



**Western Power**

# Statement of Corporate Intent 2005 - 2006

## CHAIRMAN'S INTRODUCTION

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I am pleased to present Western Power's Statement of Corporate Intent, which sets out the organisation's objectives for the 2005/06 financial year. It meets the requirements of the *Electricity Corporation Act 1994* and represents an understanding of the level of performance expected of Western Power and agreed with our shareholder, the Minister for Energy.

In this document we outline the significant changes necessary to develop a competitive electricity industry in Western Australia and to position individual parts of the business so they can participate successfully in the industry.

Western Power fully supports the Government's policy to reform the industry and acknowledges the increased competitive pressure that will result from the reforms. At all times, we will seek to provide the Government with timely, accurate data and information on which it can frame energy policies. This includes setting reasonable expectations of the boundaries of Western Power capabilities and the economic impact of the reform measures.

Western Power's primary function is to generate, supply and sell electricity. We are the State's biggest energy corporation and have more than 850,000 industrial, commercial and residential customers. Our legislation requires us to act in accordance with prudent commercial principles and endeavour to make a profit, consistently with maximising the value of the Corporation.

Our objective in 2005/06 is to establish four commercial, customer-focused businesses ready to compete in the market while achieving a balance between the other competing forces of safety, reliability and market development. In doing so we aim to satisfy the expectations of our key stakeholders, that is our shareholder, our customers and our people.

CHAIRMAN

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>2</b>
SCOPE AND NATURE OF OUR BUSINESS.....	2
OUR CORPORATE REQUIREMENTS .....	3
OUR CORPORATE PRIORITIES .....	3
<b>OUR ORGANISATIONAL STRUCTURE.....</b>	<b>5</b>
THE CORPORATE SUPPORT UNIT .....	6
GENERATION .....	6
NETWORKS.....	7
RETAIL.....	7
REGIONAL.....	8
<b>MAJOR ACTIVITIES FOR THE 2005/06 YEAR.....</b>	<b>10</b>
SWIS GENERATION .....	10
THE SWIS TRANSMISSION AND DISTRIBUTION NETWORKS.....	12
THE REGIONS .....	16
RETAIL.....	17
<b>ELECTRICITY REFORM.....</b>	<b>18</b>
REFORM IMPLEMENTATION.....	18
REFORM AND INFORMATION TECHNOLOGY .....	18
<b>SAFETY AND THE ENVIRONMENT.....</b>	<b>19</b>
SAFETY .....	19
ENVIRONMENT .....	19
COMPLIANCE ACTIVITIES.....	20
<b>COMMUNICATING WITH OUR STAKEHOLDERS .....</b>	<b>21</b>
CORPORATE COMMUNICATIONS.....	21
MINISTERIAL REPORTING.....	21
<b>PRICING AND COMMUNITY SERVICE OBLIGATIONS.....</b>	<b>23</b>
TARIFFS.....	23
COMMUNITY SERVICE OBLIGATIONS.....	23
<b>PERFORMANCE INDICATORS AND TARGETS.....</b>	<b>25</b>
<b>ACCOUNTING AND DIVIDEND POLICIES.....</b>	<b>26</b>
ACCOUNTING STANDARDS .....	26
DIVIDEND POLICY .....	26
<b>APPENDIX 1 : PERFORMANCE INDICATORS .....</b>	<b>27</b>

## EXECUTIVE SUMMARY

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The Statement of Corporate Intent is prepared in accordance with the requirements of the *Electricity Corporation Act 1994* and describes how Western Power intends to achieve its objectives in the 2005/06 financial year.

It provides readers with information about Western Power's scale of operations, organisational framework, major activities and the performance targets we have agreed with Government for the year.

In summary, our operational priorities for the period in question will be to:

- Improve the reliability, quality and safety of supply;
- Facilitate the development of a competitive electricity industry;
- Effectively and fairly compete with private sector participants in the competitive market;
- Provide satisfactory financial returns to the owner; and
- Minimise the adverse environmental impacts from electricity production.

There are also a number of immediate challenges that must be addressed. In particular, a series of events in recent years has severely impacted Western Power's public image and if we are to regain the respect of our customers and the general community, it is imperative that we improve our operational performance and the way in which we do business.

In part, this will be achieved through the new business model that will provide a clearer and more concentrated focus in key areas and promote a business culture based on achievement, customer awareness and responsibility. The strategies also include specific operating initiatives that are intended to deliver immediate and longer-term improvements.

In 2005/06 we intend to invest more than \$480 million in operating costs and about \$600 million in capital, to maintain, improve and extend our infrastructure. This will allow the system to meet expected growth and improve reliability and public safety.

Our projected financial performance is expected to deliver eight per cent return on equity and an operating profit after tax of about \$137 million. This is lower than previous years as a result of the increased investment in maintenance and infrastructure as well as the effects of a more competitive market.

## INTRODUCTION

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Western Power is Western Australia's biggest energy corporation with more than 850,000 industrial, commercial and residential customers. It has total assets of more than \$4.4 billion and generates total revenue of more than \$1.7 billion annually.

Western Power has operated as corporatised Government Trading Enterprise since 1995, when it was established under the *Electricity Corporation Act 1994 (the Act)*. Current and future functions and responsibilities are also defined in the *Electricity Industry Act 2004*, the *Electricity Legislation Amendment Act 2004* and the *Energy Operators (Powers) Act 1979*. The Board of Directors is the governing body, reporting to the Minister for Energy, while the Chief Executive Officer is responsible for the Corporation's day-to-day operations.

Western Power's primary functions are to generate, acquire, exchange, transport, distribute, market and otherwise supply electricity. It may also undertake any associated commercial activity, such as marketing industry-related products and pursuing commercial industry related opportunities.

The Company's accountability requirements are met through the Strategic Development Plan and this document, the Statement of Corporate Intent. Both are agreed annually with the Minister. This document outlines our objectives, major activities and performance targets for the financial year beginning 1 July 2005. These targets are consistent with the Government's policy and budgetary requirements.

