



march quarterly report

09



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 1 Jan 2009 to 31 March 2009.

ACHIEVEMENTS

- / Safety and Health performance – Western Power achieved its lowest ever Lost Time Injury Frequency Rate (LTIFR) during the quarter, reaching a rate of 2.5 against a target of 3.5 LTIs/million hours worked. The Transmission Group within Service Delivery Division has maintained zero LTIs for the 16 months to March 2009. In addition, the AMFR rate reduced by 45 per cent over the last 12 months.
- / Transforming the customer experience - 32 automated switching devices were installed and commissioned during the quarter. These devices are designed to reduce the number of customers affected by power interruptions and should provide a noticeable service improvement to approximately 28,000 customers.
- / State of the art customer service - Western Power's new Customer Service Centre opened during the quarter. The 24-hour-a-day contact centre took over fault call handling from Synergy on 23 March well before the 1 April deadline. The new centre delivers significant efficiencies to the organisation and enables Western Power to enhance the customer experience in a way it have never been able to before.
- / Operational excellence – Western Power's operational excellence program has identified an annualised saving in excess of \$20 million. These savings will be realised 2009 - 2010 onward. A program of capability development and sustainable productivity improvement is also underway and will be delivered during this period.

CHALLENGES

- / Global financial crisis/Access Arrangement – Economic conditions and WA Government debt constraints has lead to increased scrutiny from the Economic Regulation Authority (ERA) on the works program detailed in Western Power's second Access Arrangement (AA2) submission. The ERA is reviewing the AA2 submission and it will not be approved before the beginning of the 2009/10 financial year. The review process is expected to extend well into the 2009 calendar year. This is presenting significant challenges to business planning and expenditure for the remainder of 2008/09 and for the next three years.

- / Alliance safety and resourcing – Poor safety and health performance led to Power Alliance being suspended for three days. An action plan including re-training and re-induction has been developed and performance against the plan is being closely monitored. Transfield Alliance safety and health performance is acceptable.
- / Alliance managers are reviewing their resourcing strategies to ensure alignment with the provided work allocation. There is the potential to rationalise resources should work volume be reduced significantly. All options are being considered to ensure best value for money. The risks related to this activity will be analysed once the resourcing review is complete.
- / North Country Reinforcement – The North Country Transmission Network requires reinforcement due to increased demand in the Geraldton region, specifically from new mining operations. The project is subject to deferral due to funding constraints in the AA2 period. Deferral may increase the risk of a shortfall in capacity in the region and reduce ability to connect new major mining loads in the area. A mitigation plan is in place to reduce this risk, with Western Power increasing use of generating plant until major transmission works are delivered.
- / Certified Agreement negotiations – Salaried Certified Agreement negotiations are continuing with the Australian Services Union (ASU). There remains some disagreement between the parties, however Western Power is working with ASU officials to reach an agreement and is committed to reaching a conclusion that suits both parties. The risk of industrial action is moderate, however a plan is in place to minimise impact of industrial action should it occur.

performance reporting

Western Power's performance is tracked against Key Performance Indicators (KPIs) detailed in the *Western Power Statement of Corporate Intent 2008/09*. Table 1 provides a summary of Western Power's year-to-date (YTD) performance.

The 2008/09 performance targets were approved by the Economic Regulation Authority (ERA) as part of the 2006 to 2009 Access Arrangement.

Table 1 - Key performance indicators and targets¹

Indicator description	March 2009 (YTD) Actual	2008/09 full year Target
Lost Time Injury Frequency Rate (LTIFR) ² (LTIs / million hours worked – workforce)	2.5	<3.5
All Medical Frequency Rate (AMFR) ² (AMs / million hours worked - workforce)	15.6	<14
System Average Interruption Duration Index (SAIDI) (Total duration of interruptions / customers per year)	234	203 ³
Customer Charter compliance (%)	88.5	85
Earnings Before Interest and Tax (EBIT) (\$M) ⁴	230.1	301
Earnings Before Tax (EBT) (\$M) ⁵	71.3	75.0
Net Profit After Tax (NPAT) (\$M)	51.1	52.5
Major Projects Delivery (%)	95.9	95
Value of role in energy efficiency and sustainable solutions (%)	N/A	69
Corporate Reputation (%)	N/A	65

¹ Value of role in energy efficiency and sustainable solutions and corporate reputation KPIs that are provided in the *Statement of Corporate Intent 2008/09* are reported annually, at year end.

² LTIFR and AMFR data includes statistics from Western Power's workforce, incorporating both employees and contractors. Due to this, the detail represented here is the performance in February, due to the month lag in workforce reporting.

³ SAIDI target under review as part of Western Power's Access Arrangement submission to the ERA. Revised 2008/09 target, consistent with AA2 target for 2009/10 is 230.

⁴ EBIT YTD target is \$240.1M

⁵ EBT YTD target is \$66.2M

commentary

Safety and health

Safety lost time injury frequency rate for the March 2009 Quarter is currently 2.5. This is a significant improvement since the last quarter result of 3.2 and well below the target rate of 3.5. Zero harm is our vision and although progress is promising and heading in the right direction, continued attention is required to maintain and further improve our safety and health performance.

