Appendix H – Pro Forma Regulatory Financial Statements 2010/11

September 2011

Access Arrangement Information for the period 1 July 2012 to 30 June 2017 (AAI)

Electricity Networks Corporation
Trading as Western Power
Regulatory Financial Statements (reviewed)

for the year ended 30 June 2011

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1. Profit and loss account (disaggregated) for the year ended 30 June 2011

Account Code	Description	Base Account $'000	Covered Transmission $'000	Covered Distribution $'000	Independent Market Operator $'000	Unregulated $'000
1100	Network services (reference)	1,062,444	345,421	711,271	5,752	-
1100	Network services (non-reference)	28,252	3,236	25,016	-	-
1100	Network services (unregulated)	83,752	-	-	-	83,752
1200	Contributions (excl. gifted assets)	142,253	45,851	89,995	1,238	5,169
1200	Gifted assets	53,951	-	53,951	-	-
1300	Proceeds from disposal of assets	4,955	262	1	-	4,692
1400	Other revenue	4,766	1,827	1,365	-	1,574
	Total revenue	1,380,373	396,597	881,599	6,990	95,187
2100	Operating expenditure costs	(693,295)	(110,679)	(495,179)	(5,253)	(82,184)
	Operations	(123,857)	(23,486)	(36,633)	-	(63,738)
	Maintenance	(221,670)	(39,671)	(181,999)	-	-
	Customer service and billing	(26,166)	-	(24,917)	-	(1,249)
	Corporate	(120,036)	(42,475)	(68,298)	(315)	(8,948)
	Other operating expenditure	(201,566)	(5,047)	(183,332)	(4,938)	(8,249)
2200	Depreciation and amortisation	(220,847)	(76,587)	(142,190)	(518)	(1,552)
2300	Bad debts	(1,246)	(372)	(785)	-	(89)
2400	Borrowing costs	(277,627)	(101,680)	(172,600)	-	(3,347)
2500	Book value on disposal of assets	(4,429)	(578)	(157)	-	(3,694)
	Total expenses	(1,197,444)	(289,896)	(810,911)	(5,771)	(90,866)
	Earnings before taxation	182,929	106,701	70,688	1,219	4,321
2600	**Taxation**	(53,302)	(31,091)	(20,597)	(355)	(1,259)
	Profit/(loss) after taxation	129,627	75,610	50,091	864	3,062

There are no amounts in respect of excluded transmission and excluded distribution activities.

Total revenue and expenses in the regulatory financial statements each differs by $4.429 million from total revenue and expenses reported in the statutory financial statements. This is due to the separate disclosure of proceeds and written down value on the disposal of assets in the regulatory financial statements. In contrast, the statutory financial statements discloses proceeds and written down value on the disposal of assets net of one another, ie a gain of $0.526 million.

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2011

Covered transmission

Account Code	Description	Base Account $'000	Adjustment $'000	Regulatory Account $'000	Support Reference
1100	Network services (reference)	345,421	-	345,421	
1100	Network services (non-reference)	3,236	1,423	4,659	12.3
1200	Contributions	45,851	(24,630)	21,221	11, 12.1, 12.3
1300	Proceeds from disposal of assets	262	-	262	
1400	Other revenue	1,827	-	1,827	
	Total revenue	396,597	(23,207)	373,390	
2100	Operating expenditure costs	(110,679)	10,537	(100,142)	9,10,12.4,12.5
	Operations	(23,486)	1,523	(21,963)	
	Maintenance	(39,671)	-	(39,671)	
	Corporate	(42,475)	6,494	(35,981)	
	Other operating expenditure	(5,047)	2,520	(2,527)	
2200	Depreciation and amortisation	(76,587)	3,668	(72,919)	12.4
2300	Bad debts	(372)	-	(372)	
2400	Borrowing costs	(101,680)	(8,757)	(110,437)	12.2
2500	Book value on disposal of assets	(578)	-	(578)	
	Total expenses	(289,896)	5,448	(284,448)	
	Earnings before taxation	106,701	(17,759)	88,942	
2600	**Taxation**	(31,091)	5,328	(25,763)	12.7
	Profit after taxation	75,610	(12,431)	63,179	