In order to achieve better customer focus and support a more commercial approach, Western Power has adopted a structure made up of four separate Strengthened Business Units – Generation, Networks, Retail and Regional. While our targets are presented on a corporate basis, as required under the existing legislation, they have been developed from detailed plans for the separate Strengthened Business Units within Western Power. This is consistent with the Government's intention to disaggregate Western Power into four separate businesses from 31 March 2006.

## SCOPE AND NATURE OF OUR BUSINESS

Western Power supplies electricity in more than 2.5 million square kilometres of landmass across Western Australia. Our main operations are:

- the South West Interconnected System (**SWIS**), an electricity supply grid extending from Perth in the west to Kalgoorlie in the east, and from Kalbarri in the north to Albany in the south. Western Power has an installed generation capacity of 3,172 MW in the SWIS;
- the Pilbara or North West Interconnected System (**NWIS**), a supply grid which connects the major towns in the Pilbara. Power is purchased from independent power producers and mining companies and then supplied to residential and commercial customers; and

- 28 townships around the State that are isolated from the interconnected grids.

## OUR CORPORATE REQUIREMENTS

In undertaking our operations, we will seek to achieve an acceptable balance between the following requirements, as set out in the Act.

- **Commercial Requirements:** The Act requires Western Power to act in accordance with prudent commercial principles and endeavour to make a profit consistent with maximising its long-term value.
- **Reliability and Safety Requirements:** The Act, related legislation and regulations require Western Power to supply electricity in a safe and reliable manner. Western Power has always placed the safety of the public and its employees as its overarching value and has consistently sought to maximise reliability and security of supply consistent with its other obligations.
- **Government Policy:** As a State owned enterprise, Western Power must be mindful of, and support Government policies that impact on the Company's business. Consistent with its legal and statutory obligations, the Company will act in accordance with relevant policies and in particular will continue to assist Government in the development and implementation of the Energy Reform Program.
- **Environmental Responsibilities:** Western Power is subject to more than 100 pieces of environmental legislation. The Company drives and supports a socially responsible approach to the environmental management of the business by working with all stakeholders to develop and implement practices that are equitable, safeguard the environment, and minimise adverse impacts and risks.
- **Social Responsibilities:** Western Power touches the lives of thousands of people every day in communities throughout the State. Our relationships with the community are fostered both through our business relationships and through the key sponsorships and partnerships that we undertake each year.

In the event that we cannot simultaneously meet these requirements, we will assist the Government to determine priorities.

Within this framework, we will endeavour to use locally produced goods and services in our procurement process and help improve opportunities for local participation.

## OUR CORPORATE PRIORITIES

Western Power's Management and Board have identified the priorities that will collectively represent the strategic direction of the organisation and will enable it to deliver on its current obligations.

At the same time these priorities will pave the way for each of its businesses to become commercial and competitive market participants. These are consistent with the agreed assumptions and financial projections for the 2005/06 State Budget.

The priorities are to:

- Demonstrate operational strength;
- Deliver solid financial returns;
- Be competitive and customer focused;
- Provide full support for reform;
- Nurture an environment for opportunity and success;
- Build market and community respect; and
- Maintain strong corporate practices.

## OUR ORGANISATIONAL STRUCTURE

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Western Power's business model is based on the creation of four Strengthened Business Units (SBUs) for the main operational areas: **Generation, Networks, Retail** and **Regional**. This model is consistent with the Cabinet-endorsed recommendations of the Electricity Reform Task Force.

Subject to the legislated obligations and responsibilities of the Western Power Board, each SBU is relatively free to manage its own affairs within a tight corporate governance framework. Transparent and commercially based contractual arrangements are being established between the SBUs and, subject to these, they are already operating - and will increasingly operate - independently of one another.

The SBU model is intended to provide:

- A greater degree of separation and independence for all four businesses with a particular emphasis on the Networks business, given its role in operating the network for all market participants;
- A greater competitive focus for the SWIS Generation and Retail businesses; and
- An improved customer focus for all SBUs including the Regional business.

However, as an integrated entity, Western Power is maintaining a strong focus on whole of Company corporate governance. To this end a **Corporate Support Unit** (CSU) has been created which sets organisational policies, standards and governance frameworks. The CSU manages overall business strategy, financial allocations and consolidation, corporate risks and dealings with key corporate stakeholders. It also provides a range of services such as information technology, finance and human resources.

A number of initiatives are being introduced to further the separation between the SBUs and increase their commercial discipline and transparency. These include :

- Allocating existing Western Power assets and contracts to the SBUs and determining opening balances for the SBU financial statements;
- Establishing separate accounts and reporting for internal Western Power reporting;
- Physically separating office locations where necessary and developing migration plans to support the arrangements required for legal separation;
- Restricting access to commercially sensitive information; and
- Developing and agreeing on service level agreements detailing key transactions between SBUs. These will be documented in a form appropriate for them to be adopted as formal, legally enforceable, 'arms-length' agreements in the case of legal separation.

As well as encouraging better customer focus and a more commercial approach, the model provides the essential foundations for formal disaggregation which is set to be implemented on 31 March 2006. An implementation plan for the business model has been developed to place the organisation in a 'Term Sheet' state of readiness by 1 July 2005.



## THE CORPORATE SUPPORT UNIT

The Corporate Support Unit (**CSU**) is responsible for optimising the performance of Western Power as an integrated organisation, while facilitating and supporting the development of four separate, commercially viable businesses.

Its programs fall broadly within the categories of Legal, Human Resources, Corporate Communications, Risk and Crisis Management, Group Financial Arrangements, Environmental Strategy, Power Procurement, Information Technology and Telecommunications and Reform.

In each of these areas, the CSU's objective is to establish sound governance practices and build an environment for opportunity and success. The unit will support the development of people, systems and processes within each of the strengthened business units so that these capabilities can be transferred to the new entities during the disaggregation of Western Power.

