

07

> December Quarterly  
Report 2007/08

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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 October 2007 to 31 December 2007.

## > Safety - LTIFR

(Lost time injury frequency rate)



Safety performance continued to improve in the December quarter 2007, with our LTIFR (at 3.8) better than targeted performance (<4.5).

## > Network reliability - SAIDI

(System average interruption duration index)



In late December, bushfires impacted our network reliability for the quarter with SAIDI (at 302) tracking outside of our targeted end of financial year performance (259). Other contributing factors included the impact of pole top fires, blown fuses due to hot weather and asset damage from vehicles and vandalism.

## > Underlying earnings before tax

(\$ million)



Underlying earnings before tax is above budget due to strong earnings from unregulated activities that have been offset by higher than target maintenance costs, the 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 performance for the December 2007 quarter.

Our performance targets are determined by the Economic Regulatory Authority in a three year Access Arrangement that was approved on 26 April 2007.

**Table 1 – KPI Performance**

Indicator description	December 2007 (YTD) Actual	2007/08 Full Year Target
Lost Time Injury Frequency Rate (LTIFR) <sup>1</sup> (LTIs / million hours worked – employees)	3.8	<4.5
All Medical Frequency Rate (AMFR) <sup>1</sup> (AMs / million hours worked – employees)	12.3	<18
System Average Interruption Duration Index (SAIDI) (Total duration of interruptions / customers per year)		
• South West Interconnected System (SWIS)	302	259
• Urban	256	226
• Rural	566	476
System minutes interrupted (mins)	2.96	7.8
Enquiries responded to within 10 days (%)	96	100
Complaints responded to within 20 days (%)	90	100
Earnings Before Interest and Tax, plus Depreciation and Amortisation (EBITDA) (\$m)	235.1	461.8
Earnings Before Tax (EBT) (\$m)	75.3	133.9
Return on Asset (%)	8.2	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.

<sup>1</sup> LTIFR and AMFR data does not include statistics from Western Power contractors.

# Key performance indicator results for the December quarter 2007

## SAFETY AND HEALTH

Western Power's safety performance continued to improve in the December quarter 2007, with our Lost Time Injury Frequency Rate (at 3.8) better than targeted performance (<4.5) and our All Medical Frequency Rate (at 12.3) also exceeding targeted performance (<18).

Some of the notable achievements in the safety and health area during the December quarter 2007 included:

- a Contractor Safety Project introduced in late October 2007, to bring sustained improvement in contractor safety and health management and Western Power's overall safety performance.
- an updated Work Practice Manual, for all field staff and contractors, containing a comprehensive collection of field instructions and procedures addressing specific work practices.
- documentation of the Western Power Electrical Safety Case (WP ESC), completed in late December 2007, with implementation to occur by 30 June 2008. We have developed the WP ESC to identify, manage and reduce the organisation's exposure to safety-related risk across the electricity network.
- a BodyFit workshop, held in mid December with cross-business representatives, to develop innovative ways to reduce Western Power's Lost Time Injury Frequency Rate and soft tissue injury rates in the field. We recognised that in order to understand and reduce future injury rates and severity, a more holistic approach was necessary to identify all causes - environmental, engineering and personal.

## NETWORK PERFORMANCE

On two occasions in late December, bushfires affected our 220 kV transmission line supplying the Goldfields area. Each event caused supply interruptions to approximately 12,000 customers in the region. This impacted our overall network reliability for the quarter, with our System Average Interruption Duration Index (SAIDI) tracking at 302, which is 17 per cent outside of our targeted end of financial year performance (259). Other factors contributing to this result included the impact of pole top fires, blown fuses due to hot weather and asset damage from vehicles and vandalism.

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

## CUSTOMER FOCUS

In the December quarter 2007, 96 per cent of our customer enquiries were responded to within 10 days, while 90 per cent of our customer complaints were responded to within 20 days.

### Customer Survey

In December a Customer Survey was commenced seeking feedback from more than 450 customers about the critical services provided by Western Power. The first responses are due in February 2008 and will form a baseline from which we will track future performance. This is one of many key barometers of customers' opinions about Western Power and will provide incisive information about the extent to which the business is meeting customer expectations, and give insight on where changes should be made to increase customer satisfaction.

