Economic Regulation Authority
WESTERN AUSTRALIA

Economic Regulation Authority Annual Report 2011/12

A full copy of this document is available from the Economic Regulation Authority website at www.erawa.com.au.

Previous years' annual reports can also be found on the website.

This document is available in alternative formats upon request.

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About Us

What we do

The Economic Regulation Authority (ERA) regulates third party access to electricity, gas and rail infrastructure and administers licences for electricity, gas and water service providers. We also carry out surveillance of Western Australia's wholesale electricity market and undertake economic inquiries on a wide range of economic issues.

Purpose

To ensure consumers receive quality services for a reasonable price.

Strategic Goals

- To be a leader in the application of economic regulation
- To be recognised and respected as a provider of high quality advice to Government
- To be accessible, understandable and compelling in our communications
- To improve the efficiency and effectiveness of our regulatory decision making and advice
- To improve regulatory compliance

Values

Impartiality – we make independent decisions that are free from bias.

Integrity – we will be fair and honest in our work.

Continuous Improvement – we strive to achieve excellence in the way we do things.

Transparency – our processes are visible and our decisions are clearly explained.

Teamwork – we work together to achieve our goals.

About this annual report

This annual report provides a review of the Economic Regulation Authority's operations for the financial year ended 30 June 2012 and comprises:

Overview – an overview of our role, responsibilities and organisational structure.

Performance – a report on our operational performance from 1 July 2011 to 30 June 2012 and the progress towards achieving the desired outcomes of the ERA and the Government.

Significant issues – a discussion on significant current/emerging issues that impact/may impact upon the ERA's workload.

Disclosures and legal compliance – audited financial statements, detailed key performance indicator information and other financial disclosures.

Other legal requirements – a report on the ERA's compliance with various legislative requirements.

Government policy requirements – a report on the ERA's compliance with Government policy requirements.

To make our annual report as accessible as possible, we have provided it in the following three formats:

- An interactive PDF version, which has links to other sections of the annual report as well as external links to content on our website. Links are indicated by blue, underlined text.
- An online version, which allows for quick and easy viewing of annual report sections. This version also features easy to use download and print functions.
- A text version, which is suitable for use with screen reader software applications.

This annual report can also be made available in alternative formats upon request, including audio, large print and Braille.

Letter of transmission

Hon Troy Buswell MLA BEc
Treasurer
13th Floor, Dumas House
2 Havelock Street
WEST PERTH WA 6005

Dear Treasurer

ECONOMIC REGULATION AUTHORITY 2011/12 ANNUAL REPORT

In accordance with section 61 of the *Financial Management Act 2006*, we submit for your information and presentation to Parliament, the Annual Report of the Economic Regulation Authority for the financial year ended 30 June 2012.

The Annual Report has been prepared in accordance with the provisions of the *Financial Management Act 2006*, the *Public Sector Management Act 1994* and the Treasurer's Instructions.

Yours sincerely

MR LYNDON ROWE
CHAIRMAN

25 September 2012

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Overview

From the Chairman

Consistent with my comments last year, I can say again that readers of this Annual Report will quickly grasp that 2011/12 has been another very busy year for the ERA. For a quick overview, I refer readers to the Executive Summary.

The need for balanced and evidenced based decision making

Rather than repeat that information I would like to use my summary this year to comment on a couple of themes I have previously raised in our Annual Report – the need for balance and the need for evidence based decision making when considering the regulation of markets (or indeed any area of public policy).

The role of the ERA as an economic regulator, whether in our capacity as a decision-maker (regulating monopoly infrastructure or licensing providers of gas, electricity and water) or in our role as an economic adviser to Government, is to arrive at decisions/recommendations that balance the interests of consumers with the interests of producers based on an assessment of all of the information before us. It would be equally inappropriate, as a result of our decisions or recommendations, for prices to be either too high or too low.

In competitive markets it is the interaction of consumers and sellers that resolve this challenge. It is competition among sellers combined with the ability of consumers to choose that leads to efficient outcomes. If prices are too high, consumers will look elsewhere. If prices are too low, sellers will withdraw from the market. It is also those competitive forces that drive innovation as sellers constantly seek new ways to improve their products or lower their prices to compete in the market.

The work of the ERA is nearly always in markets that are not competitive – whether it be regulating monopoly infrastructure or undertaking inquiries on behalf of the Treasurer (usually because it is an industry where there is some form of market failure). Our challenge is to try to replicate what would happen in a competitive market. However, we will never have complete information and this is where the need for balance and evidence based decision making is crucial.

With this background I would like to comment on some particular activities of the ERA in the last year – the reasoning behind our new approach to setting the debt risk premium when determining the cost of debt for infrastructure providers, our approach to and findings of our inquiry into Synergy and our approach to our licensing role.

Cost of Debt

In recent decisions we have changed the way the ERA determines the debt risk premium (the amount a service provider is allowed above the risk free rate to attract debt funds). We did this because our view was that the traditional approach used by regulators was no longer appropriate (for a variety of reasons it was out of date and did not provide an accurate reflection of the current cost of funds). In particular, in the view of the ERA, it led to a cost of funds allowance that was too high. Our bond yield approach (determined after public consultation) is about accurately reflecting the debt costs of an efficient firm to avoid prices being higher than necessary. It is evidence based because it reflects actual bonds in the marketplace. Although challenged by providers in appeals to the Australian Competition Tribunal, the ERA's bond yield approach was accepted by the Tribunal albeit with some fine tuning of the calculation of the average debt risk premium. This new approach of the ERA is not about favouring consumers over producers or vice versa but about getting the balance right based on the best available information.

Synergy

The ERA was asked by the State Treasurer to conduct an inquiry into the efficient costs of Synergy and to determine efficient tariffs reflecting those costs. One of the issues the ERA had to determine was the efficient cost of wholesale electricity that should be paid by Synergy.

The ERA assessed Synergy's power procurement contracts and whether Synergy optimises those contracts in meeting its electricity demand. With the exception of the Replacement Vesting Contract, the ERA was satisfied that a competitive and prudent process had been followed by Synergy.

However, in estimating Synergy's efficient wholesale electricity costs, the ERA did not use Synergy's actual costs. This was because in a competitive market a new entrant into the market would not have been bound by existing contracts or constraints and, in the ERA's view, could have entered the market with a lower wholesale electricity cost. In a competitive market it is the lowest cost operator that will determine the price. If an existing player has higher costs, then it will have to adjust to the market price. This is how a market works and why investors in the market require a rate of return (profit) consistent with the risks.

In determining the efficient wholesale electricity costs the ERA was required to balance the interests of Synergy with those of consumers, and in the absence of a competitive market, make a judgement based on the best information available.

Licensing

Regulation is expensive. There is a need to constantly assess whether or not the benefits of regulation exceed the costs. This is, and should be, a strong focus of an economic regulator such as the ERA. There is a need to balance the benefits of the regulation to consumers against the costs of the regulation to business.

An example of this balancing is the period of time that the ERA sets between performance audits and asset management reviews that are required to be undertaken by suppliers in the water, gas and electricity industries. The relevant acts generally require those audits to be undertaken every two years unless otherwise approved by the ERA. It is now common for the ERA to extend the period beyond two years for those businesses with a good record with respect to the audits and reviews. Indeed, there is now one business that has had the period between audits extended to five years.

This works both ways. In balancing those interests the ERA may require more frequent audits and reviews where the risk to consumers is such that the higher cost of a more frequent audit or review to address an identified shortcoming is justified.

In Who's Interest?

Inevitably there are a lot of vested interests in economic regulation. The ERA's role is to balance those competing interests based on an assessment and judgement of the best information available. The ERA's interest is in delivering on the Purpose Statement in our Strategic Plan – "*To ensure consumers receive quality services for a reasonable price*".

Acknowledgement and Appreciation

Stakeholders

As in previous years I want to thank our many stakeholders and acknowledge the time and effort that goes into submissions to the ERA. They make an essential contribution to our work and it is important that we have a high degree of contact and feedback from all our stakeholders. I also want to thank those who participated in our three yearly survey of stakeholders; the results of the survey are reported in this Annual Report.

Members

My role is made much easier, and more enjoyable, by the outstanding contributions made by the two part-time members of the ERA, Mr Steve Edwell and Dr Stephen King. The ERA benefits greatly from the experience, expertise and professionalism they bring. I am sure I can speak for the Secretariat as well, when I say they are both a pleasure to work with.

Secretariat

Finally, Steve, Stephen and I want to acknowledge the energy, professionalism and commitment of the ERA staff, ably led by our very dedicated CEO, Greg Watkinson. We are very lucky to have such a talented group of people. The quality of the work they produce gives the ERA confidence that we can continue to make a positive contribution in ensuring that "*consumers receive quality services for a reasonable price*".

Lyndon G Rowe
Chairman

Executive summary – year at a glance

The Economic Regulation Authority's work comprises activities which can be categorised as cyclical, ongoing or one-off in nature. The activities undertaken in the 2011/12 reporting year are summarised below.

Cyclical regulatory activities

A large part of our work is cyclical, with reviews of gas access arrangements required approximately every five years, reviews of electricity access arrangements (currently) every three years, and reviews of the revenue requirements for the Independent Market Operator and System Management every three years. Other cyclical activities include the annual publication of reports on the performance of utility licensees and on the effectiveness of the wholesale electricity market. Reviews of legislative frameworks and the effectiveness of regulatory instruments are other activities conducted periodically as required by law. Reviews of industry codes provide opportunities to re-examine the effectiveness of regulation.