## GENERATION

Generation SBU's primary responsibility is to operate and manage Western Power's thermal and renewable generating assets in the SWIS.

It also manages contractual arrangements for the supply of fuel and purchase of electricity from third parties, through Power Purchase Agreements. In meeting these responsibilities, Generation SBUs required to act commercially, consistent with Western Power's legislated obligations.

Its main business activities relate to supply of electricity to Retail SBU for tariff and contestable customers, under internal contractual arrangement. These are currently being reviewed to ensure that they are consistent with the competitive market in which the businesses will operate.

It will be necessary for Generation SBU to be able to compete with Independent Power Producers (**IPPs**) in the competitive electricity market, within the overall capacity constraint that has been put in place by Government. This ability to compete with IPPs will be determined by the extent to which Generation SBU can reliably and efficiently operate its existing plant, secure new capacity in a timely and orderly way, optimise the plant portfolio and secure low cost fuel.

In order to be a successful participant in the wholesale electricity market in the long term, Generation SBU has identified the need over the next few years to:

- Obtain investment capital for new generating plant, allowing it to renew or make redundant inefficient or inappropriate generation units, while working within the capacity cap imposed on it by the shareholder;
- Reduce fuel and delivery costs and obtain flexibility, as demonstrated in the gas transportation arrangements and the new North West Shelf gas supply contract;
- Increase energy conversion efficiency; and
- Achieve the right skills mix and staffing numbers, to allow self reliance.

Generation SBU also contains the Sustainable Energy Branch which manages and develops Western Power's renewable assets and is responsible for the ownership and management of all Western Power's renewable energy facilities.

## NETWORKS

Networks SBU is responsible for transmission and distribution network operations, network management and system management for the SWIS. It is independent of the competing generators and retailers and must provide the networks services for all participants on an equitable and transparent basis.

Networks SBU also provides Shared Services for Western Power, such as fleet, logistics, payroll and associated services, and will seek commercial opportunities to supply these services to external customers in competition with private sector providers.

In meeting these responsibilities, Networks SBU must balance the requirements to operate commercially and meet regulatory, Government and community expectations for reliability of supply.

A new regulatory regime, resulting from the establishment of the Economic Regulatory Authority (ERA), is set to take effect from July 2006. As a ring-fenced provider of network access, Networks SBU will propose an Access Arrangement to the ERA by the end of August 2005, for their response and further refinement. This arrangement will set network tariffs and resultant revenue projections as well as service standards and the level of capital and operating investment required to meet these standards for the following three years. This will have critical implications for funding and investment decisions, performance incentives and Networks' relationship with customers and stakeholders.

In the meantime, Networks SBU will maintain its objective to deliver safe, secure and reliable electricity to all customers on the SWIS. In particular, Networks SBU will continue its program of improving network capacity and replacing ageing assets to improve the quality and reliability of supplies.

To this end, we have budgeted \$403 million in capital expenditure in accrual terms and \$156 million in operating expenditure for 2005/06 for the SWIS networks. Of the capital expenditure, \$197 million will be spent on the transmission system, and \$206 million on the distribution system.

## RETAIL

Retail SBU is responsible for purchasing electricity and selling it to customers in the SWIS. While Retail has begun expanding into other energy products (eg. gas) and related markets (eg. energy services), about 98 per cent of its total revenue is earned from electricity sales. Its primary activities include energy trading (purchasing), marketing and sales, and customer service, billing and payment processing.

Through its billing process, Retail SBU receives \$1.4 billion from its customers, with minimal write-offs. It operates a dedicated call centre, which also supports faults for the Networks SBU; meets major customer needs through an account management system and has a limited outbound teleservices group.

Most of Retail SBU's electricity purchases (92 per cent) are bought internally from Western Power's Generation SBU. The prices and conditions covering the supply agreement between the SBUs are determined in the Generation Transfer Price Agreement.

Retail SBU faces competition for electricity sales in the SWIS. The latest tranche of deregulation in the electricity market applies to customers that consume between 5.7 kW and 34 kW (average demand). This segment is equivalent to about 8,000 customers and about \$22 million in profit. Retention of these customers is a significant challenge.

Since October 2003, Western Power has been permitted to retail gas to customers consuming more than 1 TJ per annum – about 620 customers. This provides an opportunity for Retail SBU to offset some of the potential loss of revenue in the electricity market. A moratorium restricting Western Power's access to gas customers that consume less than 1 TJ per annum is scheduled for review by the Economic Regulatory Authority in July 2007.

Retail SBU's forecast electricity sales for 2005/06 are 12,116 GWh providing revenue of \$1,431 million. This incorporates deregulation to 5.7kW from January 2005 and the assumption that there will be no increases in tariffs over the forecast period.

Retail SBU aims to become a vigorous energy retailer, maintaining a high market share in the electricity market and increasing its share in the natural gas markets. It intends to do this by building on its existing competitive advantages, procuring competitively priced energy supplies so it can provide competitive and profitable products and services to its customers, and developing employees to realise their potential in energy retailing.

## REGIONAL

Regional SBU is responsible for operating the NWIS in the Pilbara and supplying electricity to 28 townships in WA that are isolated from the SWIS.

Its operation of the NWIS includes purchasing and delivering energy to local customers and operating transmission lines between Dampier and Port Hedland.

Regional SBU also participates in the procurement of new independent generation and takes responsibility for the supply of electricity to five remote Aboriginal Communities on behalf of the Government under the Aboriginal & Remote Community Power Supply Program (ARCPSP). Funding for this program is provided by the State and Commonwealth Governments.

Regional SBU's operations are managed from offices in Perth and Karratha with regional offices and senior representation at the major centres.

