

Quarterly Report

1 October 2010 - 31 December 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*. The report reviews Western Power's performance for the period 1 October 2010 to 31 December 2010.





Achievements

Transmission and Distribution Annual Planning Report

In November, we released our Annual Planning Report (APR), charting the future course of the network and detailing how emerging opportunities and challenges will be met. With the growth of the Western Australian economy and population, the demand for energy in metropolitan areas has been steadily increasing at four per cent each year, with the 2011 peak demand likely to exceed 4,000 MW. This trend is expected to continue, requiring modifications to the network to allow the necessary generation required to meet demand. Last year alone, Western Power invested \$1.1 billion in maintaining, upgrading and expanding the network. This year's APR outlines clearly how we undertake our planning and the many factors and competing interests we must consider.

Committed projects identified in the APR for this financial year include:

- increasing capacity for the Joel Terrace Network, East Perth
- increasing capacity for North Perth network
- upgrading to meet increased demand at Wembley Downs, Murdoch, Gosnells, Byford, O'Connor, Clarkson Cottlesloe, Malaga, Clarence Street South Perth, Bentley, Rivervale, Kewdale, Pinjarra, Medina and Sawyers Valley
- constructing new substations at Wangara, Joondalup, Balcatta, Willetton and Maddington,
- additional capacity at Albany, Bakers Hill, Beenup, Beresford, Busselton, Dandaragan, Donnybrook, Leeman, Eaton Australind, Eneabba, Goomalling, Hyden, Latham, Margaret River, Nannup, Pemberton, Strathalbyn and York
- additional capacity at Piccadilly substation
- the APR is available from the Western Power website at www.westernpower.com.au/apr

Corporate Reputation and Stakeholder Perception survey results

Each year Western Power commissions research on Western Power's reputation amongst residents, businesses and key stakeholders (including the Office of the Minister for Energy, the Office of Energy, the Economic Regulation Authority, the Independent Market Operator, EnergySafety, the Sustainable Energy Association, the Master Builders Association, the Western Australian Local Government Association, and the Departments of the Premier and Cabinet, State Development, and Environment and Conservation). Specifically the study looked at what is important to these segments, how is Western Power performing and what are the areas for improvement.

The 2010 survey applied a more rigorous methodology and a broader respondent mix and, as a consequence, the results are not comparable with the 2009 results. They will, however, form an important baseline for comparison in future surveys.

The results of the research showed that Western Power's overall corporate reputation is quite strong and is most favourable amongst



residents (85% rating reputation as good, very good or excellent), followed by businesses (80%) and stakeholders (74%).

Confusion remains over Western Power's role. Even though the vast majority of residents and businesses correctly believed that Western Power was responsible for power outages, management of infrastructure and new connections, they also incorrectly believed that Western Power was also responsible for generating electricity, billing customers and responding to billing queries.

Residents, businesses and stakeholders all rated Western Power's emergency response, safety, quality/reliability and consistency of supply highly. Key business customers interviewed in the qualitative phase were generally happy with the level of service they receive from Western Power, with a number of customers noting that this level of service had increased since the introduction of key account managers. It was noted that Western Power is actively seeking to improve the way we service and communicate with key account customers.

The research also uncovered other areas where improvement is required. For example residents, businesses and stakeholders all believed that Western Power's performance is weaker in areas regarding internal management and operations, customer service and

communication. This information presents an opportunity for targeted improvement before the next research in 2011.

Access Arrangement 3 (AA3) round one stakeholder engagements complete

The first round of engagements with key external stakeholders as part of the AA3 development project was completed in November. This included a series of forums, briefings and bilateral meetings with a range of major customers, land developers, peak bodies and government departments. The purpose of the engagements is to ensure transparency in our access arrangement revision process and to gain a better understanding of the customers' views and values of our services. This is to ensure we are delivering the right services to the appropriate standard during AA3.

The first round included four Perth-based forums as well as regional forums in Bunbury, Kalgoorlie, Geraldton and Albany. The forums were well received by customers, with a total of 84 stakeholders participating including the Economic Regulation Authority (ERA) and Department of Treasury and Finance (DTF).

The varied and constructive feedback was received and is currently being analysed to determine what can feasibly be delivered during the AA3 period 2012-2017.

A second round of engagements is planned for February 2011.

Reverse Logistics Project International Quality and Productivity Centre (IQPC) short-list

One of Western Power's cross-divisional projects has received international recognition after being short-listed for a global award. The International Quality and Productivity Centre (IQPC) has short-listed Western Power's Reverse Logistics Project in the 'Best Environmental Business Process Improvement Project' category, making us one in only four organisations globally to be in line for the award.