Access arrangement reviews

- Finalised the Dampier to Bunbury Natural Gas Pipeline Access Arrangement assessment.
- Commenced and progressed the review of Western Power's proposed revised access arrangement for the third access arrangement period.

Reviews

- Provided a final report on the review of the *Railways (Access) Code 2000* to the State Treasurer.
- Finalised a review of the requirement for railway owners to submit floor and ceiling costs.
- Finalised a review of the *Code of Conduct for the Supply of Electricity to Small Use Customers.*
- Gazetted a new Gas Marketing Code of Conduct 2012 which came into force on 1 July 2012, following completion of a review of the Code.

Other cyclical activities

- Published annual performance reports for regulated energy retailers, energy distributors and water service providers.
- Coordinated the collection of data for the annual national performance reports for urban and rural water service providers.
- Provided the 2011 annual report on the effectiveness of the wholesale electricity market to the Minister for Energy.
- Approved a number of key parameters that influence the operation of the wholesale electricity market, such as the maximum prices that generators can submit to the market for their capacity and energy,

and parameters for setting the ancillary services payments.

- Published the 2010/11 Annual Performance Reports for Energy Distributors, Energy Retailers and Water Service Providers.
- Approved annual and quarterly tariff variation adjustments for the Goldfields Gas Pipeline, the Dampier to Bunbury Natural Gas Pipeline, and the Mid-West and South-West Gas Distribution System and Western Power in accordance with CPI.
- Determined the annual weighted average cost of capital to apply to WestNet Rail, the Public Transport Authority and The Pilbara Infrastructure for 2011/2012.
- Approved annual adjustments to the floor and ceiling costs for the WestNet Rail network for 2011/2012.

One-off activities

The most significant one-off projects are generally the economic inquiries issued to us by the State Treasurer. These inquiries are often on complex economic matters and generally involve public consultation prior to a final report being delivered to Government. The recommendations we provide help to inform Government in its decision making.

Other one-off projects include the assessment of regulatory tests and new facilities investment tests that may be submitted to the ERA by Western Power.

Economic inquiries

During the reporting year, the ERA concluded two major inquiries, and commenced work on one new inquiry and on one ongoing inquiry.

- Finalised an inquiry into the costs and benefits of the State Underground Power Program.
- Finalised an inquiry into the efficiency of Synergy's Costs and Electricity Tariffs.
- Commenced an inquiry into the efficient costs and tariffs of the Water Corporation, Aqwest and the Busselton Water Board.
- Commenced an inquiry into Western Australia's Home Indemnity Insurance Arrangements.
- Published the final report on the inquiry into the benefits and costs associated with the provision of shared corporate services within the public sector upon the report being tabled in Parliament on 7 July 2011.

Other projects

- Released a final determination on Western Power's application of a new facilities investment test for the Mid-West Energy Project (Southern Section).
- Released a final determination on Western Power's regulatory test waiver application for a proposed major augmentation to supply the proposed Southdown magnetite mine, approximately 90km north east of Albany.
- Reviewed and approved Technical Rules.
- Approved variations to Western Power's contributions policy.
- Invited public submission on a review of Brookfield Rail's proposed train management guidelines and train path policy.

Ongoing regulatory activities

In addition to the project based work, the ERA has a wide range of regulatory activities requiring decision-making. These activities relate to the ERA's roles in relation to licensing, the wholesale electricity market, and rail access regulation.

- Administered 89 electricity, gas or water service licensees.
- Granted three new utility licences.
- Approved amendments to four utility licences.
- Assessed independent audits and asset management system reviews of 28 electricity, gas and water service providers.
- Assessed 24 performance audit and asset management system review reports on energy licenses (20 electricity, four gas).
- Assessed 13 operational audit and asset management system review reports on water services licenses.
- Approved 10 standard form contract amendments for energy licensees (five electricity, five gas).
- Approved 10 financial hardship policies for electricity and gas licensees.

- Approved eight customer service charters for water licensees.
- Served a regulatory notice of licence contravention on Electricity Networks Corporation (trading as Western Power).
- Continued monitoring of the wholesale electricity market to identify whether any market participants are acting in an anti-competitive manner.
- Monitored Western Power's performance against its service standard benchmarks under the access arrangement.
- Published Western Power's 2010/11 Service Standard Benchmark.
- Approved revised costing principles for The Pilbara Infrastructure (TPI).
- Amended TPI costing principles to include new route sections that have been completed and made subject to the Railways Act or Code.

Output indicators

In undertaking the preceding activities the following outputs were achieved.

Submissions

- 251 submissions were prepared by the Secretariat for decision making by the ERA's Governing Body.

Publications

- 187 notices.
- 37 reports, decisions and determinations.
- four issues and discussion papers.
- 592 stakeholders and interested parties received our quarterly editions of e-news.
- 2011-13 Strategic Plan.
- 2012/13 Work Plan.
- Revised the ERA's Code of Conduct.
- Revised gas, electricity and water licence application guidelines and application forms.
- Revised handbooks and datasheets to assist utility licensees with their annual reporting obligations.

- three annual performance reports published in relation to utility licensees.
- one regulatory guideline published in relation to utility licensing.
- distributed around 3000 copies of the “Switched On” guide for electricity and gas customers.

Public consultation

- Completed the triennial stakeholder survey.
- 37 invitations for public submissions.
- 116 weeks of public consultation.
- 170 public submissions received.
- Hosted a public forum attended by over 80 stakeholders on Western Power’s proposed revisions to its access arrangement for the third access arrangement period.

Activities that reduced compliance burden

- Provided relief to eight utility licensees following favourable audit results by extending the period until their next audit or asset management system review.
- Changed the minimum requirements for railway owners to submit regulatory costs for approval, such that they are more closely aligned with those laid out in the *Railways (Access) Code 2000.*

Financial performance

The total expenditure for 2011/12 was $12.4 million. The following chart shows expenditure has increased by 63% over the last four years (23% in 2008/09, 5% in 2009/10, 7% in 2010/11 and 17% in 2011/12). A major review of resourcing and operating expenditure occurred in 2007/08, which led to the 23% increase in expenditure in 2008/09.

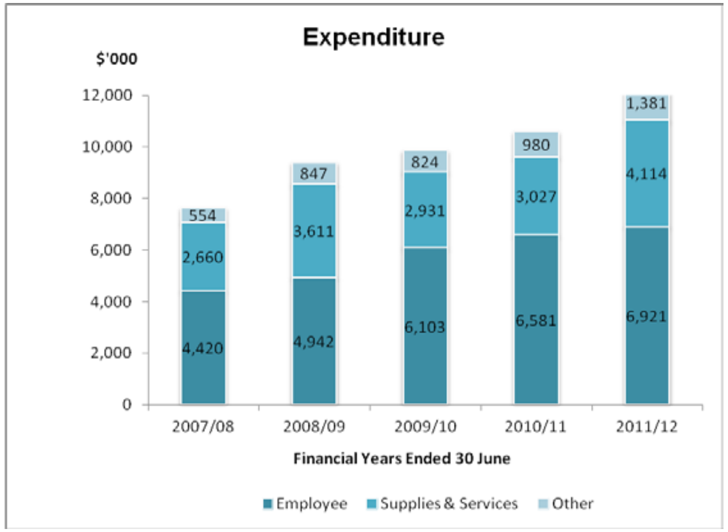


Chart 1 Breakdown of levels of expenditure over the last five years of the ERA's operations

Over the last three years a further review of our expenditure needs has been completed and Government provided the ERA with an expenditure limit of $12.4 million for 2011/12. The increase in expenditure from $10.6 million in 2010/11 to $12.4 million in 2011/12 was largely due to an increase in expenditure on supplies and services, accommodation and the loss on disposal of non-current assets.

One of the reasons for the large increase in expenditure on supplies and services was legal representation to assist with the appeals against decisions of the ERA in regard to the Dampier to Bunbury Natural Gas Pipeline and the Mid-West South-West Gas Distribution System. Another component of the increase in the cost of consultants and contractors was associated with the implementation of a new IT server. Accommodation costs have increased as the ERA moved into new premises as part of the Government's Strategic Accommodation Plan.

The following income chart shows that Government funding provided 79% of the ERA's income in 2011/12 compared to 36% in the previous year. The proportion of the ERA's total income derived from Government funding was reduced from 2010/11 following Cabinet approval of an increase in income from industry funding. In March 2011, Cabinet approved a request to reinstate the funding for 2010/11 and 2011/12 due to a delay in the drafting of regulations to increase industry funding. The ERA also received an increase in recurrent appropriation of $3.7 million to meet additional costs associated with an increase in employee numbers. The reinstated industry funding and the increase in appropriation were received by the ERA in 2011/12.