### Outage management

A new approach for planned outages commenced in November 2007. We engaged large corporations throughout the South West Interconnected Network to better understand their business processes and work with them to mutually determine the best way to manage planned outages, with the key objective of minimising disruption to their businesses while Western Power completes necessary works.

### Energy Solutions Framework

Western Power commenced work on an Energy Solutions Framework that will explore innovative energy solutions that will add significant value to the Western Australian community (customers and businesses). The program will take an integrated approach, considering technical, commercial and regulatory aspects, seeking to provide value-added energy solutions to all stakeholders and end-use customers. The Framework, which takes a 10 year plus view of the state's energy needs, recognises the complex factors inherent in achieving a successful transition from current energy models, to the provision of interactive, economic and unified power supplies which are likely to be made up of a diverse energy mix.

### Streetlights

Western Power established a project team to review the current streetlights management processes and to develop an alternative business model. This review resulted in the establishment of a new operating approach including:

- a new contract with an external service provider to maintain and repair streetlights
- a dedicated team of staff with clearly defined accountabilities for managing the end to end process, the contractor and report on progress
- improved data management and reporting of faults
- process clarity
- improved ability to track costs and revenue

The rate of streetlight fault repairs in the metropolitan area improved in the December 2007 quarter, with 91% of jobs resolved within five business days of being reported (against a target of 100%).

In the regional areas serviced by Western Power, our streetlight fault repair rate remained at 84% (against a target of 100%, within nine business days). In both metropolitan and regional areas, streetlight fault repair performance is expected to improve in 2008 following the introduction of our new maintenance contract.

### Disability Access and Inclusion

Western Power has developed a Disability Access and Inclusion Plan to take a proactive approach to meeting the needs of all our customers. The plan outlines how we will aim to provide equal access to our customer services, information, consultations, events, buildings and facilities. In the December 2007 quarter, we started implementing the plan with initiatives including installation of wheelchair access ramps and introducing a system to track customer feedback on disability access.

### Customer Information Pack

In mid December, we introduced a Customer Information Pack that provides an overview of Western Power's extensive range of products and services. The information pack will help customers make more informed decisions when using our services and will assist us to better manage their expectations.

## FINANCIAL PERFORMANCE

The buoyant Western Australian economy has resulted in an increase in network demand, development and customer driven work, positively impacting on unregulated revenue and developer contributions received. This has been offset by increasing cost pressures, the result of labour shortages and increasing material costs.

Labour shortages have substantially increased costs relating to recruitment and employment. This has resulted in an increase to the work program while making it challenging to recruit the resources required to complete the required works. Materials costs have been impacted by sustained high prices for copper and aluminium. These cost pressures are expected to have a continuing impact, specifically on distribution maintenance expenditure.

In order to offset these cost pressures, a commitment to reduce internal costs has been made. To date, this commitment is tracking to target.

Please refer to Appendix 1 for an overview of Western Power's financial performance in the December 2007 quarter (on page 7).

## > Key network projects

### SUMMER PREPAREDNESS PROGRAM

In late December 2007, Western Power's summer preparedness program was announced, highlighting our unprecedented \$112 million works program, including the construction of five new sub-stations and six new transformers.

Our major work completed this summer includes:

- new substations at Rangeway (\$13 million), Henley Brook (\$11.1 million), Waikiki (\$8.9 million), Bibra Lake (\$13.3 million) and Bentley (\$15.7 million)
- new transformers at Morley (\$3.1 million), Yokine (\$3.6 million), Padbury (\$2.85 million), Amherst (\$3 million), Byford (\$3.7 million) and Katanning (\$2.3 million)
- upgrade of Southern Terminal in Jandakot (\$800,000)
- new feeders at Padbury, Morley, Waikiki, Kalamunda, Henley Brook, Northam and Bibra Lake
- network reinforcement at Mullaloo, Yanchep and Denmark
- upgrade work at Nedlands, Southern River, Gosnells and Canning Vale
- replacement of 214 distribution transformers (\$6.7 million)

We are also taking steps to reduce the occurrence of pole-top fires – with 19,000 pole-tops to be silicone-coated and 30 major transmission lines to be washed in summer 2007/08.

