

Our ref: 6081422
Contact: Peter Mattner – 9326 4556

25 May 2009

Mr Peter Kolf
General Manager
Economic Regulation Authority
Level 6, Governor Stirling Tower
197 St Georges Terrace
Perth WA 6000

Dear Peter

PROPOSED ACCESS ARRANGEMENT REVISIONS – EXPENDITURE FORECASTS

Further to my letter dated 13 May 2009 on this matter, I confirm that the effect of the Global Financial Crisis and its impact on local economic conditions has inevitably resulted in the need to modify Western Power's forecast expenditures contained in the access arrangement revisions submission (AA#2) which we lodged in October 2008. I am pleased to provide indicative anticipated revisions to Western Power's forecast expenditures contained in the AA#2 submission.

This advice does not constitute a formal submission of revised expenditure forecasts. Rather, the intention is, as agreed, to provide you with supplementary information to assist both the ERA in formulating its draft decision in a way that most readily facilitates a timely and efficient path to a final determination, and to assist stakeholders in responding to the draft decision during the prescribed public consultation period.

Original AA#2 Expenditure Forecasts

The original AA#2 submission contained expenditures supporting the following initiatives:

- Moving steadily towards full compliance with safety and regulatory obligations;
- Steadily improving the condition of the network to industry benchmark levels;
- Improving customer service outcomes (connection timeliness, reliability and quality)
- Maintaining network security and reducing the risk of plant overloads;
- Improving reliability of supply performance through targeted programs; and
- Investing in smart network technology to support energy efficiency, renewable energy initiatives and rapid fault restoration.

Reasons for Revision of AA#2 Expenditure Forecasts

The major shift in economic conditions has impacted Western Power's investment plans in the following ways:

- Forecast load growth has been revised downwards, due mainly to deferral of a number of large new connections;

- **Affordability:**
 - The need to constrain debt levels, as the state seeks to balance competing needs in a tightly constrained environment, requires deferral of some capital expenditure;
 - Responsible moderation of operating expenditure is needed to limit tariff increases;
- The deliverability of the very large expenditure program has required reassessment due to the reduced levels of work in the first year.

In reviewing its forecast expenditures, Western Power will continue its risk-based approach and develop revised proposals based on the following strategies:

- Direct expenditure to progressively address the highest public safety risks and compliance obligations;
- Delay growth-related capital works; and
- Maintain current levels of reliability.

Revised AA#2 Expenditure Forecasts

A summary of anticipated new headline forecasts for capital and operating expenditure is attached. For the avoidance of doubt, this summary is indicative only and there may be variances between these numbers and the information finally provided in the response to the draft decision (a position which I confirm has previously been accepted by you).

The 2009/10 expenditure forecast reflects the current state budget allocation to Western Power. In particular, the Pinjar-Geraldton 330kV project and the South West 330kV reinforcement project are included in the AA#2 forecasts but with no allowance for expenditure in 2009/10. The 2009/10 budget allocation may be adjusted in the future via government's Economic & Expenditure Review Committee processes to cater for advancement of one or more of these capital projects.

It is important to note that the lower expenditures will mean that the customer service targets included in the October 2008 AA#2 submission will also be subject to review.

Formal submission of revised expenditure forecasts for the AA#2 regulatory period (2009/10 - 2011/12), complete with detailed supporting information and documentation, will follow the Authority's draft decision.

Please feel free to contact me if you have any questions, or if you would like to discuss the matter with me.

Yours sincerely

Phil Southwell
General Manager Strategy & Corporate Affairs

Capex

		<i>Forecast</i>		
\$ Nominal		2009/10	2010/11	2011/12
Distribution	GROWTH			
	Capacity Expansion	75.9	90.0	100.0
	Customer Driven	218.0	205.0	220.0
	Gifted Assets	10.0	24.9	31.7
	ASSET REPLACEMENT AND RENEWAL			
	Asset Replacement	70.3	98.6	111.5
	State Undergrounding Power Program (SUPP)	20.0	32.0	39.0
	Metering	12.0	14.0	15.0
	IMPROVEMENT IN SERVICE			
	Reliability Driven	11.1	30.0	50.0
	Rural Power Improvement Program (RPIP)	8.0	8.0	3.0
	SCADA & Communications	5.6	6.2	6.4
	COMPLIANCE			
	Safety, Environmental & Statutory	80.6	109.5	141.5
	CORPORATE			
	IT	13.5	23.0	14.4
Business Support	20.3	34.7	14.7	
Distribution Total (\$M)	545.2	675.9	747.2	

		<i>Forecast</i>		
\$ Nominal		2009/10	2010/11	2011/12
Transmission	GROWTH			
	Capacity Expansion	147.0	340.0	370.0
	Customer Driven	71.0	70.0	73.5
	Generation Driven	37.2	191.8	200.0
	ASSET REPLACEMENT AND RENEWAL			
	Asset Replacement	19.0	31.1	34.0
	IMPROVEMENT IN SERVICE			
	Reliability Driven	1.8	1.9	1.0
	SCADA & Communications	10.5	14.1	17.1
	COMPLIANCE			
	Safety, Environmental & Statutory	16.0	24.5	29.6
	CORPORATE			
	IT	4.5	7.7	4.8
	Business Support	6.8	12.1	5.3
	Transmission Total (\$M)	313.7	693.1	735.3

Note: Estimating Risk Premium included in expenditure categories

Opex

		<i>Forecast</i>		
		2009/10	2010/11	2011/12
Distribution	\$ Nominal			
	OPERATIONS			
	Reliability	2.9	1.1	1.2
	SCADA & Communications	1.8	1.5	1.7
	Misc Network Services	7.7	9.1	10.6
	Network Operations	17.5	19.3	21.2
	MAINTENANCE			
	Maintenance Strategy	-	-	-
	Preventive Condition	41.6	75.0	103.6
	Preventive Routine	33.7	50.0	64.1
	Corrective Deferred	15.9	27.0	30.7
	Corrective Emergency	59.5	72.0	84.7
	CUSTOMER SERVICE AND BILLING			
	Call Centre	5.5	5.8	6.0
	Metering	20.7	25.7	31.4
	CORPORATE			
	Business Support	87.5	82.7	87.2
	OTHER OPERATING EXPENDITURE			
Non-recurring opex	0.2	16.0	18.0	
DISTRIBUTION TOTAL (\$M)	294.5	385.2	460.4	

		<i>Forecast</i>		
		2009/10	2010/11	2011/12
Transmission	\$ Nominal			
	OPERATIONS			
	SCADA & Communications	7.7	8.0	10.7
	Misc Network Services	1.0	6.0	6.4
	Network Operations	9.4	10.3	11.4
	MAINTENANCE			
	Maintenance Strategy	-	-	-
	Preventive Condition	8.6	14.0	18.6
	Preventive Routine	14.0	21.0	25.8
	Corrective Deferred	4.6	6.9	7.8
	Corrective Emergency	1.9	3.4	3.7
	CUSTOMER SERVICE AND BILLING			
	N/A			
	CORPORATE			
	Business Support	31.9	29.5	31.0
	OTHER OPERATING EXPENDITURE			
	Non-recurring opex	-	2.0	1.8
	TRANSMISSION TOTAL (\$M)	79.1	101.1	117.3