Covered distribution

Account Code	Description	Base Account $'000	Adjustment $'000	Regulatory Account $'000	Support Reference
1100	Network services (reference)	711,271	-	711,271	
1100	Network services (non-reference)	25,016	-	25,016	12.3
1200	Contributions (excl. gifted assets)	89,995	(1,078)	88,917	11, 12.1, 12.3
1200	Gifted assets	53,951	-	53,951	11, 12.1
1300	Proceeds from disposal of assets	1	-	1	
1400	Other revenue	1,365	-	1,365	
	Total revenue	881,599	(1,078)	880,521	
2100	Operating expenditure costs	(495,179)	(5,730)	(500,909)	9,10,12.4,12.5
	Operations	(36,633)	-	(36,633)	
	Maintenance	(181,999)	-	(181,999)	
	Customer service and billing	(24,917)	-	(24,917)	
	Corporate	(68,298)	(5,730)	(74,028)	
	Other operating expenditure	(183,332)	-	(183,332)	
2200	Depreciation and amortisation	(142,190)	6,068	(136,122)	12.4
2300	Bad debts	(785)	-	(785)	
2400	Borrowing costs	(172,600)	-	(172,600)	12.2
2500	Book value on disposal of assets	(157)	-	(157)	
	Total expenses	(810,911)	338	(810,573)	
	Earnings before taxation	70,688	(740)	69,948	
2600	**Taxation**	(20,597)	222	(20,375)	12.7
	Profit after taxation	50,091	(518)	49,573	

3. Cash flow statement (disaggregated) for the year ended 30 June 2011

Account Code	Description	Base Account $'000	Covered Transmission $'000	Covered Distribution $'000	Independent Market Operator $'000	Unregulated $'000
	Operating activities					
1100	*Receipts*	1,424,216	409,194	909,600	7,212	98,210
2100	*Payments*	(771,251)	(186,717)	(522,292)	(3,717)	(58,525)
	Net operating cash flow	652,965	222,477	387,308	3,495	39,685
	Investing activities					
2700	*Receipts*	4,955	262	1	-	4,692
2800	*Payments*	(709,663)	(177,093)	(509,260)	(795)	(22,515)
	Net investing cash flow	(704,708)	(176,831)	(509,259)	(795)	(17,823)
	Financing activities					
2700	*Receipts*	2,659,102	977,120	1,642,978	-	39,004
2800	*Payments*	(2,704,160)	(993,677)	(1,670,819)	-	(39,664)
	Net financing cash flow	(45,058)	(16,557)	(27,841)	-	(660)
	Net increase/(decrease) in cash held	(96,801)	29,089	(149,792)	2,700	21,202
	Cash at beginning of period	122,975				
	Net decrease in cash held	(96,801)				
	Cash at end of period*	26,174	9,740	16,434		

*Cash transactions are recorded collectively in one bank/general ledger account and redistributed so as to equitably fund the core covered transmission and distribution businesses.

4. Cash flow statement (regulatory financial statement) for the year ended 30 June 2011

Covered transmission

Account Code	Description	Base Account $'000	Adjustment $'000	Regulatory Account $'000	Support Reference
	Operating activities				
1100	*Receipts*	409,194	-	409,194	
2100	*Payments*	(186,717)	(8,757)	(195,474)	**12.2**
	Net operating cash flow	222,477	(8,757)	213,720	
	Investing activities				
2700	*Receipts*	262	-	262	
2800	*Payments*	(177,093)	8,757	(168,336)	**12.2**
	Net investing cash flow	(176,831)	8,757	(168,074)	
	Financing activities				
2700	*Receipts*	977,120	-	977,120	
2800	*Payments*	(993,677)	-	(993,677)	
	Net financing cash flow	(16,557)	-	(16,557)	
	Net increase in cash held	29,089	-	29,089	

Covered distribution

Account Code	Description	Base Account $'000	Adjustment $'000	Regulatory Account $'000	Support Reference
	Operating activities				
1100	*Receipts*	909,600	-	909,600	
2100	*Payments*	(522,292)	-	(522,292)	**12.2**
	Net operating cash flow	387,308	-	387,308	
	Investing activities				
2700	*Receipts*	1	-	1	
2800	*Payments*	(509,260)	-	(509,260)	**12.2**
	Net investing cash flow	(509,259)	-	(509,259)	
	Financing activities				
2700	*Receipts*	1,642,978	-	1,642,978	
2800	*Payments*	(1,670,819)	-	(1,670,819)	
	Net financing cash flow	(27,841)	-	(27,841)	
	Net decrease in cash held	(149,792)	-	(149,792)	