The total number of customers in regional areas is 35,000. Those in the northern and central areas typically have a higher per household consumption of electricity, largely because of air conditioning. While regional centres have a substantial number of customers that meet contestability requirements (about 4 per cent of the customer base) only those in the NWIS are likely to be affected by market reform, as supply to isolated systems is unprofitable at uniform tariff rates and therefore unlikely to attract competition.

Under the Government's Uniform Tariff Policy, tariffs for households and small businesses in the areas served by Regional are set at the same levels as those in the SWIS. This, combined with the high cost of generation in isolated systems and other legacy arrangements, mean Regional SBU requires subsidies from other Western Power business units in order to maintain its services. To resolve commercial conflicts on other parts of Western Power in the new electricity market, internal, transparent funding arrangements will be established to cover the shortfall. An external funding arrangement will be implemented as part of disaggregation.

Regional SBU's objective is to provide quality energy services that facilitate the development of regional Western Australia.

## MAJOR ACTIVITIES FOR THE 2005/06 YEAR

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Western Power's primary objective continues to be to provide safe, reliable, low cost electricity supplies to Western Australians. In line with this objective, we have programmed major initiatives on 2005/06, aimed at delivering benefits to all our stakeholders.

These initiatives will be applied in four main areas:

- Generation on the SWIS;
- The SWIS Transmission and Distribution Networks;
- The Regions (the NWIS and non-interconnected systems); and
- Retail.

### SWIS GENERATION

#### *GENERATION CAPACITY*

The total amount of generating capacity available to Western Power is made up of Generation SBU's thermal plant and electricity purchased through PPAs from independent power producers. This amount will be boosted in future through the Power Procurement Process, the first stage of which will deliver an additional 240 MW of peaking generation plant by the summer of 2005/06.

Current planning also provides for boiler and turbine uprates at Muja C and D to increase output by up to 20 MW and 52 MW respectively. There may also be scope to implement additional soot blowers at Collie A to improve peak output by 20 MW for approximately 6 hours per day.

Last year, following gas transport restrictions Western Power made a number of changes to increase the flexibility of its fuel supplies. Kwinana B and C were converted to enable the burning of light fuel oil on two stages. Coal firing at Kwinana is continuing as a means of mitigating the total oil firing requirements. To maintain security of supply, a significant fuel oil inventory has also been established. Notwithstanding these initiatives, pipeline reliability remains a significant risk to security of supply.

Additionally, the rapid growth in peak electricity demand growth and the implementation of the Cronin Review recommendations resulted in Western Power participating in a number of short term capacity measures, including a capacity contract with Goldfields Power and rental of gas turbines.

Deferring retirement of some of Generation SBU's older units allowed capacity levels to be maintained, but has added to the cost of plant overhauls. In 2005/06 Generation SBU will invest \$31.1 million overhauling its generation plant, some \$7.5 million of which can be attributed to the retirement deferment of older units. In coming years Generation will retire these plant in conformance with the 3,000MW capacity cap imposed on Generation.

It is anticipated that allowing for the Western Power initiatives outlined above, committed IPP plant and Western Power's demand management initiatives that are currently being developed, total generating capacity on the SWIS will meet target requirements for 2005/06 and 2006/07. The main risks in this regard arise through the availability of older plant and the reliability of gas transportation pipelines.

### ***FUEL SUPPLY AND TRANSPORT***

Fuel accounts for 50 per cent of generation costs and the unit's ability to compete with new entrants will depend on its ability to obtain competitive fuel prices. Recent initiatives, including the new 700 PJ North West Shelf Gas Supply contract and the completion of new DBNGP transportation arrangements, have achieved real savings and flexibility for Generation SBU.

The high priced legacy contractual arrangements for the purchase of coal, which makes up 70 per cent of Generation's fuel arrangements – expire in 2010. Generation is presently undertaking a Request for Proposals process ahead of the end of these contracts. A successful outcome from this process would result in Generation's baseload coal plant becoming competitive.

### ***GENERATION PRICING***

A new transfer pricing mechanism, the Generation Transfer Price (**GTP**) is being developed between Generation and Retail to support the reform program. Under the proposed GTP, Generation SBU will sell energy for contestable customers on contract to Retail SBU under flexible pricing arrangements that reflect expected market prices. Likewise, the prices received for the franchise load will reflect the price paid by franchise customers. This arrangement was recently endorsed by the Board.

### ***SUSTAINABLE ENERGY PROJECTS***

In recent years, the focus of the Sustainable Energy Branch has been to support renewable energy technologies that have the best chance of successful integration with existing electricity supply systems. The goal has been to develop technologies that will provide a competitive, commercial advantage and ultimately lead to the branch attaining a position of financial independence.

The branch has a solid financial future, provides additional complimentary 'green' benefits to the thermal generation business, and meets the expectations of Western Power's stakeholders and Retail's customers. Western Power intends to allocate about \$32 million of capital in 2005/06 to fund renewable energy projects (wind diesel systems and wind farms) to build on its existing competitive advantage in this area.

Current projects are listed in the table below. A further 13 projects are being considered by the branch.

Projects Under Construction/Planning by the Sustainable Energy Branch	
Hopetoun PowerStation	Expansion in 2005 with 1 x Enercon 600kW E40 wind turbine and 640kW of diesel generation.
Bremer Bay	1 x Enercon 600kW E40 wind turbine and 1.3MW of diesel.
Coral Bay	2 x 275kW Vergnet wind turbines in 2.5MW of new diesel.
Grasmere (Albany) Wind Farm	A 14MW site adjacent to the Albany Wind Farm using 7 x 2.0MW Enercon E70 turbines, including one tower with a viewing platform.

## THE SWIS TRANSMISSION AND DISTRIBUTION NETWORKS

Networks SBU has developed a significant operating and capital works program to meet the requirements of new customer and generator connections and to support system growth and improve reliability, service to customers and safety.

### ***ONE STEP AHEAD***

Networks has recognized the need to evolve to a business with a clearly defined role as a network service and infrastructure provider with :

- External regulation;
- Customer focus, with clear well-managed stakeholder interfaces;
- Clear business incentives; and
- Multiple resourcing strategies including external partnerships.