This year, the Reverse Logistics Project has saved \$6.5M in materials, with those savings reinvested back into the business. The project considered the return, refurbishment, re-use and disposal of materials in a sustainable and environmentally responsible manner.

The annual IQPC summit, which will be held in the United States in January represents the pinnacle in recognition of best practice in Operational Excellence and attracts submissions from businesses across the world.



Wangara and Joondalup transmission substations energised

Two new substations at Wangara and Joondalup were energised in October and November respectively to improve power reliability and sustain future demand to Perth's northern suburbs. Our long term forecasting recognised that the existing nearby substations would be nearing power capacity by 2011 due to the continuing growth in the area. The establishment of the Joondalup and Wangara substations will cater for the residential, commercial and industrial developments which are continuing to expand in the area, particularly the shopping centre developments.

In order to reduce any negative impacts of the substations we worked closely with the local councils to find the best way to make the substations visually pleasing. Public artwork on the Joondalup substation was chosen to match that used on the adjacent Mitchell Freeway, providing a consistent theme in the area. Extensive landscaping has commenced at the Wangara substation with works expected to be completed by the end of January 2011.

The Department of Environment and Conservation (DEC) was consulted to ensure that any native vegetation cleared to make way for the Joondalup substation was offset by the revegetation of nearby land on the corner of Wanneroo Road and Joondalup Drive.

New Personal Protective Clothing

New and improved Personal Protective Clothing (PPC) has been approved for all field based employees. The new PPC has been designed specifically for Western Power to address ongoing feedback from employees aimed at enhancing safety and comfort. The new clothing is made from a lighter material, has a vent in the back to increase ventilation and is made from flame retardant blue and yellow material. The introduction of the new PPC is part of the safety and health enabling strategy, which is driving Western Power towards zero harm.

Network Investment Strategy

The interconnected nature of Western Power's transmission and distribution network, combined with the high cost and often very long life of our assets, present unique investment challenges. Investment decisions made today have implications for many years into the future and must take into account both short and long term outcomes.

The network faces a number of current and future challenges including an aging asset base, climate change, new technologies and changing customer expectations about its performance, safety, quality, affordability and flexibility.

The need to invest in the traditional 'poles and wires' component of the network remains, however, Western Power will also need to invest to develop an increasingly intelligent network and embrace non-traditional (non-network) solutions such as energy conservation, demand management and embedded generation.

In response to these needs, we have developed a Network Investment Strategy (NIS). The NIS articulates the long term vision for the network and its associated objectives. It describes and guides how decisions are made to invest in traditional and, increasingly, non-network solutions, and how these support Western Power's corporate vision.

The NIS document marks the completion of the first phase of the Network Investment Strategy project. Phase 2, which will continue in 2011, will focus on further articulating our investment strategies and closing the gaps identified in phase 1. We will also be engaging with our external stakeholders, including the Department of Treasury and Finance, the Economic Regulation Authority (ERA), customers and industry, to test our assumptions more broadly.



Challenges

ERA's draft determination of the Binningup Desalination New Facility Investment Test

In December the Economic Regulation Authority (ERA) released its draft determination of Western Power's New Facilities Investment Test (NFIT) application for proposed transmission works to supply electricity to the Binningup Desalination Plant. The ERA is satisfied that all but one aspect of the proposed work met NFIT and is required by 2013/14.

The ERA's draft determination has proposed an investment cost reduction of \$2.1 million, to \$50.53 million from Western Power's initial proposal of \$52.63 million. This was due to the ERA not being satisfied on the present evidence that a smaller transformer (than the 490 MVA transformer proposed), would not be sufficient. It is noted, however, that the choice of transformer was made in order to meet demanding customer timeframes, and the customer is contractually bound to assume any "write-down" risk. Western Power will be making a further submission on the draft determination in an attempt to address some of the issues raised by the ERA, including mitigating any write-down amount that

might otherwise be passed to the Water Corporation.

Asset initiated fires

There were 21 fires recorded in December 2010 that were initiated by Western Power assets. Two of those incidents led to property damage claims. The root causes of the fires are often outside the control of Western Power and this month included seven bird related and four vegetation related events. The year to date total for asset initiated fires has reached 42 which has exceeded our self imposed annual target of 32.

Mid West Energy Project and Karara Mining Limited

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

Work also continued on planning for the Mid West Energy Project Stage 1 including lodgement of the Major Augmentation Proposal with the ERA.