5. Balance sheet (disaggregated) as at 30 June 2011

Account Code	Description	Base Account $'000	Covered Transmission $'000	Covered Distribution $'000	Independent Market Operator $'000	Unregulated $'000
	Current assets					
8100	*Cash and cash equivalents*	26,174	9,740	16,434	-	-
8200	*Trade and other receivables*	38,539	11,784	23,782	1,146	1,827
8200	*Prepayments*	7,914	2,968	4,946	-	-
8200	*Accrued revenue*	132,290	44,051	88,239	-	-
8300	*Inventories*	93,793	29,996	46,572	-	17,225
	Total current assets	298,710	98,539	179,973	1,146	19,052
	Non-current assets					
8400	*Property, plant&equip, intangibles*	6,311,954	2,310,835	3,922,611	2,441	76,067
8200	*Trade and other receivables*	200	74	126	-	-
	Total non-current assets	6,312,154	2,310,909	3,922,737	2,441	76,067
	Total assets	6,610,864	2,409,448	4,102,710	3,587	95,119
	Current liabilities					
8600	*Trade creditors and accruals*	(199,208)	(62,031)	(131,966)	(502)	(4,709)
8900	*Deferred income*	(69,952)	(10,335)	(59,617)	-	-
8700-8800	*Provisions*	(34,172)	(11,062)	(22,605)	(266)	(239)
	Total current liabilities	(303,332)	(83,428)	(214,188)	(768)	(4,948)
	Non-current liabilities					
8500	*Borrowings*	(5,017,064)	(1,843,583)	(3,099,891)	-	(73,590)
8800	*Retirement benefit obligations*	(597)	(199)	(398)	-	-
8600	*Trade creditors and accruals*	(131,068)	(45,429)	(85,639)	-	-
8900	*Deferred income*	(19,073)	(18,997)	(76)	-	-
8700	*Provisions*	(11,786)	(4,340)	(7,283)	(86)	(77)
	Total non-current liabilities	(5,179,588)	(1,912,548)	(3,193,287)	(86)	(73,667)
	Total liabilities	(5,482,920)	(1,995,976)	(3,407,475)	(854)	(78,615)
	Net assets	1,127,944	413,472	695,235	2,733	16,504
	Equity					
	Share capital	820,603				
	*Accumulated profits/reserves**	307,341				
	Total equity	1,127,944				
	*Accumulated profits/reserves					
	At start of the year	239,017				
	Profit after taxation	129,627				
	Other comprehensive income	1,934				
	Distributions paid/provided in year	(63,237)				
	At end of the year	307,341				

There are no amounts in respect of excluded transmission and excluded distribution activities.

6. Balance sheet (regulatory financial statement) as at 30 June 2011

Covered transmission

Account Code	Description	Base Account $'000	Adjustment $'000	Regulatory Account $'000	Support Reference
	Current assets				
8100	*Cash and cash equivalents*	9,740	-	9,740	
8200	*Trade and other receivables*	11,784	-	11,784	
8200	*Prepayments*	2,968	-	2,968	
8200	*Accrued revenue*	44,051	-	44,051	
8300	*Inventories*	29,996	-	29,996	
	Total current assets	98,539	-	98,539	
	Non-current assets				
8400	*Property, plant&equip, intangibles*	2,310,835	(39,340)	2,271,495	**12.2, 12.5**
8200	*Trade and other receivables*	74	-	74	
	Total non-current assets	2,310,909	(39,340)	2,271,569	
	Total assets	2,409,448	(39,340)	2,370,108	
	Current liabilities				
8600	*Trade creditors and accruals*	(62,031)	5,328	(56,703)	**12.7**
8900	*Deferred income*	(10,335)	8,896	(1,439)	**12.1**
8700-8800	*Provisions*	(11,062)	-	(11,062)	
	Total current liabilities	(83,428)	14,224	(69,204)	
	Non-current liabilities				
8500	*Borrowings*	(1,843,583)	-	(1,843,583)	
8800	*Retirement benefit obligations*	(199)	-	(199)	
8600	*Trade creditors and accruals*	(45,429)	-	(45,429)	
8900	*Deferred income*	(18,997)	18,997	-	**12.1**
8700	*Provisions*	(4,340)	-	(4,340)	
	Total non-current liabilities	(1,912,548)	18,997	(1,893,551)	
	Total liabilities	(1,995,976)	33,221	(1,962,755)	
	Net assets	413,472	(6,119)	407,353	