In 2011/12, income from user charges and fees decreased by 20%. Revenue from industry fluctuates on an annual basis depending on the work undertaken by the ERA. The

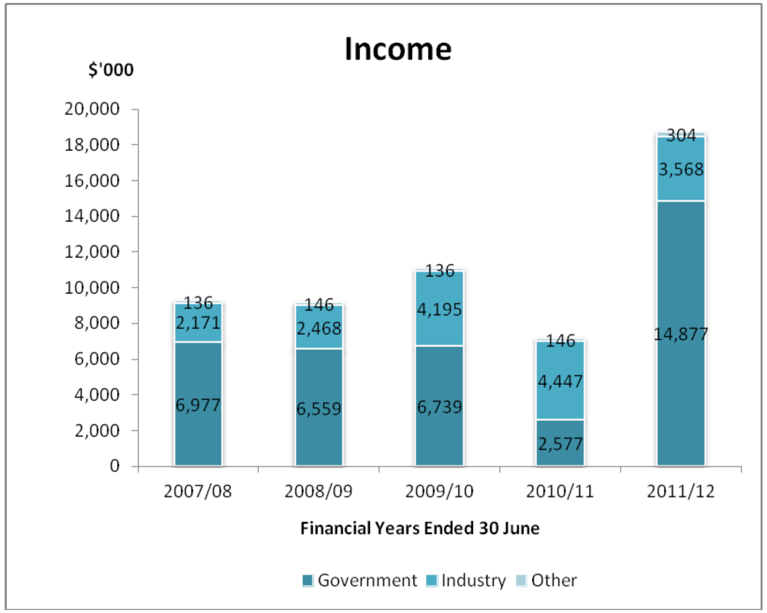


Chart 2 Breakdown of sources of income over the last five years of the ERA's operations

increased income from industry in 2009/10 and 2010/11 is attributable to three gas access arrangement revisions, which increased revenue from standing and specific charges in those years. The proportion of the ERA's income derived from user charges and fees fell from 62% in 2010/11 to 19% in 2011/12 due to receiving two years worth of Government funding in 2011/12.

Increased funding from regulated industries

During 2009/10, the then Department of Treasury and Finance (DTF) requested Government to approve the drafting and repeal of regulations to increase the level of industry funding received by the ERA. Full cost recovery is currently in place for regulating the gas access regime and monitoring the wholesale electricity market. The DTF request was to introduce full cost recovery for regulating the electricity access regime and the electricity, gas and water licensing regimes. The request was approved in February 2010, resulting in Government reducing their funding of the ERA for 2010/11 onwards by an amount equal to the anticipated increase in income from industry.

Due to delays in progressing the drafting of regulations to introduce increased industry funding, the ERA was not able to raise charges to receive this income. As part of the 2010/11 mid-year review of budget estimates, the ERA submitted a request for reinstatement of the originally budgeted Government funding for 2010/11 and 2011/12. This request was approved in March 2011 and the funding for both years was received by the ERA in 2011/12.

The effect of this activity on the ERA's income from Government funding is reflected in the following table:

<table>
<tr><th></th><th>2010/11
$'000</th><th>2011/12
$'000</th><th>2012/13
$'000</th><th>2013/14
$'000</th></tr>
<tr><td>Reduction in ("Harvest of") Consolidated Funding anticipating Regulations for increased industry funding</td><td>(4,011)</td><td>(4,089)</td><td>(4,752)</td><td>(4,893)</td></tr>
<tr><td>Reinstatement of Consolidated Funding for 2010/11 and 2011/12</td><td colspan="4">8,100</td></tr>
</table>

In January 2012, during the 2011/12 budget estimates mid-year review, the ERA requested the reinstatement of Government funding for 2012/13 ($2.916 million) and 2013/14 ($3.275 million) because the regulations to increase industry funding were not in place. This request was not supported by the Economic and Expenditure Reform Committee (EERC).

The Department of Treasury, with technical assistance from the ERA, is working to progress the implementation of industry funding in 2012/13.

Review of Expenditure Limit

The ERA requested an increase in the expenditure limit of $1.5M for 2009/10. The need to increase expenditure was predominantly related to increasing the number of full-time staff employed by the ERA from 45.4 to 52.0. This initiative was part of a strategy to increase capacity and resources.

This request was approved and the expenditure limit was increased to $11.1 million in 2009/10. The request for an increased expenditure limit did not cover 2010/11 and subsequent years because of the pending implementation of increased industry funding.

In January 2011, as part of the 2010/11 budget estimates mid-year review, the ERA requested to carry forward the increased expenditure limit into 2010/11 and subsequent years as well as to increase the number of full-time staff from 52.0 to 54.8. The increase was to be funded from existing industry funding and an increase in Government funding, as shown in the following table.

In March 2011, this request was approved, but only for 2010/11 and 2011/12.

	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000
Requested increase in expenditure limit	2,138	2,521	1,402	1,924
Income Source				
Existing Industry Funding	862	3	82	581
Government Funding	1,276	2,518	1,320	1,343

The decision to only approve the increase for two years was based on the timing of implementing increased industry funding. The ERA received the $3.794 million increase in Government funding for the two years as a single payment in 2011/12. The effect of this decision on the ERA's income from Government funding is reflected in the following table.

	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000
Requested increase in consolidated funding	1,276	2,518	1,320	1,343
Approved Consolidated Funding for 2010/11 and 2011/12		3,794		

In January 2012, the ERA submitted a request to carry forward the increase in expenditure limit into 2012/13 ($1.6 million) and 2013/14 ($2.2 million) as part of the 2011/12 budget estimates mid-year review. This increase was requested to maintain the number of full-time staff that was approved in the 2010/11 budget submission and funded by the ERA reducing its cash reserves. This request was not supported by the EERC. This decision means that the ERA will undertake a review of its expenditure as part of the 2012/13 mid-year review.

Operational structure

Our role

The Economic Regulation Authority is the independent economic regulator for Western Australia. Our work aims to enhance a competitive, efficient and fair commercial environment in the gas, electricity, water and rail industries for the long term benefit of Western Australians.

We also make recommendations to government on important economic issues impacting the State through the inquiries we conduct.

We are independent of industry, government or other interests and we are not subject to government direction in our regulatory or inquiry functions. We are committed to consultation with all stakeholders and to making transparent decisions.

In making decisions and issuing reports, we strive to ensure consumers receive quality services for a reasonable price.

Our responsible minister

The ERA is independent of direction or control by the State, or a minister or officer of the State, in performing its functions.

The relevant minister may give written directions to the ERA on financial and administration matters (under sections 28(2) and 28(3) of the *Economic Regulation Authority Act 2003*).

In this context, the relevant minister(s) during the reporting year were the Honourable Christian Porter, MLA, (Treasurer up until 12 June 2012), the Hon Premier Colin Barnett, MLA, MEc (acting Treasurer following Hon Christian Porter's resignation) and the Hon Troy Buswell MLA, MEc, from 29 June 2012.

The ERA also has legislative reporting responsibilities to the following Ministers:

- The Minster for Energy on matters related to the wholesale electricity market and electricity and gas licensing.
- The Treasurer on economic inquiries.
- The Minister for Transport for matters in relation to railways.
- The Minister for Water in relation to water licensing.

Enabling legislation

The ERA was established on 1 January 2004 as a body corporate with perpetual succession under section 4 of the *Economic Regulation Authority Act 2003*.

Subsidiary legislation consists of the *Economic Regulation Authority (Gas Pipelines Access Funding) Regulations 2003*.

Administered legislation

The ERA performs its functions under the *Economic Regulation Authority Act 2003* and other Acts of Parliament, Regulations and subsidiary legislation relevant to its regulatory role. These are listed in Appendix 1.

Other impacting legislation

The ERA also performs its functions in compliance with other legislation. These are listed in Appendix 2.

Our people

The Economic Regulation Authority comprises a Governing Body and a Secretariat. The Governing Body determines the policies, controls the affairs and performs the functions of the ERA.

The Governing Body is assisted by a Secretariat, which is the initial point of contact in day-to-day dealings. While the Secretariat may provide assistance, it is the Governing Body that has the ultimate responsibility for the ERA's regulatory and inquiry functions.

As at 30 June 2012, the ERA Secretariat was comprised of 49 employees working either full or part-time across the three operational and two business support divisions (refer to organisational chart on page 21).

During the year, the ERA completed a significant organisational restructure. The key changes are detailed on page 22.

At 30 June 2012, the majority of the ERA staff were permanent (39), with six working on contract, and four part-time. Additional temporary contract staff were employed during the year to provide short-term support and expertise during periods of staff leave and peak workload.

Governing Body

The ERA is overseen by a Governing Body that comprises a full-time Chairman and two part-time Members.

The Chairman is Mr Lyndon Rowe and the part-time Members are Mr Steve Edwell and Dr Stephen King.

Face-to-face meetings of the Governing Body usually take place every month. In addition, the Governing Body conducts weekly teleconference meetings. Extra-ordinary meetings may be organised as required.

A total of 45 Governing Body meetings were held during the reporting year, at which 188 submissions were reviewed and discussed.

The Governing Body also considers matters out-of-session as resolutions without meeting. Matters are raised out of session in the form of submissions circulated via email. In 2011/12 the Governing Body considered 63 submissions out of session.

Mr Lyndon Rowe, Chairman

Lyndon Rowe has a strong interest in labour economics, microeconomics, education and training and has published a number of papers dealing with Australia's industrial relations system.

He received the 1999 Austin Holmes Award from the Economic Society of Australia (WA), and was awarded the Centenary Medal for service to Australian society and to commerce and industry in 2003.

In addition to his role at the ERA, Lyndon is also a Director of Perth Airport. Immediately prior to his appointment as Chairman of the ERA, he was Chief Executive of the Chamber of Commerce and Industry of Western Australia, a position he had held from 1990.

Mr Steve Edwell, Member

Steve Edwell is an economist specialising in the reform and regulation of utility services and major project implementation.

From 2005-2010 Steve was the inaugural full time Chair of the Australian Energy Regulator and an Associate Commissioner of the Australian Competition and Consumer Commission. Steve was also a member of the Commission's Regulation and Price Monitoring Committee.

Prior to that appointment, Steve undertook assignments for various State Governments leading the implementation of reform in energy and water. These projects included restructure of the Queensland electricity sector culminating in that State joining the National Electricity Market; implementation of COAG water reform to the Queensland water sector; and a restructure of State owned electricity businesses in Western Australia and the establishment of a wholesale electricity market in that State.