Further, Western Power is investing \$128 million over the next three years on a bushfire prevention strategy.

### CASE STUDY: THE GREEN EDGE

#### WESTERN POWER HELPS KARRIDALE WINERY GO 'GREEN'



Western Power is helping an environment award-winning Karridale winery reduce its carbon footprint.

In December 2007 we installed a meter and electricity usage monitor in the wine cellar of Random Valley Wines that gives a real time read-out of the electricity usage per hour and the amount of carbon created by that usage.

Owner of the Random Valley winery Mr Peter Little said he was excited about the opportunities to be more energy aware provided by the meter.

"The meter will allow us to monitor not only electricity usage but also the carbon emissions resulting from the electricity consumption in the cellar door outlet. This will allow us to monitor and adjust our electricity usage to make our business more environmentally sustainable," Mr Little said.

Western Power's senior environmental officer Ms Olivia Hertsted said Western Power had been working closely with the winery for the past four years under its Environmentally Sensitive Area Program.

### ENEABBA TO MOONYOONOOKA 330 kV TRANSMISSION LINE PROJECT

Western Power has received its first approval from the Economic Regulation Authority (ERA) for a proposed 330 kV transmission line from Eneabba to Moonyoonooka.

On 7 December 2007, the ERA announced its decision that the proposed Western Power project satisfies the regulatory test required by the Access Code, which applies to all capital projects over \$15 million.

To gain this approval, Western Power considered all possible alternatives for this project, using extensive public consultation. The project is still subject to Government, Western Power Board and environmental approvals.

This is the largest project undertaken by Western Power in the past 20 years. The Eneabba to Moonyoonooka transmission line will facilitate the economic development of the Mid West and enable the connection of new power generation and major industrial customers. Increasing the amount of power to the region will also enhance reliability of power supply to the many customers in the Mid West.

### KOJONUP TO ALBANY 220 kV POWERLINE

In 2007, a series of public information sessions was held in the Great Southern to engage the community in the proposal for a 132 kV transmission line running from Albany to Kojonup.

Through these information sessions, Western Power invited local community members to participate in a Stakeholder Advisory Group.

The Stakeholder Advisory Group was formed to create a channel for two-way communication and to provide Western Power with specific local information and knowledge.

In November 2007, approximately 40 members of the Advisory Group provided 102 new pieces of local information to Western Power for consideration.

We expect to announce the preferred transmission line corridor by April 2008 and refer to the Environmental Protection Authority for approval in 2008.

### CASE STUDY: OPERATIONAL EXCELLENCE

#### FIRE RETARDANT PAINT TO INCREASE RELIABILITY



Western Power has started a program using fire retardant paint on all new wooden poles installed in regional Western Australia. The paint has been extensively tested and found to stop poles catching fire during low intensity fires such as scrub, brush and grass fires.

Western Power's Managing Director Doug Aberle said the paint was an important part of Western Power's fire mitigation strategy.

"We think the paint will have a significant impact on increasing the reliability of the network by reducing the number of poles damaged by fires," Mr Aberle said.

"Western Power is committed to improving the reliability of the network in regional Western Australia. By reducing the impact of fire on our wooden poles, Western Power is going a long way to achieve that commitment," Mr Aberle said.

To date, 2,000 poles have been installed with fire retardant paint and a further 10,000 – 15,000 poles will be coated in 2008.

### EDGE OF GRID

Western Power is presently reviewing 30 submissions to finalise its Distribution Headwork Scheme, following a six-week public comment period that ended on 12 October 2007. The Scheme will enable a fairer and more equitable approach to funding upgrades in regional areas of the South West Interconnected System. It is the result of collaboration between Western Power, the State Government and an industry-working group.

Background: Following endorsement by Cabinet, the Minister for Energy announced the Distribution Headwork Scheme and an accompanying Government rebate on 29 August 2007.