6. Balance sheet (regulatory financial statement) as at 30 June 2011

Covered distribution

Account Code	Description	Base Account $'000	Adjustment $'000	Regulatory Account $'000	Support Reference
	Current assets				
8100	*Cash and cash equivalents*	16,434	-	16,434	
8200	*Trade and other receivables*	23,782	-	23,782	
8200	*Prepayments*	4,946	-	4,946	
8200	*Accrued revenue*	88,239	-	88,239	
8300	*Inventories*	46,572	-	46,572	
	Total current assets	179,973	-	179,973	
	Non-current assets				
8400	*Property, plant&equip, intangibles*	3,922,611	338	3,922,949	**12.2, 12.5**
8200	*Trade and other receivables*	126	-	126	
	Total non-current assets	3,922,737	338	3,923,075	
	Total assets	4,102,710	338	4,103,048	
	Current liabilities				
8600	*Trade creditors and accruals*	(131,966)	222	(131,744)	**12.7**
8900	*Deferred income*	(59,617)	59,613	(4)	**12.1**
8700-8800	*Provisions*	(22,605)	-	(22,605)	
	Total current liabilities	(214,188)	59,835	(154,353)	
	Non-current liabilities				
8500	*Borrowings*	(3,099,891)	-	(3,099,891)	
8800	*Retirement benefit obligations*	(398)	-	(398)	
8600	*Trade creditors and accruals*	(85,639)	-	(85,639)	
8900	*Deferred income*	(76)	76	-	**12.1**
8700	*Provisions*	(7,283)	-	(7,283)	
	Total non-current liabilities	(3,193,287)	76	(3,193,211)	
	Total liabilities	(3,407,475)	59,911	(3,347,564)	
	Net assets	695,235	60,249	755,484	

7. Capital expenditure (disaggregated) for the year ended 30 June 2011

Description	Base Account $'000	Covered Transmission $'000	Covered Distribution $'000	Independent Market Operator $'000	Unregulated $'000
Capital additions					
Asset replacement	129,601	31,569	98,032	-	-
Capacity expansion	83,084	49,003	34,081	-	-
Customer driven	275,254	41,751	233,503	-	-
Generation driven	7,391	7,391	-	-	-
Metering	15,992	-	15,992	-	-
Regulatory compliance	72,224	11,146	61,078	-	-
Reliability driven	9,449	1,313	8,136	-	-
Rural Power Improvement Program (RPIP)	(180)	-	(180)	-	-
SCADA/communications	8,851	5,655	3,196	-	-
State Underground Power Project (SUPP)	18,744	-	18,744	-	-
Gifted assets	53,951	-	53,951	-	-
Capitalised interest	8,757	8,757	-	-	-
Mobile plant and vehicles	21,997	-	-	-	21,997
Information technology and market reform	40,778	14,878	25,105	795	-
Administration and support	33,808	12,388	20,902	-	518
Total additions	779,701	183,851	572,540	795	22,515

There are no amounts in respect of excluded transmission and excluded distribution activities.

8. Capital expenditure (regulatory financial statement) for the year ended 30 June 2011

Covered transmission

Description	Base Account $'000	Adjustment (Ref 12.2) $'000	Adjustment (Ref 12.5) $'000	Adjustment (Ref 12.6) $'000	Regulatory Account $'000	Support Reference
Growth						
Capacity expansion	49,003	-	6,997	(5,237)	50,763	
Customer driven	41,751	-	1,523	(5,013)	38,261	
Generation driven	7,391	-	5,685	(1,294)	11,782	
	98,145	-	14,205	(11,544)	100,806	
Asset replacement and renewal						
Asset replacement	31,569	-	-	(10,976)	20,593	
Improvement in service						
SCADA/communications	5,655	-	-	324	5,979	
Reliability driven	1,313	-	-	(102)	1,211	
	6,968	-	-	222	7,190	
Compliance						
Regulatory (safety, environmental, statutory)	11,146	-	-	368	11,514	
Corporate						
Information technology and market reform	14,878	-	-	-	14,878	
Administration and support	12,388	-	-	-	12,388	
	27,266	-	-	-	27,266	
Other						
Capitalised interest	8,757	(8,757)	-	-	-	
Total additions	183,851	(8,757)	14,205	(21,930)	167,369	**12.2,12.5,12.6**

Covered distribution

Description	Base Account $'000	Adjustment (Ref 12.2) $'000	Adjustment (Ref 12.5) $'000	Adjustment (Ref 12.6) $'000	Regulatory Account $'000	Support Reference
Growth						
Customer driven	233,503	-	-	452	233,955	
Gifted assets	53,951	-	-	-	53,951	
Capacity expansion	34,081	-	338	141	34,560	
	321,535	-	338	593	322,466	
Asset replacement and renewal						
Asset replacement	98,032	-	-	180	98,212	
State Underground Power Project (SUPP)	18,744	-	-	47	18,791	
Metering	15,992	-	-	25	16,017	
	132,768	-	-	252	133,020	
Improvement in service						
Reliability driven	8,136	-	-	21	8,157	
SCADA/communications	3,196	-	-	7	3,203	
Rural Power Improvement Program (RPIP)	(180)	-	-	18	(162)	
	11,152	-	-	46	11,198	
Compliance						
Regulatory (safety, environmental, statutory)	61,078	-	-	143	61,221	
Corporate						
Information technology and market reform	25,105	-	-	-	25,105	
Administration and support	20,902	-	-	-	20,902	
	46,007	-	-	-	46,007	
Total additions	572,540	-	338	1,034	573,912	**12.2,12.5,12.6**