The ERA will now determine if the project satisfies the Regulatory Test. If approved, the double circuit 330 kV line from Neerabup to Karara (via Eneabba and Three Springs) will be one of the biggest infrastructure

projects ever undertaken in Western Australia.

The submission follows a comprehensive public consultation process, which has included two public comment periods with a total of 37 submissions received, a number of stakeholder briefings, and a series of public forums in Perth, Geraldton and Three Springs.

Preparing the submission for such a large project in the face of a number of uncertainties remains a complex and challenging task.



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 second quarter.

Table 1 - KPIs, targets and year-to-date performance for 2010/11

| Indicator description | Year to date actuals as at 31 Dec 10 | 2010/11 target | Status |
|---|---|----------------------------------|--------|
| Safety | | | |
| Lost Time Injury Frequency Rate (LTIFR) ¹ | 2.4 | <2.2 | ● |
| Public safety incidents ¹ | 12 | <11 | ✘ |
| Service standards | | | |
| System Average Interruption Duration Index (SAIDI) ¹ | 199.0 | 221 | ✓ |
| Transmission Network System Minutes (meshed network) | 2.4 | 9 (YTD 4.7) | ✓ |
| Customer Charter compliance | | | |
| Charter compliance | 95% | 90% | ✓ |
| Financial | | | |
| Earnings before tax (EBT) | \$108.7M | \$107.4M (YTD target \$52.6M) | ✓ |
| Net accruals to Government (NATG) ² | \$72.9M | \$11.7M | ✓ |
| AA2 works delivery | | | |
| Major work projects delivered on budget | 97.8% | 97.5% | ● |
| Major work projects delivered on schedule | 96.1% | 95% | ✓ |
| Organisational culture | | | |
| Organisational health ³ | N/A | 75% | N/A |

¹ Rolling 12 month average

² Made up of dividends and current tax

³ Reported annually with results taken from the annual (February) Pulse Survey



Commentary

At the midyear point of the 2010/11 financial year, Wester Power is performing positively in six of our nine available SCI KPIs.

Safety

Safety remains Western Power's highest priority and therefore it is disappointing that performance in our two safety KPIs is tracking slightly worse than target. Even though we had a good month in December 2010 with no reported LTIs, the 12 month rolling average LTIFR figure as at 31 December 2010 remains slightly above target at 2.4.

Service Standards

The network's service standards performance at midyear is excellent. SAIDI is an industry-wide standard for measuring the reliability of the distribution network. It reflects the average duration of power supply interruptions experienced by customers across the interconnected electrical system. The lower the SAIDI, the lower the level of inconvenience experienced and the higher the level of supply reliability. The rolling 12 month average SAIDI as at 31 December 2010 was 199 minutes, 22 minutes better than the target and seven minutes better than at the end of the last quarter. A similarly good result was achieved for the reliability standard for the transmission network which was

2.4 minutes (as a result of four system interruptions) against a YTD target of 4.7 minutes.

Customer Charter Compliance

All segments within the customer charter compliance are performing exceptionally well resulting in 95% compliance against a 90% target. Streetlight repairs continue to achieve significantly improved results while improved network reliability is supporting the high call centre performance.

Financial

EBT is \$56.2M above target as at 31 December 2010 due to higher than expected revenue (\$17.8M), lower operating expenses (\$26.7M), lower interest (\$11.0M) and lower depreciation (\$0.6M).

Net Accruals to Government as at 31 December 2010 are \$72.9M based upon EBT of \$108.7M, which results in an accrued tax liability of \$31.7M and \$41.2M of Dividends payable on Net Profit After Tax.

AA2 Works Delivery

Major work projects consist of 81 approved programs and projects with a combined value of \$600.7M. On budget performance for December remains slightly behind target with completed projects costing 97.8% of the budgeted amount against a target of 97.5%. However, at the midyear point, 96.1% of major work projects were delivered on schedule against a target of 95%. Distribution capex performance is on target, however, nine Capacity Expansion projects are working to previously approved schedule variations that extend agreed-in-service dates. These projects are on track to achieve the revised agreed-in-service dates and represent a low risk to the network.

Transmission capex performance is ahead of target despite the impact of four Capacity Expansion category projects and one Asset Replacement category project which have been impacted by sponsor initiated changes, site conditions and unanticipated project complexity. One project has met, and the remainder will meet their revised agreed in service dates with minimal network risk. 12 projects have been brought into service including all 2010/11 summer critical projects. Transmission opex performance remains above target.