Steve has been a Member of the ERA since January 2005. He is currently providing commercial advice to clients on infrastructure issues, including to the Western Australian Department of State Development in respect of major port developments.

Dr Stephen King, Member

Stephen King brings a wealth of experience and knowledge to the ERA, particularly in the areas of trade practices economics, applied microeconomic theory, regulation and industrial organisation.

Stephen has extensive experience as an educator and as a consultant for various private companies and government bodies.

His research in industrial economics has been widely published in major international economics journals such as the Journal of Political Economy and the Journal of Industrial Economics. His research includes papers on telecommunications, electricity markets and regulatory reform. He was a Member of the Australian Competition and Consumer Commission (ACCC) from 2004-2009. Stephen is a Professor of Economics at Monash University and, from 2009-2011 he was Dean of the Faculty of Business and Economics at Monash.

Stephen has been a Member of the ERA Governing Body since 29 December 2010.

Secretariat

The Secretariat provides support to the Governing Body and is headed by the Chief Executive Officer (CEO).

Mr Greg Watkinson, Chief Executive Officer

Greg Watkinson was appointed as CEO in February 2010. Prior to his appointment as CEO, Greg headed the ERA's References and Research division, responsible for undertaking independent inquiries for the Western Australian Government.

Greg has worked as an economist in the public sector since completing a Masters degree in economics in 1991. His prior employment was with the Western Australian Department of Treasury and Finance, where he provided advice on microeconomic policy. Greg has also worked as an economist in the areas of macroeconomics, education and social policy.

Corporate Executive

The Corporate Executive is our senior management team that meets at least once a month to discuss the internal and external priorities for the Secretariat. The role of the Corporate Executive is to be the decision making body on matters that relate to improving the effectiveness of the Secretariat, and in particular the key performance indicators that have been agreed between the CEO and the Governing Body.

Mr Robert Pullella, Executive Director Access

Robert Pullella has been employed in access regulation in Western Australia since 1999 when he joined the Office of Gas Access Regulation. Robert was appointed as Executive Director Industry Access for the ERA in 2004. He subsequently became head of the Competition, Markets and Electricity division in February 2006 and assumed the role of Executive Director Access in 2010.

Robert was part of the executive management team that contributed to the strategic direction, planning and development of the ERA.

Mr Paul Kelly, Executive Director Licensing, Monitoring and Customer Protection

Paul Kelly has over 27 years experience at Senior and Senior Executive levels in the Public Sector. His previous employment includes an appointment as Executive Director of the Office of Water Regulation in Western Australia, responsible for establishing a State wide licensing regime for water service providers and reporting to Government on the operations and performance of the water industry.

Paul is also Chairman of the Electricity Code Consultative Committee and the Gas Marketing Code Consultative Committee. Both are statutory positions respectively under the *Electricity Industry Act 2004* and the *Energy Coordination Act 1994*.

Prior to his current role, Paul was the Director Water Division of the ERA, responsible for all regulatory matters relating to the water industry.

Mr Rajat Sarawat, Executive Director Economics

Rajat Sarawat joined the ERA in January of 2012 as Executive Director Economics.

Rajat has over 15 years of experience of working in the field of economic regulation. Prior to joining the ERA, Rajat has held various senior positions with the Essential Services Commission of South Australia (ESCOSA) and The Australian Energy Market Commission (AEMC), including as Acting CEO at ESCOSA and Senior Director at AEMC.

In these roles, Rajat has led various price reviews, access arrangements, inquiries and competition reviews.

Prior to joining ESCOSA Rajat worked in water and gas utilities where his primary responsibilities related to financial and economic analysis and developing access arrangements.

Ms Pam Herbener, Manager Corporate Services

Pam Herbener has been employed in access regulation since joining the Western Australian Office of Gas Access Regulation in 1998.

Prior to her current role, Pam had 20 years previous management experience working in the not for profit sector in Western Australia and in Commonwealth and local government.

Mr David Lee-Steere, Manager Corporate Strategy ad Performance

David Lee-Steere joined the ERA in May 2011 as the Manager of the Planning and Executive Support Division. As part of an organisational restructure in early 2012, this division has been renamed Corporate Strategy and Performance.

David has over 15 years of experience working in both private and public sector organisations in a variety of positions involving management, strategy, marketing, communications, business development and relationship management.

Prior to joining the ERA he held the position of Associate Director, Marketing Services at Curtin University.

Assistant Director's Group

The Assistant Directors Group was established in June 2011. The group is a standing sub-committee of the Corporate Executive and is comprised of Assistant Directors, the Manager, Corporate Strategy and Performance, and the Senior Finance Officer.

The group meets on a six weekly basis and provides regular reports/recommendations to the CEO on its activities with the aim of promoting an organisational culture that is consistent with our values and purpose. The group provides advice and recommendations on:

- management policies, procedures and processes to improve the ERA's operational/administrative efficiency and effectiveness;
- staff development processes and policies;
- matters referred to it by the Corporate Executive; and
- other matters that the group considers may impact on the health of the organisational culture.

Standing (L-R): Michael Soltyk, Elizabeth Walters, Jeremy Threlfall, Wana Yang, David Lee-Steere, Duc Vo
Seated (L-R) Amanda Dunn, Paul Reid, Cathryn Greville.
Absent: Rasmus Moerch

Over the past year the Assistant Director's group has worked on a number of initiatives, including:

- development of the ERA's revised Code of Conduct;
- review of the ERA's Delegations Manual; and
- development of the internal project plan template and methodology.

ERA Secretariat

Organisational chart

GOVERNING BODY
Full-time Chairman, Part-time Members x 2

SECRETARIAT
Chief Executive Officer, 54.6 FTE

CHIEF EXECUTIVE OFFICER

ACCESS

- Executive Director
- Principal Regulatory Advisor
- Assistant Director Research & Modelling
- Assistant Director, Electricity
- Assistant Director Rail
- Manager Project x 2
- Senior Project Officer x 2
- Principal Regulatory Analyst
- Analyst
- Administrative Assistant

ECONOMICS

- Executive Director
- Chief Economist
- Assistant Director References
- Assistant Director Markets
- Assistant Director Research & Modelling
- Manager Projects
- Principal Analyst x 2
- Senior Project Officer
- Senior Analyst
- Analyst x 2
- Graduate x 2

LICENSING MONITORING & CUSTOMER PROTECTION

- Executive Director
- Assistant Director Licensing
- Assistant Director Monitoring
- Assistant Director Customer Protection
- Senior Project Officer x 3
- Project Officer x 2
- Business Support Officer

CORPORATE SERVICES

- Manager
- Senior Finance Officer
- Finance Officer x 2
- Assistant Finance Officer
- Senior Human Resource Consultant
- Human Resource Officer
- Customer Service Officer
- Information Systems Coordinator
- Technology & Administration Officer
- Website Coordinator
- Records Coordinator
- Records Officer

CORPORATE STRATEGY & PERFORMANCE

CORPORATE STRATEGY & PERFORMANCE

- Manager
- Planning & Executive Support Officers x 2
- Corporate Support Assistant
- Executive Assistant

Chart 3 - Organisational chart of the ERA

Our structure

The ERA completed a significant organisational restructure in early 2012. The restructure has enabled:

- greater flexibility to create project teams that can better deal with work demand pressures;
- a more even spread of workload across the Secretariat;
- greater communication across the Secretariat; and
- an increase in corporate knowledge, with less reliance on consultants.

The key changes included:

- The merger of the Markets and References and Research Divisions to form an 'Economics Division', headed by an Executive Director and with the support of a new Chief Economist. The Chief Economist provides expert economic advice to the Executive Director, Economics on matters relating to the wholesale electricity market, economic inquiries and research.
- The creation and appointment of a new Principal Regulatory Advisor position to provide support to the Executive Director, Access.
- The Finance and Administration division was renamed Corporate Services. This division has a focus on organisational compliance and comprises the Finance, Human Resources, Records and Information Technology teams.
- The Planning and Executive Support division was renamed Corporate Strategy and Performance. This division has a focus on organisational performance and is responsible for developing strategy, monitoring performance, risk management, communications and executive support to the Governing Body and CEO.

As at 30 June 2012, the ERA's Secretariat comprised of three regulatory and two business support divisions. The regulatory divisions are: the Access division, the Economics division and the Licensing, Monitoring and Customer Protection division. The two business support divisions are the Corporate Services division and the Corporate Strategy and Performance division.

Our responsibilities

The responsibilities of the three regulatory and two business support divisions of the ERA are detailed as follows.

Regulatory Divisions

Access

- Approve the terms and conditions (including the prices) that owners of electricity networks and gas pipelines are obliged to offer companies wanting to use the infrastructure to transport electricity or gas.
- Approve the terms and conditions, and costing information that owners of railways are obliged to offer companies wanting to use trains on particular railways.

Economics

- Conduct inquiries and provide reports to the State Government on economic issues.
- Monitor the wholesale electricity market, where electricity generators and retailers can buy and sell electricity, and provide an annual report to the Minister for Energy on the state of the market.
- Approve and monitor arrangements that enable customers to choose their gas retailer.
- Conduct research on regulation-related areas of finance and economics and on the cost of capital for regulatory decisions and inquiries.

Licensing, Monitoring and Customer Protection

- Administer electricity, gas, and water licenses, monitor compliance with the conditions of these licences and take enforcement action when required.
- Approve the contracts and service standards that protect residential and small business electricity, gas and water customers.
- Assess performance audits and asset management review reports.
- Report on the operational performance of gas, water and electricity industries in Western Australia.

Business Support Divisions

Corporate Services

- Undertake statutory management responsibilities in relation to human resource management, financial management and information management.
- Provide administration, records management and information technology support to the Secretariat.