Ringfenced independent market operator

Description	Base Account $'000	Adjustment (Ref 12.2) $'000	Adjustment (Ref 12.5) $'000	Adjustment (Ref 12.6) $'000	Regulatory Account $'000	Support Reference
Corporate						
Information technology and market reform	795	-	-	-	795	
Total additions	795	-	-	-	795	**12.2,12.5,12.6**

9. Operating expenditure (disaggregated) for the year ended 30 June 2011

Description	Covered Transmission $'000	Covered Distribution $'000	Independent Market Operator $'000	Unregulated $'000	Base Account $'000
Directly attributed costs					
Operations	(13,008)	(18,999)	-	(63,738)	(95,745)
Maintenance	(39,671)	(181,999)	-	-	(221,670)
Customer service and billing	-	(24,917)	-	(1,249)	(26,166)
Corporate	(10,115)	(13,246)	-	(8,432)	(31,793)
Other operating expenditure	(5,027)	(7,599)	(4,938)	(8,249)	(25,813)
Total directly attributed costs	(67,821)	(246,760)	(4,938)	(81,668)	(401,187)
Causally allocated costs					
Operations	(10,478)	(17,634)	-	-	(28,112)
Maintenance	-	-	-	-	-
Customer service and billing	-	-	-	-	-
Corporate	(32,360)	(55,052)	(315)	(516)	(88,243)
Other operating expenditure	(20)	(175,733)	-	-	(175,753)
Total causally allocated costs	(42,858)	(248,419)	(315)	(516)	(292,108)
Total operating expenditure	(110,679)	(495,179)	(5,253)	(82,184)	(693,295)

There are no amounts in respect of excluded transmission and excluded distribution activities.

10. Operating expenditure (regulatory financial statement) for the year ended 30 June 2011

Covered transmission

Description	Base Account $'000	Adjustment (Ref 12.4) $'000	Adjustment (Ref 12.5) $'000	Regulatory Account $'000	Support Reference
Operations					
SCADA/communications	(9,446)	-	-	(9,446)	
Network operations	(8,587)	-	-	(8,587)	
Miscellaneous network services	(5,453)	-	1,523	(3,930)	
	(23,486)	-	1,523	(21,963)	
Maintenance					
Preventative routine	(17,607)	-	-	(17,607)	
Corrective deferred	(9,954)	-	-	(9,954)	
Preventative condition	(9,838)	-	-	(9,838)	
Corrective emergency	(2,272)	-	-	(2,272)	
	(39,671)	-	-	(39,671)	
Corporate					
Business support	(42,475)	(3,668)	10,162	(35,981)	
Other operating expenditure					
Non-recurring expenditure	(5,047)	-	2,520	(2,527)	
Total operating expenditure	(110,679)	(3,668)	14,205	(100,142)	**12.4, 12.5**

Covered distribution

Description	Base Account $'000	Adjustment (Ref 12.4) $'000	Adjustment (Ref 12.5) $'000	Regulatory Account $'000	Support Reference
Operations					
Miscellaneous network services	(15,975)	-	-	(15,975)	
Networks operations	(14,123)	-	-	(14,123)	
SCADA/communications	(4,781)	-	-	(4,781)	
Reliability	(1,754)	-	-	(1,754)	
	(36,633)	-	-	(36,633)	
Maintenance					
Corrective emergency	(69,328)	-	-	(69,328)	
Preventative condition	(46,945)	-	-	(46,945)	
Preventative routine	(38,577)	-	-	(38,577)	
Corrective deferred	(27,149)	-	-	(27,149)	
	(181,999)	-	-	(181,999)	
Customer service and billing					
Metering	(18,176)	-	-	(18,176)	
Call centre	(6,741)	-	-	(6,741)	
	(24,917)	-	-	(24,917)	
Corporate					
Business support	(68,298)	(6,068)	338	(74,028)	
Other operating expenditure					
Tariff equalisation contribution	(175,700)	-	-	(175,700)	
Non-recurring expenditure	(7,632)	-	-	(7,632)	
	(183,332)	-	-	(183,332)	
Total operating expenditure	(495,179)	(6,068)	338	(500,909)	**12.4, 12.5**