To achieve this, Networks is introducing the One Step Ahead program – an integrated and consistent approach to the management and implementation of all its business activities. One Step Ahead aims to address, among other things, increasing and changing customer demands, the new regulatory regime, pressure to improve the network's performance and skills shortages.

### ***THE SUMMER READY PROGRAM***

This program was introduced in 2004/05 to reduce the level of outages customers experienced in the summer peak load period. It included reducing the number of transformer failures from overloading. In the first year the number of failures fell from 50 to five, and the current target is zero by 2010.

As well as reinforcing the transmission and distribution networks to prevent overloading, Networks SBU was able to reduce the duration of some outages and the consequential effects of maintenance on supplies by introducing 16 mobile emergency response generators.

Concerted efforts are being made to reduce the incidence of pole top fires by silicone coating pole top equipment. This program began in 2004 and to date there have been no pole top fires on treated poles, despite conditions being conducive to the problem in early 2005.

The risk of bushfires was addressed by reducing the distance between poles in susceptible country areas and increasing the inspection and clearing of vegetation near power lines.

These initiatives had a marked positive effect in 2004/05 and will continue throughout 2005/06.

### ***EMERGENCY AND ROUTINE MAINTENANCE***

In order to improve the reliability of supplies and address problems associated with ageing infrastructure, Networks SBU will invest \$156 million in operating expenditure on the network in 2005/06. The main activities involved are shown in the following table:

Category	Activities
Corrective Maintenance	Emergency follow up work: the permanent repair of temporary fixes to overhead and underground assets.
	Power quality investigations.
	The repair of Western Power assets that are damaged as a result of a customer's actions.
Emergency Maintenance	Work in response to faults and hazards on the distribution network, including work after storms or other crises.
	Primary response assistance: assistance provided by Resource Centre personnel to fault workers in response to faults and hazards on the distribution network.
	Storms: all primary response group, fault response assistance and corrective repair work (both temporary and permanent repair) associated with a declared crisis Level 3 or 4.
	The repair of streetlights and streetlight circuits to meet the Customer Charter.
Preventive Routine Maintenance and Condition Maintenance	Pole base inspection and treatment.
	Bulk globe replacement: Currently globes are replaced on a four yearly cycle.
	Metering maintenance: inspection and maintenance of meters.
	Vegetation inspections and clearing.
	Clearing around the base of poles supporting drop-out fuses and pole top switches.
	Insulator silconing: the application of silicon grease to insulators in order to reduce the incidence of pole top fires.
	Pole top inspection and line patrols: the inspection of overhead lines and pole top hardware in bulk from an EPV, helicopter or light aircraft.
	The inspection of ground mounted switchgear housed in indoor substations, compounds, kiosks and distribution frames and correction of any problems identified (conditions).



**THE RURAL POWER IMPROVEMENT PROGRAM**

This \$48 million four-year program was introduced in 2004 to improve supplies in rural areas and particularly on projects that would otherwise be difficult to justify under normal investment criteria. During 2005/06, the project's second year, \$12 million will be spent largely on installing equipment on overhead lines which makes fault detection easier and reduces restoration times.

**MAJOR CONNECTION PROJECTS**

Projected increases in activity by IPPs and high-use customers will require substantial investment in corresponding transmission works over the coming years. The scope of work involves not only the direct connection to the nearest part of the network, but also upgrade of adjacent portions of the network to handle the increased power. Funding contributions are obtained from customers for these works.

Works associated with the following customer projects are likely to take place in 2005/06.

Project Description	2005/06 (\$000)
Alinta Cogeneration Preliminary Works Part B	100
Bluewaters Power Station	200
Kwinana : Installation of 132kv Series Reactors	288
Worsley-Re-Arrangement of Substation	1,299
Power Access Application SW020201	1,750
Boddington Gold Mine Expansion	2,000
Cataby Transmission Works for Iluka Resources	2,000
Emu Downs Wind Farm	2,000
Walkaway Wind Farm & Reactive Compen.	5,187
Water Corp -Supply Kwinana Desalination	6,000
Perth/Mandurah Rail Project Train Works	9,866
Power Procurement Stage 1 (Kemerton)	17,071
Alinta Cogeneration at Alcoa Pinjarra	24,200

**OTHER CAPITAL WORKS PROJECTS**

- Replacement of overhead service wires and “twisty” connections in the SWIS and Regional systems as a result of the recent Energy Safety prosecution over the deaths of two children at Wyndham. This 5-year program is projected to cost \$15 million in 2005/06 and \$21 million a year thereafter.

- Reduction in average transformer loadings at metropolitan bulk supply sub stations. Sub-station loads have been increasing markedly, potentially resulting in unacceptable safety risks and forced load shedding. The 10-year program is intended to establish a reasonable safety margin at a cost of \$13 million in 2005/06 and \$25 million per annum thereafter. A detailed study has been undertaken to support this work.

### ***CUSTOMER RELIABILITY PAYMENTS***

Western Power recognises that reliability problems have a significant impact on customers and will introduce a Customer Reliability Payment Scheme to partly compensate them in the event of protracted outages.

Under the scheme, eligible customers who, through no fault of their own, suffer losses of electricity supply for a continuous period in excess of 12 hours will be paid \$80. The scheme will apply to all households and businesses with an average load of less than 5.7 kW who are connected to a Western Power network and will start from 1 July 2005 with the first payments due on or before 1 January 2006.