Corporate Strategy and Performance

- Provide strategic, business planning, performance monitoring, audit and risk management and corporate communication services for the ERA.
- Provide executive support to the Governing Body and the Corporate Executive.

Our culture

Promoting a shared culture

Team building

All staff are encouraged to participate in team building social activities. During the year, we were very active participating in a number of Bank of Queensland (BOQ) Corporate Challenge competitions, including volleyball, touch rugby, and soccer. Organisational team building activities held during the year included lawn bowls and ten pin bowling.

Charity events

During the year we continued to support a number of charities and participated in several fundraising activities. Each year we nominate a charity to donate monies raised from our weekly free dress Friday. Our nominated charity for the 2012 calendar year is Assistance Dogs Australia, an organisation that trains Labradors and Golden Retrievers to help give freedom and independence to people with physical disabilities. We were fortunate to receive a visit from Podge, an Assistance Dog in training, and his trainers to learn more about these amazing dogs. As at 30 June

2012 the amount raised through our free dress Friday was over $760. This does not include personal donations that have been made by staff directly to the charity.

During the 2011 calendar year, almost $700 was raised for Beyond Blue, the national, not-for-profit organisation working to raise community awareness and address issues associated with depression and anxiety, and related substance misuse disorders and illnesses. In addition to this amount personal donations were also made by staff directly to Beyond Blue.

We also raised over $900 through our charity morning teas, proceeds of which were donated to Save the Children, Elliot's Army (the Telethon Adventurers), the RSPCA, and the Cancer Council.

Some staff members also participated in the HBF Run for a Reason and the PwC Cool Night Classic in support of the Starlight Children's Foundation, where we won a prize for being the best dressed team.

Our CEO, Greg Watkinson, also donned a moustache as part of the annual moustache growing charity event Movember and all staff donated gifts to the Salvation Army's Christmas Appeal in December 2011.

In addition to financial donations made to charity, the ERA coordinated group blood donations, which provided staff the opportunity to donate blood to the Australian Red Cross Blood Service as part of the Club Red Program.

Culinary events

During the year, we initiated a rotating morning tea schedule where each team hosted a morning tea. The morning teas were a huge success with the standard of baking being bigger and better with each successive morning tea.

In addition to our monthly staff social lunches, we also held our annual Melbourne Cup lunch, our annual Christmas lunch, and we exchanged culinary delights with a multicultural lunch that was held in celebration of Harmony Week.




Internal Communications

During the development of the ERA's 2011-2013 Strategic Plan, internal communications was identified as an area needing more focus, as it is crucial in the achievement of our strategic goals, as well as strengthening our corporate culture. It is also vital in supporting several key activities, in particular the organisational restructure and our office relocation from Governor Stirling Tower to Albert Facey House. Subsequently, several internal communication targets were included in the Chief Executive Officer's 2011/12 Key Performance Indicators. Some of the initiatives designed to support the attainment of these targets include the CEO's blog and a regular series of divisional information sessions.

The CEO's blog, which was launched in 2011, is to provide another channel for the CEO to communicate with staff on a range of issues, and for staff to respond and participate in discussions.

Divisional information sessions are presentations given by staff at regular intervals throughout the year (generally every two months) for the purpose of informing staff working across different areas about projects and activities being undertaken within each division.

Staff Surveys

Since February 2010 we have been holding quarterly staff surveys. The surveys provide a measure of staff happiness with working at the ERA, and provide an avenue for staff to raise any issues or concerns they have or general comments or suggestions regarding life at the ERA.

While all survey responses are kept confidential (i.e. no individual can be identified by their response), staff can choose for their responses to be made available on the ERA Intranet. Since the first survey of 2012, the Corporate Executive have been providing a formal response to all issues raised in surveys, as well as discussing them at the monthly staff meeting. The overall scores are also discussed at our monthly staff meetings.

In each survey, staff are asked to rate (on a scale of 1-10 with 10 being the highest) whether "work at the ERA is enjoyable". The average response for the year was 75 per cent of staff giving a rating of 6 or above, which is a noticeable improvement from 67 per cent in 2010/11. In 2012/13, the Corporate Executive is targeting initiatives to improve the proportion of staff giving a rating of 7 or above.

As a result of the surveys conducted during 2011/12, as well as feedback received through other formal and informal channels, some of the initiatives that have been implemented, modified or are currently in progress to make the ERA a great place to work includes:

- Modification of the performance management and development process to improve its efficiency and effectiveness.
- Regular blogs by the CEO on a range of topics.
- Document templates updated to improve their utility.
- Review and update of Delegations Manual and Correspondence Cover Sheet.
- Rewarding staff for using their initiative to bring fun into the workplace.
- Publication of the Corporate Executives formal response to the staff survey results.
- Review of the induction process for new staff.
- New Code of Conduct developed.
- Staff are canvassed for ideas for fun/social activities.

Work/life balance

The ERA continues to focus on improving and maintaining a healthy work/life balance for all ERA staff. The ERA established a work/life balance committee in February 2010. The committee comprised of eight members during 2011/12 representing all divisions in the ERA, and is a standing sub-committee of the Corporate Executive. The committee provides regular updates and recommendations regarding work/life initiatives.

The primary activities of the committee are to act as a forum for the identification and discussion of all matters impacting work life balance and to provide a 'voice of the staff' to the Corporate Executive.

During the year, the committee reviewed and updated the health and wellness program. The focus of the committee during the year was to review the information available on the staff intranet to ensure that policies and information relating to health and wellbeing, flexible working provisions, leave provisions, and networking and friendships are easily accessible by all staff and clearly written so as to be easily understood by all staff.

Additional work/life balance initiatives during the year included the opportunity for staff to take advantage of a corporate gym membership and flu inoculations. Throughout the year, staff are encouraged to participate in team building activities, such as corporate sports games and corporate social events.

During the year a project management audit was also undertaken to help identify and address project management and business processes that could be improved to help reduce unnecessarily high levels of work related stress.

Professional development

Staff are encouraged to participate in training to further develop and acquire new skills and keep abreast of relevant issues in the regulated industries. In 2011/12, staff attended training courses, conferences and workshops that varied in subject matter. A total of $177,234 was spent on training and professional development over the financial year.

The following courses and conferences were attended to further develop professional skills and to keep staff informed of current issues relevant to our regulatory functions:

- Australian Institute of Company Directors – Company Directors Course.
- Certificate IV in Frontline Management.
- Regulatory Managers Forum 2011.
- Infrastructure: Investment and Regulation Conference 2011.
- Energy in WA Conference 2011.
- 12th ACCC Regulatory Conference.
- Utility Regulators Forum 2011.
- OzWater 2012.
- Risk Management Institution of Australasia Conference 2011.
- IPART/ACCC Public Consultation Workshop.
- ANZOA (Australian and New Zealand Ombudsman Association) Conference 2012.
- Energy Intermarket Surveillance Group (EISG) Spring meeting.
- World Energy Regulators' Conference.

To ensure that staff members are aware of and effectively fulfil the organisation's compliance requirements, we continued to run a compulsory training and development program. The training program covers compliance training in relation to the following:

- TRIM (Total Records Information Management) document management.
- Accountable and ethical decision making.
- Cultural awareness.
- Administrative legal matters.
- Occupational safety and health.

In addition to the compulsory training, a number of additional hands-on TRIM training workshops were conducted throughout the year.

Awards

Our 2010/11 annual report received the Gold Award (for agencies with less than 100 full-time equivalent employees), the Allan Skinner Trophy and the W.S. Lonnie Memorial Trophy at the 2012 W.S. Lonnie Awards.

For the third consecutive year, the ERA was awarded “better practice agency” status in financial management in 2010/11. Better practice agency status is awarded to agencies that produce quality and timely financial statements and exercise sound financial controls, demonstrating efficient and effective financial control and reporting.

Performance Management Framework

Although the Economic Regulation Authority is independent of Government in its regulatory and inquiry functions, our agency goals closely align with those of Government.

The table below illustrates the relationship between the relevant Government goals to which the Authority contributes and the Authority’s agency-level desired outcomes and the services we provide which achieve these related goals.

Government Goal	Desired Agency Level Outcome	Agency Services
Results-Based Service Delivery: greater focus on achieving results in key service delivery areas for the benefit of all Western Australians.	The efficient, safe and equitable provision of utility services in Western Australia.	Submissions to the ERA Governing Body.

Performance

Key performance indicators

For the reasons set out in the Disclosures and legal compliance section of this report, the Economic Regulation Authority is only required to report on the administrative performance of its Secretariat regarding the quantity, quality, timeliness and average cost per submission prepared for the Governing Body. These submissions help the Governing Body carry out its functions, including reaching decisions on regulatory matters.

Key effectiveness indicators

The Economic Regulation Authority's key effectiveness indicators are:

- Quantity: number of submissions made to the ERA Governing Body.
- Quality: rating by the ERA Governing Body as to the content, accuracy and presentation of these submissions.
- Timeliness: number and % of submissions provided to the ERA Governing Body within the required deadline.

Key efficiency indicators

The Authority's key efficiency indicator is *cost (efficiency) - $ per submission made to the ERA Governing Body*. The cost is calculated to include the costs of all staff and other resources involved in preparing submissions to the Governing Body.