11. Contributions for the year ended 30 June 2011

Covered transmission

Reason for contributions	Base Account $'000	Adjustment (Ref 12.1) $'000	Adjustment (Ref 12.3) $'000	Regulatory Account $'000	Support Reference
Customer driven	43,844	(28,168)	(1,423)	14,253	
Generation driven	1,938	4,961	-	6,899	
Capacity expansion	51	-	-	51	
Asset replacement	17	-	-	17	
SCADA/communications	1	-	-	1	
Total contribution	45,851	(23,207)	(1,423)	21,221	**12.1, 12.3**

Covered distribution

Reason for contributions (incl. gifted assets)	Base Account $'000	Adjustment (Ref 12.1) $'000	Adjustment (Ref 12.3) $'000	Regulatory Account $'000	Support Reference
Customer driven	83,322	(1,600)	-	81,722	
Gifted assets	53,951	-	-	53,951	
State Underground Power Project (SUPP)	6,556	522	-	7,078	
Metering	73	-	-	73	
Asset replacement	26	-	-	26	
Regulatory compliance	18	-	-	18	
Total contribution	143,946	(1,078)	-	142,868	**12.1, 12.3**

12. Regulatory adjustments for the year ended 30 June 2011

	Description	Base Account $'000	Covered Transmission $'000	Covered Distribution $'000	Independent Market Operator $'000	Unregulated $'000
12.1	**Contributions (incl. gifted assets)**	**196,204**	**45,851**	**143,946**	**1,238**	**5,169**
	less opening deferred contributions	(111,867)	(51,100)	(60,767)	-	-
	add closing deferred contributions	87,582	27,893	59,689	-	-
	Net movement in the year	(24,285)	(23,207)	(1,078)	-	-
	Adjustment **12.3**	(1,423)	(1,423)	-	-	-
	Total contributions received	**170,496**	**21,221**	**142,868**	**1,238**	**5,169**

To align Western Power's statutory accounting policy with regulatory accounting policy, ie customer and developer capital contributions are recognised in the profit and loss account (regulatory financial statement) when received and not when the associated asset is energised.

	Description	Base Account $'000	Covered Transmission $'000	Covered Distribution $'000	Independent Market Operator $'000	Unregulated $'000
12.2	**Capitalised borrowing costs b/fwd**	44,788	44,788	-	-	-
	Net movement in the year	8,757	8,757	-	-	-
	Capitalised borrowing costs c/fwd	**53,545**	**53,545**	**-**	**-**	**-**

To align Western Power's statutory accounting policy with regulatory accounting policy, ie borrowing costs are not capitalised from the profit and loss account (regulatory financial statements) to the balance sheet (regulatory financial statement).

12.3 To transfer contributions received for capital projects subsequently cancelled by the customer.

12.4 To reclassify depreciation as operating expenditure to offset the credit (from business unit charge recovery) in Corporate operating expenditure costs.

12.5 To reverse the 2010/11 statutory write down for cancelled/deferred capital projects, ie this capital expenditure qualifies for recognition in the regulatory asset base (RAB).

12.6 To reverse the 2009/10 gross-up to capital expenditure in the regulatory financial statement for the year-end statutory inventory adjustments.

12.7 Tax is calculated on regulatory adjustments at a rate of 30%.

Summary of significant accounting policies

This is a special purpose financial report prepared for the sole purpose of the Guidelines for Access Arrangement Information 2010. The accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all reporting periods presented, unless otherwise stated.

a) Basis of preparation

These financial statements have been prepared in accordance with Australian Accounting Standards ('AIFRS'), Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), as modified by the Guidelines for Access Arrangement Information 2010, with the exception of the disclosure requirements in the following pronouncements:

AASB 101	*Presentation of financial statements*
AASB 107	*Cash flow statements*
AASB 123	*Borrowing Costs*
AASB 7	*Financial instruments: disclosures*
UIG 1017	*Developer and customer contributions for connection to a price-regulated network*

Western Power has been classified to be a not-for-profit entity and accordingly applies the not-for-profit elections available in the Australian Accounting Standards where applicable.

The modifications to the AIFRS as required by the Guidelines for Access Arrangement Information 2010 include:

Any interest (or like allowance) incurred during construction is expensed;
Asset revaluations or adjustments for impairment are only recognised in accordance with the provisions for redundant capital under sections 6.61 to 6.63 of the Access Code;
Goodwill and any related impairments are not recognised; and
Disaggregated financial information has been provided in accordance with the business segments outlined in the Guidelines for Access Arrangement Information 2010.

b) Accrual accounting and historical cost convention

These financial statements are prepared on the accrual accounting basis and in accordance with the historical cost convention, except for derivative financial instruments that are measured at fair value, and certain non-current financial assets and financial liabilities that are measured at amortised cost.

c) Critical accounting and historical cost convention

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenue, expenses, assets and liabilities. Actual results may differ from these estimates.