### ***ADDRESSING THE SKILLS SHORTAGE***

Networks SBU will continue to pursue a combination of strategies to meet its human resource needs in 2005/06. These include

- **Recruitment:** Given local shortages, Networks SBU is targeting the eastern states and overseas for market related skills, power system planning engineers, design engineers and technicians. Networks is recruiting 24 new people locally each year to train as distribution line workers. Its training program is conducted in conjunction with TAFE to national standards. In addition eight graduate engineers and eight engineering officers per year are being recruited through Western Power's graduate training schemes to provide a resource for the future.
- **Alliances** have been established with providers such as UKG and Skilled Engineering for access to a variety of staff and also with key suppliers such as ABB for critical equipment.
- **Outsourcing:** Work packages are being offered to consulting engineers and field activities such as vegetation and pole treatment are being largely outsourced.

### ***SHARED SERVICES***

A Shared Services Provider (**SSP**) has been established to provide a range of services to Networks SBU as well as other SBUs. SSP is a ring-fenced business within the Networks SBU – the greatest user of its services – but will continue to service other areas of Western Power. It will also seek opportunities in the public and private business sectors to increase the level of profitable revenue.

SSP's services include:

- Fleet management and servicing;
- Procurement (accounts payable and receivable, contract services, inventory and project purchasing and the operations of the Jandakot Distribution Centre);
- Payroll and associated services;
- Health services; and
- Properties and building management.

SSP's estimated total expenditure for 2005/06 of \$20.4 million includes the continuation of a five-year Fleet Replacement Program and refurbishment of the aging Jandakot Distribution Centre, including site resurfacing and expansion of external storage capacity at the centre to meet increased demand.

## THE REGIONS

### ***REGIONAL POWER PROCUREMENT***

The Regional Power Procurement Program (**RPPP**) was introduced in 1998 as a means of improving generator performance and ensuring the lowest possible generation cost. Already six new power stations have been established in the Mid West and one in Esperance under RPPP principals. A further 12 new power stations are planned for the Kimberley, Exmouth Carnarvon and five smaller remote communities as follows:

<b>West Kimberley</b>	Contracts have been negotiated for the development of power stations for the Kimberley towns of Broome, Derby, Camballin-Loom, Fitzroy Crossing and Halls Creek. The target date for commercial operations at Broome is February 2007 with the other centres to follow by the second quarter of 2007.
<b>Exmouth:</b>	Regional SBU has contracted for the development of a power station using compressed natural gas, likely to reach commercial operation in the second half of 2006.
<b>Carnarvon</b>	Work has begun on the delivery of a new independently owned power station which is expected to begin commercial operations by April 2007.
<b>Remote Towns</b>	EnGen has been selected as the preferred developer to generate electricity for Laverton, Menzies, Marble Bar, Nullagine and Gascoyne Junction. Commercial operation is expected at all these sites by late 2005.

### ***RENEWABLE ENERGY***

Regional SBU is assisting in the development of renewable generation on the fringes of the SWIS.

Regional SBU has already contracted, either directly or indirectly for renewable generation at Esperance, Denham, Hopetoun and Exmouth. Regional SBU is also currently assisting in the development of a wind-diesel system at Bremer Bay and recently gained approval to establish a wind-diesel system for Coral Bay.

A project has also begun to meet the increased demand at Hopetoun resulting from the Ravensthorpe Nickel Project through a wind-diesel system development.

Regional SBU buys electricity for Kununurra, Wyndham and Lake Argyle from the 30MW Ord Hydro power station and is investigating the potential to buy additional renewable based electricity in Exmouth (wind), Carnarvon (solar and wind) and Kununurra (bagasse).

## RETAIL

### ***PRICING POLICY***

Price is the most important criteria in a customer's choice of electricity retailer. Retail SBU needs to decide how it will price for contestable customers in the electricity market, cognisant of the timetable for competitive entry. A detailed pricing protocol, principles and associated governance arrangements for Retail have been established. These are intended to allow Retail to compete effectively and within the requirements of the Trade Practices Act.

As instructed by the Government, tariffs for franchise customers will remain at their current levels throughout 2005/06.

### ***DEMAND MANAGEMENT***

In 2004/05 Retail SBU was given responsibility for designing and implementing programs to reduce peak demands during summer periods. Programs that will be implemented or continued in 2005/06 include:

- Running media campaigns to obtain voluntary reductions in peak load from the broader community;
- The Peak Demand Saver Program under which large commercial and industrial customers agree to reduce peak loads in return for financial compensation from Western Power, should the need arise. Retail SBU successfully secured 73 MW of capacity through load reduction in 2004/05 and will continue with this program during 2005/06; and
- The implementation of long-term demand management measures for all market segments, including residential and small to medium enterprise segments.

The Peak Demand Saver Program and the long term demand management measures are designed to reduce the peak demand of Retail SBU over the forecast period. In the case of the Peak Demand Saver Program, Retail SBU will attempt to obtain capacity credits for these demand reduction measures and thereby avoid the cost of securing peak generation supplies.

## ELECTRICITY REFORM

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### REFORM IMPLEMENTATION

Western Power is committed to the development of a competitive electricity industry in WA, consistent with the Government's reform program. This involves:

- Assisting in the implementation of the Interim Market and the development and establishment of the longer term wholesale electricity market for the SWIS including the implementation of the Reserve Capacity Mechanism;
- Working with the Independent Market Operator and **ERA** to facilitate the transition to the new market environment;
- Complying with the requirements and facilitating the implementation of the Access Code, Customer Transfer Code and other instruments designed to underpin the operation of the market;
- Facilitating the reduction of the contestability threshold to 5.7 kW average annual load; and
- Putting in place a disaggregated organisation structure that is consistent the Government's model for disaggregation.

Western Power fully supports the reform program and will work with Government agencies to implement the disaggregation with a target date of 31 March 2006.

Through its membership of the Commercial Business Steering Committee, Western Power will ensure that implementation of reform-related activities reflects the Government's energy policy objectives and that outstanding issues related to disaggregation and other reform matters are appropriately addressed.