Comparison between indicators, actual results and budget targets

Indicator	2011/12 target	2011/12 actual	2010/11 actual	2009/10 actual	2008/09 actual	2007/08 actual	2006/07 actual
Number of submissions made to the ERA Governing Body	280	251	296	328	291	248	198
Rating by the ERA Governing Body as to the content, accuracy and presentation of these submissions[1]	4.0	4.1	4.1	3.8	4.0	4.2	4.2
Number and % of submissions provided to the ERA Governing Body within the required deadline.	85%	87%	90%	87%	81%	92%	76.5%
Governing Body rating on the perceived timeliness of submissions	4.0	4.2	4.1	4.0	4.1	4.2	3.9
Average cost per submission	$44,354	$49,466	$35,770	$30,055	$32,304	$30,782	$38,200

The total cost of the Authority's operations for the 12 months under review was $12.416 million, compared to an expenditure limit of $12.419 million. There were 251 submissions compared to the target of 280. The average cost per submission was $49,466 against the target $44,354.

[1] On a monthly basis the Governing Body reviews the submissions that have been prepared by the Secretariat using the rating scale of one - five, with one being "very poor', three being "satisfactory" and five being "excellent".

Report on performance

The following information outlines the key outputs of the Economic Regulation Authority for 2011/12. Performance is categorised based on the nature of the project activity and process undertaken to complete the work.

Cyclical Regulatory Activities

Decisions: third party access to regulated monopoly infrastructure

The ERA is responsible for reviewing access arrangement proposals and making decisions to ensure the terms, conditions and charges that a service provider sets are reasonable and that users have fair access to services.

An access arrangement sets out the prices, terms and conditions which apply to third parties seeking the use of regulated electricity networks and gas infrastructure. Companies generally negotiate with each other on terms and conditions of access, but if they can't, the access arrangement provides mandatory or default terms and conditions of access.

For railway infrastructure, we review and make decisions on a railway owner's regulatory instruments, the components of which together may be used to negotiate an access arrangement.

The decisions on access arrangements and regulatory instruments for the following regulated infrastructure within Western Australia are detailed below.

Gas Access

The ERA regulates three gas transmission pipeline systems and one gas distribution system in Western Australia. These are:

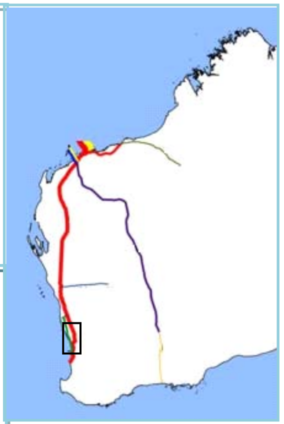
- The Dampier to Bunbury Natural Gas Pipeline;
- The Goldfields Gas Pipeline;
- The Kalgoorlie to Kambalda Pipeline; and
- The Mid-West and South-West Gas Distribution System.

The majority of work undertaken by the ERA on gas access regulation during the year related to appeals brought before the Australian Competition Tribunal (ACT) and the Electricity Review Board (ERB) for review of the decisions made by the ERA in respect of its access arrangements. Details of the appeals are provided below.

Gas Infrastructure Regulated by the ERA

The Dampier to Bunbury Natural Gas Pipeline

- Australia's longest natural gas transmission pipeline
- Runs underground for its entire length (almost 1600 km)
- Transports gas from the Carnarvon Basin off the Pilbara coast in the north of the State to homes and businesses in the south-west by feeding into the WA Gas Distribution System
- Stores 2,700 terajoules of gas energy per day on average
- Owned and operated DBP Transmission



The Goldfields Gas Pipeline

- WA's second longest pipeline (over 1380 km)
- Delivers natural gas from the offshore gas fields in the north-west of WA to the mineral resource regions of the north-east Pilbara and the Goldfields
- Services mines between Yarraloola in the Pilbara and Kambalda along with the township of Kalgoorlie
- Also transports gas to the Kalgoorlie to Esperance pipeline to service customers in Esperance
- Owned by the APA Group and Alinta Energy Group
- Operated and maintained by the APA group

Kalgoorlie to Kambalda Pipeline

- A lateral pipeline connected to the southern end of the Goldfields Gas Pipeline
- Supplies gas from Kalgoorlie, 44 kilometres south to Kambalda servicing mines and power stations
- Capacity in excess of 20TJ per day
- Owned by Southern Cross Pipelines Australia Pty Ltd, a wholly owned subsidiary of APA Group

Mid-West and South-West Gas Distribution System

- Largest reticulated gas infrastructure in Western Australia
- Has combined networks which constitute approximately 13,100 km of gas mains and associated infrastructure
- Connects over 650,000 end users to natural gas and LPG
- Spans the mid-west and south-west of Western Australia to serve Geraldton, Kalgoorlie, Albany, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel and the Perth Greater Metropolitan Area including Mandurah
- Owned, operated and maintained by ATCO Gas Australia Pty Ltd

Dampier to Bunbury Natural Gas Pipeline

The Dampier to Bunbury Natural Gas Pipeline (DBNGP) is Western Australia's longest gas transmission pipeline stretching almost 1600 kilometres and linking the gas fields located in the Carnarvon Basin off the Pilbara coast with population centres and industry in the south-west of WA.

On 22 December 2011, the ERA completed its review of the access arrangement for the DBNGP with the publication of an amended final decision together with its own access arrangement giving effect to its proposed revisions to the access arrangement for the DBNGP.

An application for a review of the ERA's decision was filed with the Australian Competition Tribunal (ACT) on 16 January 2012 by DBNGP (WA) Transmission Pty Ltd on its own behalf and on behalf of DBNGP (WA) Nominees Pty Ltd as trustee for the DBNGP WA Pipeline Trust.

The appeal was heard by the ACT on 16 April and 21–25 May 2012.

The orders of the ACT in relation to that appeal were handed down in July 2012.

Mid-West and South-West Gas Distribution System

The Mid-West and South-West Gas Distribution System (GDS) make up most of the reticulated natural gas infrastructure in Western Australia, stretching from Geraldton in the north and to Busselton in the south.

These reticulated gas mains and associated infrastructure distribute gas sourced from the Dampier to Bunbury Natural Gas Pipeline and the Parmelia Pipeline (which runs from Dongara in the mid-west of the state) to industrial, commercial, small business and residential customers in the mid and south western coastal areas of Western Australia.

The ERA finalised its review process of the access arrangement for the GDS, formerly owned by natural gas distribution utility company WA Gas Networks Pty Ltd (WAGN), with the release of its final decision on 28 February 2011. The ERA subsequently published access arrangement documents for WAGN's GDS on 28 April 2011.

On 21 March 2011, WA Gas Networks filed an application for leave of the Australian Competition Tribunal (ACT) to review the ERA's final decision regarding WAGN's revised access arrangements for the Mid-West and South-West Gas Distribution Systems for the period 1 January 2010 to 30 June 2014.

The application covered a number of aspects of the final decision including the treatment of working capital and certain network costs, and the estimates of the cost of debt and equity capital.

Other grounds for review detailed in the application included the ERA's use of CPI (all groups, eight capital cities) rather than CPI (all groups, Perth) to value the regulated asset base and for use in the reference tariff variation mechanism.

ATCO Australia announced in July 2011 that it had acquired WA Gas Networks from WestNet Infrastructure Group.

The appeal was heard by the Australian Competition Tribunal over 16-20 April 2012 in Perth. The orders of the ACT in relation to that appeal were published on 20 June.

The ERA published a revised final decision in accordance with the ACT orders on 25 June 2012.

What is the significance of the outcome of the appeals of the ERA's final decision for the DBNGP and the Mid-West and South-West Gas Distribution System access arrangements?

The Australian Competition Tribunal (ACT) decision in both the DBP appeal and the ATCO appeal provided clarity regarding the proper construction (interpretation) of rule 87 of the National Gas Rules, which deals with how to determine the appropriate rate of return for the regulated entity.

The ACT upheld both of the ERA's decisions in this regard and accepted the ERA's approach to the estimation of the cost of debt used in arriving at the appropriate rate of return.

The ACT also confirmed the ERA's approach to escalating the regulated values using the national measure of the Consumer Price Index rather than the WA specific measure proposed by both DBP and ATCO. The ACT found no error with respect to the ERA decision not to allow working capital in relation to ATCO.

The outcome of the appeals is significant as it has clarified a number of contentious regulatory issues regarding the determination of the rate of return under the National Gas Rules including the estimation of the cost of debt for regulated businesses. It is anticipated that this will result in greater regulatory certainty and will enhance the long term interests of service providers and consumers.

Goldfields Gas Pipeline

Goldfields Gas Transmission PL (GGT) provides gas transportation services to third party users via the Goldfields Gas Pipeline.

The ERA finalised its access arrangement review process for the Goldfields Gas Pipeline with the release of a further final decision on 5 August 2010 to not approve GGT's proposed revisions submitted in response to the ERA's final decision.

On 19 August 2010, two applications for review of the ERA's final decision were lodged with the Western Australian Electricity Review Board (ERB) pursuant to section 39(1) of the *Gas Pipelines Access (Western Australia) Act 1998*.

An application for review of the ERA's final decision on the revised access arrangement for the Goldfields Gas Pipeline was lodged by BHP Billiton Nickel West Pty Ltd (Application 1/2010).

An application was also lodged by Southern Cross Pipelines Australia Pty Limited, Southern Cross Pipelines (NPL) Australia Pty Ltd, Alinta DEWAP Pty Ltd and Goldfields Gas Transmission Pty Ltd (Application 2/2010).

All matters were resolved following a hearing and orders of the ERB made on 17 February 2012. In accordance with the order of the ERB, the ERA published an amended access arrangement on 13 April 2012.

What is the significance of the outcome of the appeal of the ERA's Goldfields Gas Pipeline access arrangement decision?