Estimates, judgements and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The area(s) where estimates and assumptions are significant to the financial statements, or a higher degree of judgement or complexity is involved are referenced in the following notes:

Revenue (unbilled network services revenue): note g)
Trade and other receivables (impairment provision): note k)
Derivative financial instruments (measured at fair value): note m)
Property, plant and equipment and intangibles (useful lives): notes n) and o)
Provisions (employee benefits and retirement benefit obligations): notes s) and t)

Summary of significant accounting policies (continued)

d) Rounding

All financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

e) Cost allocations

Costs that cannot be directly attributable to a business segment are allocated in accordance with the Western Power cost and revenue allocation method.

f) Foreign currency translation

Functional and presentation currency

This financial report is presented in Australian dollars, which is the functional and presentation currency of Western Power.

Transactions and balances

Transactions in currency other than the functional currency of Western Power are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. All foreign currency translation differences are recognised in profit or loss, except where deferred in equity for translation differences of qualifying cash flow hedges.

g) Revenue recognition

Revenues are recognised to the extent it is probable that future economic benefits will flow to the entity and the revenue can be measured reliably. It is measured at the fair value of the consideration received or receivable, net of the amount of goods and services tax. The following specific criteria must also be met before revenues are recognised:

Network charges

Western Power receives network services revenue from the transmission and distribution of electricity, and provision of related services. Network services revenue is recognised when the service is provided. As at each reporting date, network services revenue and trade receivables include amounts attributable to ‘unbilled services’ (30 June 2011: $132.290 million; 30 June 2010: $146.080 million). Unbilled services is an estimate of electricity provided to customers that has not been billed at the reporting date. It is calculated using projected revenue assumptions for unread meters based on the billing profile of Western Power customers.

Western Power is subject to a regulatory agreement, which determines the revenues receivable for its network services. No liabilities are recognised when revenues received or receivable exceed the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery. Similarly, no assets are recognised when a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery of permitted revenues.

Contributions

Western Power receives developer and customer contributions toward the extension of electricity infrastructure to facilitate network connection. Contributions are recognised when received. Contributions can be in the form of either cash contributions or gifted network assets. Gifted network assets are measured at their fair value.

Network assets resulting from contributions received or gifted are recognised as property, plant and equipment and depreciated over their expected useful life.

Other income

Western Power receives other income from the provision of activities incidental to the core activities of the business. Other income is recognised when the activity is provided.

Summary of significant accounting policies (continued)

h) Income taxes

The income tax expense for the reporting period comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current tax is the expected tax receivable/payable on the taxable income for the reporting period and any adjustment to tax in respect of previous years. Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the tax balances relate to the same taxation authority.

i) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are charged to profit and loss on a straight-line basis over the term of the lease.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term deposits that have an original maturity of three months or less, net of outstanding bank overdrafts.

k) Trade and other receivables

Trade and other receivables are non-interest bearing, unsecured and are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. They are usually settled on 14 and 30 day payment terms.

Trade and other receivables are determined to be impaired when objective evidence exists that Western Power will not be able to collect all amounts due. Objective evidence includes known financial difficulties of the debtor, and default or delinquency in payments (more than 30 days overdue). The amount impaired is the difference between the carrying value of the receivable and the net present value of the estimated future cash flows discounted at the original effective interest rate. Amounts impaired are recognised in profit and loss. When a trade receivable for which an impairment provision has been recognised becomes uncollectible in a subsequent reporting period it is written off against the provision account. Subsequent recoveries of amounts written off are credited to profit and loss.

Summary of significant accounting policies (continued)

l) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated selling costs.

A provision to allow for the expected diminution in the value of inventory due to obsolescence is determined by periodic review.

m) Derivative and hedging activities

Derivative financial instruments

Derivative financial instruments are used to hedge exposures to movements in interest rates, exchange rates and commodity prices. Western Power uses derivative financial instruments in accordance with Board approved policy. Speculative trading of derivatives is strictly prohibited.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Changes in the fair value of derivative financial instruments are included in profit and loss to the extent that hedge accounting is not applied. Fair value is based on quoted market prices at the reporting date.

Financial instruments are derecognised when Western Power no longer controls the contractual rights that comprise the financial instrument.