Western Power will also continue to work extensively with the Electricity Reform Implementation Steering Committee and the Electricity Reform Implementation Unit (**ERIU**), to assist in the development of an implementation program aimed at ensuring the new arrangements are put in place in a structured and cost-effective manner. In particular, Western Power will allocate appropriate available resources to undertake the various disaggregation and market-related projects and to assist ERIU during the transition to disaggregation.

### REFORM AND INFORMATION TECHNOLOGY

A comprehensive Information Technology plan has been developed to allow Western Power to meet the future challenges, in particular the development of a competitive electricity market and the establishment of four separate businesses in 2006.

Overall, the plan provides for 43 capital projects valued at \$66 million over the next 4 years. These projects include new workforce management and geographic information systems and new customer information systems for Networks and Retail.

## SAFETY AND THE ENVIRONMENT

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### SAFETY

Safety is Western Power's overarching corporate value and a priority in all aspects of our business. Safety is not just a concern for our employees but also for our customers and the public in general.

Much of the work being done to improve the performance of the network is aimed at improving safety – particularly the measures being taken to reduce the risk of bushfires and the 'twistie' connection replacement program.

Internally, a range of initiatives are being undertaken to improve safety performance. We anticipate that these will result in reductions in the Lost Time Injury Frequency Rate to below five, the All Medicals Frequency Rate to below 20 and improvements in safety audit ratings, average safety performance ratings and employee ratings of leadership effectiveness.

### ENVIRONMENT

Excellence in environmental performance is another important business value. Western Power endeavours to achieve it by adopting a socially responsible approach to environmental management in all aspects of our business. We also seek to develop and apply new technologies and services that lead to increased sustainability in the supply of electricity in WA.

Under the current business model, the CSU is developing protocols to ensure each SBUs has the necessary arrangements to support effective environmental management and accountabilities. In doing so it will pursue a number of initiatives, including:

- Reviewing the Company's Corporate Environmental Policy, incorporating a position on sustainability and greenhouse response;
- Developing new, more relevant and informative corporate environmental performance indicators;
- Reviewing Western Power's sustainability strategy;
- Coordinating a contaminated sites legislative response; and
- Ensuring operational compliance with a range of new regulations.

The introduction of an Environmental Management System and its accompanying electronic reporting system (EMISWeb) continues to achieve improvements in environmental awareness and performance.

Western Power has allocated \$1.8 million in 2005/06 for the purchase of Renewable Energy Certificates from external sources in order to meet the target requirements.

## COMPLIANCE ACTIVITIES

The improvements outlined in this statement will reduce supply outages to levels consistent with the current regulatory standards. In the future, we will work with the Office of Energy and regulatory agencies to deliver a framework of minimum guaranteed standards of reliability and quality to supplement the existing average based standards.

We will also abide by energy safety orders issued by inspectors under the Gas and Electricity Safety Legislation Act. This will include undertaking remedial work on the electricity system where safety requirements are not met. The Rural Power Improvement Program will be instrumental in this regard.

## COMMUNICATING WITH OUR STAKEHOLDERS

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### CORPORATE COMMUNICATIONS

Western Power views stakeholder management as an opportunity to create value from the intangible assets of reputation, loyalty and brand to generate the unofficial ‘licence to operate’ that is required from customers and stakeholders.

Western Power’s key stakeholder is the Company’s shareholder, the Minister for Energy, and therefore the Government of the day. A formal protocol has been developed with the Minister’s office to ensure that comprehensive levels of governance apply to communications with the Minister. The protocol is consistent with the *Public Sector Management Act 1994* and the *Electricity Corporation Act 1994*. It specifically reflects the particular relationship that exists between a corporatised Government Trading Enterprise and the Government.

External communications are broadly covered in Western Power’s Corporate Communications Policy. This policy includes issues such as Government and corporate relations; media management; stakeholder management and employee communications. In addition, a specific policy covers all Western Power’s dealings with the media, initially this will be a centrally controlled function (in the CSU) with the SBUs assuming responsibility over time.

Following the Cronin Review in 2004, Western Power has developed a Crisis Management Process which includes specific arrangements for communications with all key stakeholders in the event of a crisis. Additionally, twice-yearly reviews (in advance of summer and winter) are being undertaken to advise the Minister of Western Power’s ability to meet expected demand in the following season.

### MINISTERIAL REPORTING

In line with the accountability provisions of the Act, we will provide the Minister with a quarterly report, for the first three quarters and an Annual Report for the whole financial year.

Each *Quarterly Report* will be submitted one month after the end of the quarter and will include:

- an overview of performance;
- highlights of important achievements; and
- consolidated financial statements with relevant accompanying notes.

The *Annual Report* will follow the end of the financial year and will be provided to the Minister within the time specified by the Act. It will include:

- consolidated statutory financial statements;
- segmented business unit statements;
- other statutory information required of any company under the Corporations Law;



- an overview of major achievements and an appraisal of future prospects;
- a comparison of performance with Statement of Corporate Intent targets; and
- other information required by the Act to be included, such as the particulars of any directions given by the Minister for Energy.

In addition to quarterly and annual reports, the Act requires that the Minister be provided with:

- a five-year Strategic Development Plan and this one-year Statement of Corporate Intent;
- a report on staff compliance with any Board issued codes of conduct; and
- any information in Western Power's possession requested by the Minister.

## **PRICING AND COMMUNITY SERVICE OBLIGATIONS**

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### **TARIFFS**

Tariffs will not increase during 2005/06. Furthermore, the Government's uniform tariff policy will continue to apply.

### **COMMUNITY SERVICE OBLIGATIONS**

Western Power's tariff structure provides for a number of non-commercial activities to meet certain equity and welfare objectives on behalf of Government. These are known as Community Service Obligations (CSOs). The following CSOs are currently undertaken:

#### ***REBATES***

Up to five different rebates are available to eligible customers (such as pensioners, veterans, seniors and persons with a Department of Social Security issued health card).