The Electricity Review Board provided guidance on the construction of section 3.16(a) of the *National Third Party Access Code for Natural Gas Pipeline Systems* albeit that Code will be redundant following the current access arrangement period for the Goldfields Gas Pipeline. The decision provided clarity regarding the appropriate wording for an extensions expansions policy under the Code which deals with whether extensions and expansions are to be covered (regulated).

Rail Access

The ERA regulates the urban (predominantly passenger) network, the WA non-urban freight network, and The Pilbara Infrastructure PL (TPI) railway stretching from the eastern Pilbara to Port Hedland.

The ERA oversees, monitors and enforces compliance of regulated railway owners in Western Australia with the *Railways (Access) Act 1998* and the *Railways (Access) Code 2000*. Under the Act and the Code, the ERA is required to approve the costing principles and rules that underpin third party access charges that should apply to routes where rail access is likely to be sought.

The ERA is also required to approve/determine the segregation arrangements, which set out the controls and procedures for segregating a railway owner's below-rail access-related functions from any above rail operations.

A "below rail" operator is someone who owns and operates a railway. An "above rail" operator is someone who operates rolling stock on a railway.

Segregation arrangements ensure that, where a company operates both, third parties seeking access to the rail network are not disadvantaged.

The ERA is also responsible for approving the Part Five Instruments defined in the Code. These determine the rules for the safe running of trains on a railway network, ensure that rail capacity is allocated fairly to all users, and establish a basis for the railway owner to set upper and lower cost recovery bounds (known as floor and ceiling costs) for each route section.

The Part Five Instruments are: the Train Path Policy, the Train Management Guidelines, the Costing Principles and the Over-payment Rules.

Determinations made by the ERA during the reporting year on regulatory instruments for regulated rail infrastructure within Western Australia are detailed as follows.

The Pilbara Infrastructure Railway

- Hauls iron ore deposits from FMG's Cloudbreak mine in the eastern Pilbara to Herb Elliot Port in Port Hedland
- Is the world's heaviest haul railway with each train journey on the Cloudbreak to Port Hedland rail line carrying up to 32,950 tonnes of iron ore
- Construction completed in nine months

Brookfield Rail

- Controls over 5,100 km of rail freight infrastructure throughout the southern half of Western Australia – from Geraldton in the north, to Leonora and Kalgoorlie in the east, and south to Esperance, Albany and Bunbury
- Transports a wide range of commodities including grain, alumina, bauxite, iron ore and interstate freight, as well as passengers on the Perth to Kalgoorlie and the Perth to Bunbury lines
- Owned by Brookfield Infrastructure Partners

Perth Urban Passenger Rail System

- Is the fully electrified suburban train system servicing the greater metropolitan area of Perth
- Covers over 173 km of track with 70 stations on five lines
- The Transperth train network consists of the Joondalup Line, the Fremantle Line, the Midland Line, the Armadale/Thornlie Line and the Mandurah Line
- Total of over 58 million boardings in 2010/11
- Owned and operated by the Public Transport Authority

Brookfield Rail

Brookfield Rail has a long term lease over the State's south-west rail freight network and is the provider of "below rail" freight infrastructure in the south-west of Western Australia. In August 2011, WestNet Rail changed its name to Brookfield Rail.

WestNet Rail wrote to the ERA with its proposed adjusted floor and ceiling costs on 15 July 2011. The floor and ceiling costs provide upper and lower limits that WestNet Rail is allowed to recover from users of its rail infrastructure.

The ERA's final determination on WestNet Rail's floor and ceiling costs of July 2009 stipulates that the determination is valid for three years and makes provisions for two annual adjustments of costs for changes in the consumer price index (CPI) and weighted average cost of capital (WACC).

The ERA published its decision to approve WestNet Rail's 2011/12 adjusted floor and ceiling costs on 21 July 2011. This is the second and final annual adjustment of costs for WestNet Rail following the 2009 determination.

Due to the change in name from WestNet Rail, Brookfield Rail must submit revised Part Five regulatory instruments to reflect the name change.

Brookfield Rail submitted proposed revisions to its Train Path Policy and Train Management Guidelines to the ERA. These were published on the ERA website for public comment on 3 May 2012. Seven submissions were received in response to the call for submissions and will be considered in the ERA's determination.

Brookfield has undertaken to also provide proposals for revised Segregation Arrangements, Costing Principles and Overpayment Rules.

The Pilbara Infrastructure Railway

On 22 August 2011 the ERA published amended Costing Principles for The Pilbara Infrastructure (TPI), the owner of The Pilbara Infrastructure railway network.

In order to ensure compliance with the Access Code and TPI's approved Costing Principles, the ERA amended Appendix C of TPI's Costing Principles to include the new Christmas Creek to Cloudbreak line, in the list of route sections to which the costing principles apply.

Section 46 of the *Railways (Access) Code 2000* allows the ERA to request a railway owner to amend its Costing Principles or to replace them with other Costing Principles determined by the ERA.

TPI completed an extension to its railway network, connecting its Christmas Creek mine site to the existing Cloudbreak to Port Hedland railway in November 2010.

On 14 March 2012, the ERA published a further revision to TPI's costing principles.

TPI's costing principles were amended to reflect changes to the Code gazetted in September 2011, which enable the inclusion of land-related costs in railway owners' floor and ceiling cost determinations, and also to reflect the changed requirements of the ERA in respect of the submission of floor and ceiling cost determinations.

The ERA's decision in respect of its requirements for submission of floor and ceiling cost determinations was published in August 2011.

At the request of TPI, the revised costing principles have also been amended to describe TPI's railway network as two route sections, to accommodate the proposed take-off for the 'Solomon Spur'. The network was previously described as one route section, from the Cloudbreak mine to Port Hedland.

TPI's costing principles will be further revised to include the Solomon Spur when it is included in the Code.

Amendment of Railway Owners Regulatory Instruments

In September 2011, the Government gazetted a significant change to the *Railways (Access) Code 2000*. The changes, to Schedule 4 of the Code, affect the calculation of captial and operating costs for the purposes of determining floor and ceiling costs to apply to railway networks.

The amendments enable railway owners to include amounts equivalent to the costs of any lease or licence of land or land purchase related to construction, maintenance or operation of their railway. The Code has until now expressly excluded these classes of costs associated with ownership or access to land.

The inclusion of land-related costs has been introduced to ensure adequate returns to 'greenfields' railway owners, who have built or will build new railways following the introduction of the Code in 2000.

The ERA is currently working with all railway owners to amend their Costing Principles to include provision for the inclusion of land-related costs.

What are Part 5 Instruments?

Part 5 Instruments determine the rules for the safe running of trains on a railway network, ensure that rail capacity is allocated fairly to all users, and establish a basis for the railway owner to set upper and lower bounds for cost recovery (known as floor and ceiling costs) for each route section. The Part Five Instruments are: the Train Path Policy, the Train Management Guidelines, the Costing Principles and the Over-payment Rules.

- **Train Management Guidelines**

  A railway owner's Train Management Guidelines provides a framework for the real-time management of services to be operated on a rail network to ensures that services are operated in a safe, reliable and non-discriminatory manner. The Train Path Policy and the Train Management Guidelines may be amended or replaced by the railway owner with the approval of the ERA.

- **Train Path Policy**

  A railway owner's Train Path Policy is a statement of the policy that the railway owner will apply in the allocation of train paths and the provision of access to train paths that have ceased to be used.

- **Costing Principles**

  Costing Principles establish a basis for the railway owner to determine upper and lower cost bounds for each route section for negotiations associated with access proposals made under the *Railways (Access) Code 2000*.

- **Over-payment Rules**

  Over-payment Rules establish a basis for the railway owner to reimburse operators in the event that total revenue earned on a particular route section exceeds total costs attributable to that route section. Reimbursements mandated by the Over-payment Rules accrue only to operators who are provided with access under the Code.

Electricity Access

Western Power Electricity Transmission and Distribution Networks

The ERA is responsible for regulating third party access to regulated or 'covered' electricity networks in Western Australia. Currently, Western Power's South West interconnected network is the only regulated network in Western Australia.

Under the *Electricity Networks Access Code 2004*, Western Power must have an access arrangement that is approved by the ERA. An access arrangement details the terms and conditions, including prices, that apply to third parties seeking the use of regulated electricity networks. Access arrangements continue in effect from their start date until the network ceases to be covered.

Western Power is required to periodically submit proposed revisions to its access arrangement in accordance with the revisions submission date.

The ERA is finalising its review of Western Power's proposed revised access arrangement for the third access arrangement period which covers the five year period from 1 July 2012 to 30 June 2017.

Our role is to determine whether the proposed access arrangement complies with the requirements of the Access Code and to approve the cap on the revenue that Western Power can earn over the period of the access arrangement.

The review is guided by the Access Code, and with the objective of promoting economically efficient investment in, and operation and use of, electricity networks and services of networks in Western Australia, to promote competition in markets upstream and downstream of the network.

Western Power submitted its proposed revisions to its access arrangement on 30 September 2011. The proposed revised access arrangement was published on the ERA website on 7 October and interested parties were invited to make submissions.

In November 2011, we released an issues paper and held a public forum to help interested parties understand Western Power's proposed revisions to the access arrangement and the ERA's process for considering the proposal. Public submissions were received from 36 interested parties in response to our issues paper.

Our draft decision was published on 29 March 2012 and we conducted a public consultation process over a period of two months. The ERA's draft decision outlined 80 amendments that are required to be addressed by Western Power before the ERA can approve Western Power's access arrangement.

The draft decision set a cap of $6.8 billion on the revenue Western Power can earn over the next five years. The ERA's cap on the allowed revenue is 34 per cent below the amount Western Power requested.