Hedge accounting

For all derivative transactions designated as a cash flow hedge, the portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in the hedging reserve. The ineffective portion is recognised in profit and loss immediately. When the cash flows occur, the amount that has been deferred to equity is transferred to either the carrying value of the asset, in the case of non-financial assets, or reclassified to profit or loss as appropriate.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in equity is immediately reclassified to profit or loss.

Summary of significant accounting policies (continued)

n) Property, plant and equipment

Cost

Property, plant and equipment represent the capital works and plant required for the operation of the business, and is recognised at historical cost less accumulated depreciation. Historical cost includes all expenditure directly attributable to the acquisition or construction of the asset. Cost may also include transfer from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The cost of self-constructed assets includes the cost of materials and labour, and any other costs, directly attributable to bringing the asset to a working condition for its intended use. Gifted network assets are recognised at fair value when received.

Subsequent costs are included in property, plant and equipment only when it is probable the item associated with the cost will generate future economic benefits and the cost can be measured reliably. The carrying amounts of items replaced are derecognised. All other repairs and maintenance are expensed to profit and loss during the reporting period in which they are incurred.

Depreciation

Deprecation is calculated using the straight-line method over the estimated useful economic lives listed below. Property, plant and equipment received on disaggregation of Western Power Corporation are depreciated over their residual useful economic lives.

Depreciation periods for categories of property, plant & equipn	***Years***
Buildings	40
Substation plant, overhead lines and cables	50
Protection, control and communication equipment	up to 10
Other plant and equipment	10
Leasehold improvements	10
Office equipment	10
Motor vehicles	5
Computer equipment	4
Low value pool	3

The residual value and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at the end of each reporting period.

No depreciation is provided on freehold land, easements and assets in the course of construction.

Disposals

An item of property, plant and equipment is derecognised upon disposal. The proceeds and carrying amount on disposal are recognised in profit or loss.

Summary of significant accounting policies (continued)

o) Intangibles

Cost

Intangibles represent identifiable internal capitalised software costs and intellectual property, and are recognised at historic cost less accumulated amortisation.

Internally generated intangibles are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated asset can be recognised the development expenditure is expensed to profit or loss.

Amortisation

Amortisation is calculated using the straight-line method over the estimated useful economic lives listed below:

Amortisation periods for categories of intangibles	***Years***
Intellectual property	25
Software (major developments/enhancements)	10
Software (minor purchases/enhancements)	2.5

The residual value and useful lives of intangibles are reviewed, and adjusted as appropriate, at the end of each reporting period.

Disposals

An intangible asset is derecognised upon disposal. The proceeds and carrying amount on disposal are recognised in profit and loss.

p) Trade and other payables

Trade and other payables are non-interest bearing, unsecured and are initially recognised at fair value and subsequently measured at amortised cost. They are usually settled within 30 days of recognition.

q) Borrowings

Borrowings are initially recognised at fair value net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless Western Power has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

r) Borrowing costs

Borrowing costs are expensed when incurred.

s) Provisions

Provisions are recognised when Western Power has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects the market assessments of the time value of money and the risks specific to the liability.

Summary of significant accounting policies (continued)

t) Employee benefits

Wages and salaries, annual leave

Liabilities arising in respect of employee benefits that are expected to be settled within 12 months of the reporting date are measured at their nominal amount based on remuneration rates that are expected to be paid when the liabilities are settled. The liability for wages, salaries and annual leave is recognised in other payables. The liability for all other short-term employee benefits is recognised in the provision for employee benefits.

Long service leave

The liability for unconditional long service leave is recognised as a provision for employee benefits, and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Expected future payments are discounted using the Commonwealth Bond rates whose terms most closely match the terms of the related liabilities.

Retirement benefit obligations

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense as they become payable.

Defined benefit plans

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation in respect of services provided by employees up to the reporting date, adjusted for unrecognised actuarial gains/losses, the fair value of any fund assets at that date and any unrecognised past service cost.

The present value of the defined benefit superannuation plans is based upon expected future payments and is calculated using discounted cash flows consistent with the projected unit credit method. Actuarial valuations are carried out at each reporting date.

Current service cost is recognised in full in profit or loss in the reporting period in which the obligation increases as a result of employee services. Actuarial gains and losses arising from experience adjustments and changes in actuarial adjustments are recognised directly in other comprehensive income.

u) Dividends

Dividends approved but not distributed to the State Government at the reporting date are recognised in the reporting period in which the dividends are authorised by the Minister for Energy.

v) Goods & services taxation (GST)

Revenue, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included in other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financial activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.