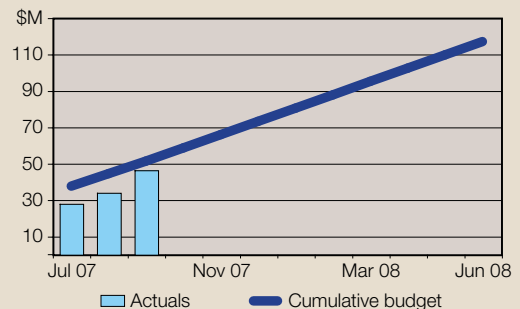
> Network reliability - SAIDI

(System average interruption duration index)



> Underlying earnings before tax

(\$ million)



> Our strategic direction to 2016 – ‘The Emerging Business’

We have reviewed the way we go about our business and have embarked on an exciting new direction.

Since the launch of our new strategic direction, in mid-June 2007, we have worked on developing strategies that will position the business for the future. This will assist the organisation to meet changing community expectations and contribute positively to future energy solutions in Western Australia (for more details, refer to the *Western Power Annual Report 2007* on our website www.westernpower.com.au).

The development of the strategic direction occurred in partnership with our Executive Committee, leaders across the business and industry representatives. Work is well underway to make our strategic direction a reality, under four themes – operational excellence, transform the customer experience, engage with our community and the green edge. Examples of initiatives are:

OPERATIONAL EXCELLENCE

- Contractor Safety 100-Day Plan – In response to heightened safety risks for our increasing number of contract employees new to our organisation, our network and our work practices. This important initiative will contribute to our business outcome of operating with no injuries to the public and our workforce.

TRANSFORM THE CUSTOMER EXPERIENCE

- Enhance engagement – Focuses on better understanding our customers’ needs to enable tailored, appropriate energy solutions. It includes a review of primary communication channels and management of enquiries and complaints.

ENGAGE WITH OUR COMMUNITY

- Substation of the future project – Develops a new and innovative approach to engaging communities in the substation development process.
- Engaging with the Farmers’ Federation to improve awareness and understanding of the needs of communities in rural areas.

THE GREEN EDGE

- Environmental offset program – We will work towards minimising our environmental footprint. Activities include offsetting emissions resulting from our vehicle fleet, mobile generators and other business operations. Abatement actions include changing our printing and paper consumption.

Performance for the September Quarter 2007

WESTERN POWER'S INVESTMENT PROGRAM

Western Power is undertaking a \$3.5 billion network investment program over four years to improve safety, reliability and the capacity of electricity supplies to all our customers. In the first quarter for 2007/08, we invested \$213.5 million as part of our largest ever works program.

This program includes:

- investment and planning - to ensure we can continue to meet future demand for electricity
- reliability and capacity improvements - to improve the reliability and capacity of power supplies, such as our Edge of Grid project (detailed on page 4).
- the Rural Power Improvement Program - This \$60 million five-year program was launched in 2004 to improve reliability for approximately 43,000 rural customers by reducing the frequency and duration of power interruptions
- bushfire readiness for a safer network - The plan incorporates a comprehensive vegetation management program, risk reduction strategies for public safety and aerial network inspections by helicopter

Delivery of our investment program continues to be challenging in a business environment experiencing substantial cost pressure and a shortage of skilled labour. We are in the process of implementing strategies to ensure costs are controlled and we establish longer term relationships with key suppliers, ensuring adequate skilled labour can be engaged to deliver our program of work. Until these strategies are fully implemented it will be difficult to deliver parts of the investment program on time and within budget.

Progress has been made on key capacity related projects including four new substations, with major contracts being awarded. Western Power is improving its position to meet the high load demands expected in the upcoming summer period. Reliability improvement projects have experienced delays, however plans are in place to recover those that are running late.

CASE STUDY

ENGAGING WITH BUSH FIRE BRIGADE



Supporting our commitment to engaging with our community and stakeholders, Western Power recently donated two vehicle radio sets to the East Gidgegannup Volunteer Bush Fire Brigade. The new radio sets will allow constant access to the Fire and Emergency Services Authority's Command Centre in the hilly Gidgegannup area, and will also help the Brigade lieutenants monitor and manage the early arrival of crews to emergencies.

ALLIANCE DEVELOPMENT PROJECT

Western Power is progressing a major project that will help us to carry out our largest ever works program. The Alliance Development Project will involve Western Power forming an alliance relationship with some of Australia's most successful construction companies.

We have invited these companies to work with us to expand our internal capacity to deliver the required works and provide access to new resources and expertise. The objective is to have the Alliance Development Project in place by December 2007.