Rebates can be claimed for the daily supply charge, account establishment fee and part of the meter-testing fee. People with dependent children listed on health cards are able to claim a rebate for part of the energy charge on their bills. The estimated total cost of rebates in 2005/06 is \$36.9 million. This includes administration and financing costs incurred in administering the rebates and the new air conditioning rebate for seniors in the North West of the State.

#### ***COMMUNITY SERVICE CONCESSION***

Eligible charitable and voluntary organisations can elect to take supply on the concessional C1/C2 tariffs instead of general supply tariffs, saving up to \$276 per year. The cost of the concession is estimated at \$0.3 million for 2005/06.

#### ***OTHER CSOs***

The Power Price Equity for Permanent Caravan Park Residents was approved by the Government in 2004 and is expected to cost \$0.3 million in the 2005/06 financial year.

A further \$11.0 million is budgeted for the application of uniform tariffs in Regional systems and \$1.0 million for the provision of interval electricity meters.

In total, it is expected that Government will pay an amount of \$49.6 million in reimbursements for concessions, rebates and community service obligations.

2005/06 Statement of Corporate Intent

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<b>CSO Claimed</b>	<b>Cost \$M</b>
Rebates (Pensioner/Senior Concessions)	36.856
Air Conditioning Rebate (NW Seniors)	0.091
N2/P2/L2 Tariff Change	11.022
Caravan Park Residents	0.334
Community Service Concession	0.346
Interval Electricity Meters	1.000
<b>TOTAL</b>	<b>49.649</b>

## PERFORMANCE INDICATORS AND TARGETS

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Western Power's corporate Key Performance Indicators (**KPIs**) (shown in Appendix 1) have been selected to reflect the high-level business drivers for the organisation as a whole, with the aim of allowing the shareholder and management to effectively monitor progress at a corporate level. Accordingly, the corporate measures will not reflect the detailed management requirements for measuring performance at the individual SBU level, which will be monitored internally.

The KPIs used for monitoring corporate performance are based on :

- the costs and relevance of providing the information on an ongoing basis;
- the different information requirements of the organisation and the shareholder;
- regulatory requirements, particularly in the Networks business;
- the reporting requirements of the Networks Customer Service Charter, to be developed during the current financial year; and
- the commercial sensitivity of the measures and the degree of exposure for those that could affect our competitive position.

In selecting these measures, discussions have been held with the Office of Energy and the Department of Treasury and Finance and their views have been taken into account.

## **ACCOUNTING AND DIVIDEND POLICIES**

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### **ACCOUNTING STANDARDS**

Western Power's accounting policies are consistent with Corporations Law requirements as specified in Schedule 3 of the Act. Financial statements adopt the historic cost convention and reflect the accrual basis of accounting. Consistent with the State Budget, the projected financial outlook is in accordance with the International Financial Reporting Standards (IFRS).

In all other aspects, the accounting policies for 2005/06 are not expected to be materially different from those listed in our latest Annual Report. Note 1 of Western Power's Financial Statements provides details of the latest accounting policy.

### **DIVIDEND POLICY**

Dividends are agreed annually according to accepted profit results and in keeping with maintaining an overall satisfactory level of payments to Government and debt levels within the business. Dividends will be paid half-yearly in June and December.

## APPENDIX 1 : PERFORMANCE INDICATORS

	2005/06
Profit after tax (\$m)	137.8
Revenue (\$m)	1,775.7
EBIT (\$m)	373.1
Average unit cost c/kwhr	12.15
<b>Customer</b>	
Customer satisfaction	4.0
Corporation reputation index	68
<b>Reliability and Quality</b>	
SWIS Average	
<b>Outage Duration</b> (mins) (total duration of interruptions/customers pa)	250
<b>CAIDI</b> (average duration of incident – total minutes/total customers interrupted)	77.6
<b>SAIFI</b> (average number of incidents – total customers interrupted/average number of customers)	3.22
<b>Country (North &amp; South)</b>	
<b>Outage Duration</b> (mins) (total duration of interruptions/customers pa)	400
<b>CAIDI</b> (average duration of incident – total minutes/total customers interrupted)	105
<b>SAIFI</b> (average number of incidents – total customers interrupted/average number of customers)	3.8
<b>Metropolitan</b>	
<b>Outage Duration</b> (mins) (total duration of interruptions/customers pa)	211
<b>CAIDI</b> (average duration of incident – total minutes/total customers interrupted)	68.7
<b>SAIFI</b> (average number of incidents – total customers interrupted/average number of customers)	3.1
<b>Perth CBD</b>	
<b>Outage Duration</b> (mins) (total duration of interruptions/customers pa)	45
<b>CAIDI</b> (average duration of incident – total minutes/total customers interrupted)	111
<b>SAIFI</b> (average number of incidents – total customers interrupted/average number of customers)	0.42
<b>Regional Power Average</b>	
<b>Outage Duration</b> (mins) (total duration of interruptions/customers pa)	220
<b>CAIDI</b> (average duration of incident – total minutes/total customers interrupted)	40
<b>SAIFI</b> (average number of incidents – total customers interrupted/average number of customers)	5.5
<b>Pilbara Branch</b>	
<b>Outage Duration</b> (mins) (total duration of interruptions/customers pa)	161
<b>CAIDI</b> (average duration of incident – total minutes/total customers interrupted)	98
<b>SAIFI</b> (average number of incidents – total customers interrupted/average number of customers)	1.65

2005/06 Statement of Corporate Intent

	2005/06
<b>Regional Branch</b>	
<b>Outage Duration</b> (mins) (total duration of interruptions/customers pa)	247
<b>CAIDI</b> (average duration of incident – total minutes/total customers interrupted)	47
<b>SAIFI</b> (average number of incidents – total customers interrupted/average number of customers)	5.25
<b>Internal Process</b>	
Regulatory Breaches	0
Greenhouse Gas Intensity	0.86
Public Environmental Reputation	47
<b>Learning &amp; Growth</b>	
Safety – AMFR	20
Safety – LTIFR	<4.5