Network performance

Network performance for the March 2009 quarter was 234 minutes (total duration of power interruption minutes / average customers per year), an increase of 13 minutes from the previous quarter.

In comparison to the same quarter last year, there has been an increase in power interruptions due to equipment failure in underground networks in the metropolitan and Peel regions and asset damage from bushfires in the south country. There were improvements to reliability in the Goldfields region, as well as a general reduction of overhead conductor failures and lightning induced outages.

Customer Charter

Consistent with recent months, performance in this area has remained high (89 per cent in February). Updated fault data is not available for this reporting period so February data has been used. Moving forward, fault data will be supplied by internal Western Power systems previously provided by Synergy.

Streetlight performance has remained steady for the month (69 per cent in February). Repair time for complaint jobs has shown an overall improvement particularly in the country area, where the average repair time has dropped by 1.5 days.

Financial performance

At the end of March 2009, Western Power's traditional Earnings Before Tax (EBT) position was \$71.3 million. This was \$5.1 million more than the *Statement of Corporate Intent (SCI)* 2008/09 YTD target of \$66.2 million.

This above target performance is due to higher than budgeted regulated revenue and lower than budgeted interest and depreciation. This, combined with a discretionary cost review has offset an operational expenditure overspend of \$46.6 million compared to the SCI.

This operational expenditure overspend is predominantly due to Western Power's maintenance program, with preventative work in preparation for the bushfire season and network summer readiness coming in above budget. To counter this the business conducted a discretionary cost review across all areas, reducing costs and eliminating unnecessary spend. This has led to a firm commitment to reduce controllable costs for the full year, which has already resulted in some realised savings.

Total capital expenditure is \$100.9 million underspent YTD relative to the SCI.

The business is forecasting the full year EBT position to be ahead of the \$75 million full year target for 2008/09.

It should be noted that the underlying financial position for the business is impacted by a number of factors as explained on page 5 of this report.

Major projects delivery

There was a strong work program performance for the quarter, exceeding the target for major projects delivered on schedule. The delivery rate at the end of the quarter was 95.9 per cent which is ahead of the 95 per cent target.

Highlights include:

- / Substation reliability – brand new substation commissioned and energised in Kewdale to reinforce the local distribution network. Additional transformers were also installed to improve substation reliability in Clarkson and Mt Barker. These were delivered on schedule.
- / The Bluewaters Terminal - stage 2 was commissioned and energised on schedule. This is the transmission connection point for the new generating unit at Bluewaters Power Station.
- / 40 worst feeders - All current 40 worst feeder projects are expected to be complete by the end of August 2009. An additional three feeders were completed during March increasing the total completed feeders to 137 out of the total 176 feeders. This represents another 215 conditions completed during March. In total the three year program is 94 per cent complete.
- / Overhead condition maintenance - A large scale business wide initiative was instigated in January 2009 to mitigate the risk of asset initiated fire events. All severe overhead conditions in high and extreme fire zones were targeted for inspection and remediation. 4,021 conditions have been cleared to date with 1,023 poles replaced as part of this exercise. This exercise is expected to be completed at the end of April.

Strategic Plan 2008/09

Western Power's operational excellence program was the major focus of strategic activity during the third quarter. The program was established in August 2008 to facilitate the delivery of key organisation-wide strategic initiatives.

Fifteen Operational Value Chain (OVC) projects are currently underway with validated benefits to the organisation valued at more than \$20 million per annum. Seven functional indirect cost initiatives were handed over for immediate implementation during the quarter and are expected to lead to budget reductions for 2009/10 in the order of \$10 million.

Western Power underlying financial position

The measure of our underlying performance is a 'normalised' view of the performance of the business removing unanticipated variances due to energy consumption levels (which drive tariff revenue) and increased levels of capital contributions, debt and depreciation (due to higher customer funded activity).

Western Power's long term profitability is a function of its underlying performance although profitability varies in the short term in accordance with actual revenues and costs as they occur. Under the economic regulatory framework within which Western Power operates there are two particular mechanisms that compensate for these short term variations in revenue and costs:

- / the 'k-factor' adjustment allows for an annual reconciliation of actual revenues (from tariffs and capital contributions) compared with those approved by the Economic Regulation Authority. Any under or over recovery of revenue is carried forward into the following year.
- / there is also the Investment Adjustment Mechanism (IAM) which comes into play at the end of each regulatory term (three yearly at the moment) which provides a mechanism to adjust the allowed revenue for any under or over capital expenditure. This is created by variations in customer-driven expenditure against that forecast at the start of each regulatory term.

The underlying position based on the March 2009 quarter results is shown below.

Underlying EBT \$M	March 2009 (YTD) EBT
Traditional EBT	71.3
Network tariff revenue	-12.4
Capital contributions	-21.4
Non-reference services	-5.6
Total revenue impact	-39.4
IAM depreciation	10.5
IAM interest	30.8
Total expense impact	41.3
Underlying position	73.2