EDGE OF GRID

Since late 2006, Western Power has been working with the State Government and an industry working group to develop a fairer and more equitable approach to funding upgrades to the electricity network in regional areas. The resulting Distribution Headworks Scheme was endorsed by Cabinet, along with a Government rebate for areas where headworks charges are highest under the new approach.

Western Power has begun processing applications for connection in affected areas and held a six-week public comment period about the new Scheme that included public forums in Albany, Bunbury, Geraldton and Perth. The Minister for Energy announced the new Scheme and rebate in State Parliament on 29 August 2007.

BUSHFIRE READINESS PROGRAM

Our Bushfire Readiness Program incorporates vegetation cutting in extreme and high bushfire areas, fuse pole base clearing and priority one maintenance works. The 2007/08 plan has a number of new initiatives aimed at improving bushfire mitigation. These initiatives, coupled with our revised strategies are part of Western Power's continuous improvement philosophy for bushfire management. New initiatives include:

- use of a High Voltage Spreader which reduces conductor clashing (a source of bushfire ignition)
- implementation of fire resistant paint on all new wooden poles in country areas
- a new system that communicates Total Fire Ban days and Fire Weather Warnings to all staff by SMS or email
- use of covered conductors (Hendrix Spacer Cable) in high bushfire risk areas
- a new Bushfire Reporting Process, jointly developed by Western Power and FESA
- assistance packages provided from Western Power to Volunteer Fire Brigades throughout the South West Interconnected System
- implementation of a new risk assessment process - Business Asset Ranking Tool

The 2007/08 Bushfire Management Plan has been created in a new format to enhance readability and generate more open and transparent communication between Western Power and the community.

NETWORK PERFORMANCE

Our works program this quarter featured upgrades to switching equipment and installing a new transformer in Canning Vale to improve long-term network reliability. This required a planned interruption to power supplies, impacting our overall network reliability result for the quarter. Our System Average Interruption Duration Index was 14 per cent outside of our targeted end of financial year performance for the September quarter. Other factors contributing to this result included the impact of vegetation, equipment failure, lightning strikes and wind.

The lag effect of reliability improvements following upgrade work, and seasonal demands on the network, means that it is likely the South West Interconnected System will continue to experience below target reliability performance into the upcoming December quarter.

Improvements in the network reliability performance are anticipated in the third quarter of the 2007/08 financial year as benefits of implemented reliability improvement strategies begin to take effect.

SAFETY AND HEALTH

Although Western Power's All Medical Frequency Rate (at 14.4) was the lowest level ever and our Lost Time Injury Frequency Rate was below target (at 3.9), it is concerning to report an increase in severity of injuries.

A two-year Safety and Health (S&H) Strategy and Plan 2007/09 is being developed, in which present systems and practices will be reviewed to set the path to a safer workplace. It aims to deliver:

- a structure for effective and sustainable S&H management
- improved S&H leadership and management capability
- a more resilient safety culture

Some of the other notable achievements in the S&H area during the last quarter have been:

- establishment of a Contractor Safety 100-Day Plan to redefine and embed the end-to-end S&H processes, accountabilities and supporting systems with our contract workforce
- introduction of a Fitness For Work education program for formal leaders and employees, supporting our existing fatigue management standards
- implementation of BodyFit, a targeted intervention program developed to reduce sprain and strain injury rates and severity, in our Service Delivery Division
- introduction of a mandatory advanced driver training course, to reduce risk exposure to users of Western Power vehicles
- development of an Electricity Safety Case (ESC), to provide an effective electricity safety management system and underpin our regulatory compliance and safety-related investment decisions for the foreseeable future. The ESC is soon to be audited as part of a six-month implementation and pre-approval process with EnergySafety

WESTERN POWER'S AIR-CONDITIONING TRIAL

We launched a demand management air-conditioning trial in mid-September to encourage 6,000 potential volunteers in Nedlands, Claremont and Dalkeith to better manage peak electricity use this summer.

Since the program's launch on 18 September, we have received more than 500 registrations.

Similar trials have been successful in South Australia over the past two summers with Queensland and New South Wales also conducting trials this summer.

FUTURE OUTLOOK

Ongoing challenges and upcoming milestones for the business include:

- delivering Western Power's Works Program
- containing our operating expenditure in the face of cost inflation and capital expenditure pressures continuing with potential impacts on tariffs and debt levels
- accessing skilled labour to meet delivery timelines
- improving our delivery of distribution projects and clearing backlogs of enhancement work
- finalising our Annual Works Program for 2007 through to 2009, along with introducing more accurate estimates of the work required through our Estimating Process Review Project
- rolling out a Cultural Change Program in the second quarter of 2007/08
- starting negotiations for a new Certified Agreement, due to be endorsed at the end of 2008

Looking to the medium term future, there is a substantial investment need arising from the volume of aging infrastructure in rural and remote areas of the South West Interconnected System.