## > Appendix 1 – Financial statements

### WESTERN POWER PROFIT AND LOSS STATEMENT

\$M	Quarter ended 30 September 2007	Quarter ended 31 December 2007	YTD	2007/08 Full Year Target
<b>Income</b>				
Regulated Tariff Revenue	152.0	152.9	304.9	617.3
Developer Contributions	34.6	40.3	74.9	158.7
Other Revenue	48.1	38.8	86.9	78.9
<b>Total income</b>	<b>234.7</b>	<b>232.0</b>	<b>466.7</b>	<b>854.9</b>
<b>Expenditure</b>				
Operating Expenditure	106.0	89.7	195.7	321.4
TEC	17.9	17.9	35.7	71.6
<b>Operating Expense</b>	<b>123.9</b>	<b>107.6</b>	<b>231.4</b>	<b>393.0</b>
<b>EBITDA</b>	<b>110.7</b>	<b>124.5</b>	<b>235.1</b>	<b>461.9</b>
Depreciation	40.1	32.7	72.8	153.6
<b>Earnings Before Interest and Tax</b>	<b>70.6</b>	<b>91.8</b>	<b>162.4</b>	<b>308.3</b>
Interest	39.3	47.8	87.1	174.4
<b>Earnings Before Tax</b>	<b>31.3</b>	<b>44.0</b>	<b>75.3</b>	<b>133.9</b>
Income Tax	9.4	13.1	22.5	40.2
<b>Profit after Tax</b>	<b>21.9</b>	<b>30.9</b>	<b>52.8</b>	<b>93.7</b>

**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:

- \$11.9 million favourable variance in regulated tariff revenue and \$0.4 million unfavourable variance in non-reference service revenue
- \$4.4 million capital contributions above that included in the Access Arrangement
- increase of \$13.0 million in interest expense and \$4.4 million in depreciation costs associated with the capital investment that is deferred to the next regulatory period

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

<b>Underlying Earnings (\$M)</b>	<b>December 2007 (YTD) EBITDA</b>	<b>December 2007 (YTD) EBT</b>
<b>December Result</b>	<b>235.1</b>	<b>75.3</b>
Network Tariff Revenue	-11.9	-11.9
Capital Contributions	-4.4	-4.4
Non-reference Services	0.4	0.4
<b>Total Revenue Impact</b>	<b>-15.9</b>	<b>-15.9</b>
IAM Depreciation		4.4
IAM Interest		13.0
<b>Total Expense Impact</b>		<b>17.4</b>
<b>Underlying Position</b>	<b>219.2</b>	<b>76.8</b>

**WESTERN POWER BALANCE SHEET**

<b>\$M</b>	<b>As at 30 June 2007</b>	<b>As at 30 September 2007</b>	<b>As at 31 December 2007</b>
<b>Total Current Assets</b>	<b>154.8</b>	<b>196.0</b>	<b>237.3</b>
<b>Non-Current Assets</b>			
Property Plant & Equipment	3,606.5	3,737.7	3889.8
Other Non-current Assets	45.8	42.3	21.2
<b>Total Non-current Assets</b>	<b>3,652.3</b>	<b>3,780.0</b>	<b>3910.9</b>
<b>Total Assets</b>	<b>3,807.1</b>	<b>3,976.0</b>	<b>4148.2</b>
<b>Total Current Liabilities</b>	<b>299.6</b>	<b>372.7</b>	<b>354.5</b>
<b>Non-Current Liabilities</b>			
Borrowings	2,552.0	2,655.0	2828.8
Other Non-Current Liabilities	90.7	62.3	63.4
<b>Total Non-Current Liabilities</b>	<b>2,642.7</b>	<b>2,717.3</b>	<b>2892.2</b>
<b>Total Liabilities</b>	<b>2,942.3</b>	<b>3090.0</b>	<b>3246.7</b>
<b>Net Assets</b>	<b>864.8</b>	<b>886.0</b>	<b>901.5</b>
Contributed Equity	807.1	806.8	806.8
Retained Earnings	57.7	79.2	94.7
<b>Total Equity</b>	<b>864.8</b>	<b>886.0</b>	<b>901.5</b>

## WESTERN POWER CASH FLOW STATEMENT

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