> Key Performance Indicators

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 performance for the September 2007 quarter.

Table 1 – KPI Performance

Indicator description	September 2007 (YTD) Actual	2007/08 Full Year Target
Lost Time Injury Frequency Rate (LTIFR) ¹ (LTIs / million hours worked – employees)	3.9	<4.5
All Medical Frequency Rate (AMFR) ¹ (AMs / million hours worked – employees)	14.4	<18
System Average Interruption Duration Index (SAIDI) (Total duration of interruptions / customers per year)		
• South West Interconnected System (SWIS)	295	259
• Urban	246	226
• Rural	578	476
System minutes interrupted (mins)	2.1	7.8
Enquiries responded to within 10 days (%)	98	100
Complaints responded to within 20 days (%)	90	100
Earnings Before Interest and Tax, plus Depreciation and Amortisation (EBITDA) (\$m)	110.7	461.9
Earnings Before Tax (EBT) (\$m)	31.3	133.9
Return on Asset (%)	7.2	7.3

NB: Net Accruals to Government and Corporate Reputation KPIs that are provided in the Statement of Corporate Intent 2007/08 are reported annually, and will be included in the Western Power Annual Report 2008.

¹ LTIFR and AMFR data does not include statistics from Western Power contractors.

> Appendix 1 – Financial statements

WESTERN POWER PROFIT AND LOSS STATEMENT

\$M	Quarter ended 30 September 2007	2007/08 Full Year Target
Income		
Regulated Tariff Revenue	152.0	617.3
Developer Contributions	34.6	158.7
Other Revenue	48.1	78.9
Total income	234.7	854.9
Expenditure		
Operating Expenditure	106.0	321.4
TEC	17.9	71.6
Operating Expense	123.9	393.0
EBITDA	110.7	461.9
Depreciation	40.1	153.6
Earnings Before Interest and Tax	70.6	308.3
Interest	39.3	174.4
Operating Profit Before Tax	31.3	133.9
Income Tax	9.4	40.2
Profit after Tax	21.9	93.7

WESTERN POWER UNDERLYING POSITION

Western Power's profitability is impacted by the regulatory treatment of expenditure by the Investment Adjustment Mechanism and revenue variations that result in annual K-factor price adjustments. In order to provide the underlying position, the baseline results are adjusted for the following factors:

- \$1.7 million unfavourable variance in regulated tariff revenue and \$0.5 million of non-reference service revenue
- \$0.7 million 'excess' capital contributions over that included in the Access Arrangement
- increase of \$12.3 million in interest expense and \$4.2 million in depreciation costs associated with the capital investment that is deferred to the next regulatory period

The underlying position based on the September quarter 2007/08 results is shown below.

Underlying Earnings (\$M)	Quarter ended 30 September 2007 EBITDA	Quarter ended 30 September 2007 EBT
September Result	110.7	31.3
Network Tariff Revenue	-1.7	-1.7
Capital Contributions	0.7	0.7
Non-reference Services	-0.5	-0.5
Total Revenue Impact	-1.5	-1.5
IAM Depreciation		4.2
IAM Interest		12.3
Total Expense Impact		16.5
Underlying Position	109.2	46.4

WESTERN POWER BALANCE SHEET

\$M	As at 30 June 2007	As at 30 September 2007
Total Current Assets	154.8	196.0
Non-Current Assets		
Property Plant & Equipment	3,606.5	3,737.7
Other Non-current Assets	45.8	42.3
Total Non-current Assets	3,652.3	3,780.0
Total Assets	3,807.1	3,976.0
Total Current Liabilities	299.6	372.7
Non-Current Liabilities		
Borrowings	2,552.0	2,655.0
Other Non-Current Liabilities	90.7	62.3
Total Non-Current Liabilities	2,642.7	2,717.3
Total Liabilities	2,942.3	3090.0
Net Assets	864.8	886.0
Contributed Equity	807.1	806.8
Retained Earnings	57.7	79.2
Total Equity	864.8	886.0

WESTERN POWER CASH FLOW STATEMENT

\$M	Quarter ended 30 June 2007	Quarter ended 30 September 2007
Opening Cash Balance	9.8	7.0
Inflow of Funds		
Cash receipts	171.1	243.6
New borrowings	98.4	103.1
Total inflow of funds	269.5	346.7
Outflow of funds		
Wages & salaries	53.4	52.9
Creditors & contractors	143.2	251.0
Payments to Government	38.1	0.00
Interest	37.6	41.4
Other payments	0.0	0.0
Total outflow of funds	272.3	345.3
Closing Cash Balance	7.0	8.4