The draft decision results in average annual real tariff reductions for network services of around 0.4 per cent for the period over which the access arrangement is to take effect (the period from 1 July 2012 to 30 June 2017). This is compared to Western Power's proposed tariff increases of 16.4 per cent in 2012/13 followed by increases of approximately 11 per cent for each of the following four years.

The ERA is considering the submissions received in response to its draft decision and expects to release its final decision in early 2012/2013.

Access Arrangement Period	Proposed access arrangement submitted to ERA	Date Access Arrangement Approved by ERA	Revised Access Arrangement Effective Date
AA1: 2006/07 -2008/09	24 August 2005	26 April 2007	1 July 2007
AA2: 2009/10 - 2011/12	1 October 2008	19 January 2010	1 March 2010
AA3: 2012/13 – 2016/17	30 September 2011	early 2012/13	To be determined

What is the significance of Western Power's proposed Revised Access Arrangement for 2012- 2017?

The retail price of electricity that is paid for by households and businesses is set by the State Government. Network charges make up approximately 40 per cent of current electricity tariffs for residential customers and are set by the ERA.

The ERA is responsible for regulating network charges to promote economically efficient investment in, and operation and use of, electricity networks and services in Western Australia.

By assessing Western Power's proposed revised access arrangement, the ERA has a role in promoting competition in markets upstream and downstream of the networks (generation and retail markets).

Without regulation, Western Power, as the sole electricity distribution and transmission network owner in the southwest of WA, would be able to set its own terms and conditions of access to its networks for users.

The ERA sets the network prices so that Western Power can recover what we deem to be the costs an efficient network owner would expect to incur during the period for which the price cap applies (in this case the AA3 period covers the five years from 1 July 2012 to 30 June 2017).

This way, users of the network do not pay more than they should for the service they are being provided.

The ERA's final decision on its assessment of Western Power's proposed revisions to the access arrangement for its network will set out the network tariffs to apply for the five year period to 30 June 2017. The ERA expects to release the decision in early September 2012.

Access Arrangement Variations - Contributions Policy

On 17 January 2012, the ERA received a proposal from Western Power to vary Appendix 3 of its access arrangement for the period 2009/10 to 2011/12: the contributions policy.

Western Power's proposed changes relate to the inclusion of a new distribution low voltage connection scheme (DLVCS) in the contributions policy. The contributions policy sets out the principles and processes for determining when a contribution will be required from a user, including for a network augmentation, and for determining the amount of the contribution.

Under the current contributions policy, customers seeking a new low voltage connection to the electricity network are required to pay a capital contribution based on the specific augmentation costs for individual new customer connections less the forecast incremental revenue that Western Power would earn as a consequence of the connection. Capital contributions are assessed on a case by case basis.

Western Power considers that its proposed DLVCS will address concerns raised by customers about the lack of transparency of the current contributions policy and the lack of predictability of the required contributions amounts.

The ERA published an issues paper on 18 May 2012 to assist interested parties in understanding Western Power's variation proposal.

In considering whether to approve Western Power's variation proposal, and hence allow variations to Western Power's access arrangement, the ERA must determine whether the proposed variations are consistent with the specific requirements for a contributions policy as set out in the Electricity Networks Access Code 2004. The ERA is to also consider whether the benefits to stakeholders of introducing the proposed DLVCS as a mid-term variation outweigh any disadvantages associated with decreased regulatory certainty, increased regulatory cost or delays.

On 28 June 2012, the ERA invited comment on its draft decision on Western Power's proposed mid-period revision to the contributions policy contained in Appendix 3 of its approved access arrangement for the second access arrangement period.

The ERA's draft decision identified a number of required amendments that needed to be addressed by Western Power. Following consideration of submissions received in response to the draft decision, the ERA expects to publish its final decision in September 2012.

Technical Rules

Technical Rules are the standards, procedures and planning criteria governing the construction and operation of an electricity network and are required under the Access Code for all covered networks.

Technical rules exist to ensure that parties seeking to use an electricity network do so without affecting the proper, reliable and safe operation of the electricity networks.

The ERA first approved and published Western Power's Technical Rules on 26 April 2007 which became effective from 1 July 2007. Revisions to Western Power's Technical Rules were approved by the ERA on 10 November 2011 and took effect from 23 December 2011.

Approval of the technical rules was granted following a public consultation process involving an invitation, on 16 August 2011, for interested parties to comment on Western Power's proposed amendments to the Technical Rules for the South West interconnected system (SWIS). Submissions were received from ten parties.

Applications for Exemption from certain requirements of the Technical Rules

Under section 12.40 of the Access Code, Western Power may apply to the ERA for an exemption from one or more requirements of its technical rules which apply to it, as the service provider, and all applicants, users and controllers of the covered network.

The ERA is required to make a determination on an application as soon as practicable and have regard to the effect the proposed exemption will have on the service provider and users of the network and any interconnected network.

The ERA must grant the exemption if it determines that in all the circumstances, the disadvantages of requiring compliance with the Technical Rules are likely to exceed the advantages.

On 30 May 2012, the ERA published a notice and an issues paper seeking public comment on applications received from Western Power for exemption from compliance with certain requirements of its Technical Rules in relation to the supply of electricity to Karara Mining Ltd (KML) and the proposed Mumbida Windfarm.

Interested parties were invited to make submissions on Western Power's application for exemption from certain requirements of the Technical Rules until 14 June 2012. One submission was received, and will be taken into consideration in the ERA's final determination.

Model Technical Rules

Under the *Electricity Networks Access Code 2004*, service providers of non-covered networks that are part of the SWIS are also required to have technical rules.

As an alternative to developing their own technical rules, these non-covered network service providers can adopt model technical rules which the ERA is required to draft, approve, publish and advertise under section 12.61 of the Access Code.

As the model technical rules are to be developed for the SWIS, which comprises in large part Western Power's South West interconnected network, we proposed to base the model technical rules on Western Power's technical rules.

Due to the current work associated with the Western Power's revised access arrangement for the third period (AA3) the ERA decided to extend the deadline for publication of model technical rules for the SWIS. We released a notice on 31 May 2012 of our decision to extend the deadline for us to publish model technical rules to 1 June 2013.

Decisions: Wholesale Electricity Market

Energy Price Limits

PERFORMANCE

Energy price limits are a set of price caps within which participants in the wholesale electricity market (WEM) are allowed to bid for or offer energy in the short term energy market (STEM). The energy price limits are comprised of the maximum STEM Price, the alternative maximum STEM Price and the minimum STEM Price. The energy price limits are part of the market power mitigation mechanisms in the WEM, and setting these price caps to an appropriate level is an important step to minimise the long-term cost of electricity supply to customers.

The Independent Market Operator (IMO) is required to annually review the appropriateness of the value of the energy price limits and may propose revised values for the maximum STEM price and the alternative maximum STEM Price.

Proposed changes in the value of the energy price limits must be reviewed by the ERA and a decision is made as to whether or not to approve the revised values. In making our decision, we consider whether the revised value for the Energy Price Limits proposed by the IMO reasonably reflects the application of the method and guiding principles described in the Market Rules and whether the IMO has carried out an adequate public consultation process.

2011 Energy Price Limits

The IMO provided its final report on its review of the 2011 Energy Price Limits for the ERA's approval in September 2011. The ERA received the IMO's final report, accompanied by one submission received by the IMO, and a consultant's report.

The ERA published its decision on the IMO's 2011 Energy Price Limits on 7 October 2011. The approved limits were \$314/MWh for the Maximum STEM Price and \$533/MWh for the Alternative Maximum STEM Price.

2012 Energy Price Limits

The ERA received the IMO's Final Report on 6 June 2012 proposing revised values for the Energy Price Limits that also incorporate the impact of the carbon pricing due to the implementation of the Commonwealth Government Clean Energy Future Plan from 1 July 2012.

On 25 June 2012, the ERA published its decision on the 2012 Energy Price Limits submitted by the IMO. The approved Energy Price Limits of \$323/MWh for the Maximum STEM Price and \$547/MWh for the Alternative Maximum STEM Price took effect on 1 July 2012.

Maximum Reserve Capacity Price

The maximum reserve capacity price (MRCP) is implemented to provide incentive for more participants to enter the wholesale electricity market in order to promote efficiencies in the market. Setting the MRCP at an appropriate level is an important step to minimise the long-term cost of electricity supply to customers.

The MRCP is set for each capacity year and is used as the price cap for a capacity auction in the event that one is held. It is based on the expected cost of new entrant peaking generation plant, and the associated costs required to establish such plant, that is capable of supplying electricity to the South West interconnected system.

The IMO submitted its final report on the MRCP for the 2014/15 Reserve Capacity Year on 15 February 2012 to the ERA for review. In making its decision, the ERA considered whether the revised value for the MRCP proposed by the IMO reasonably reflects the application of the method and guiding principles described in the Market Rules and whether the IMO had carried out an adequate public consultation process.

On 27 February 2012, the ERA released a final decision which approved the IMO's proposed revised maximum reserve capacity price for the 2014/15 Reserve Capacity Year of $163,900 per MW per year. The revised value will be effective from 1 October 2014 to 1 October 2015.

Ancillary Service Parameters

Ancillary Services are the services required to match total system generation to total system load to correct any frequency variations and provide reserve electricity generation capacity to respond rapidly in the event of a failure of one or more generators in the system. These services can be procured in the form of contracts between Western Power's System Management and market participants who have the capacity to provide such services, or through a dynamic and competitive market process, or by assigning to a default provider (i.e., the State-owned generator, Verve Energy).

The ERA is required to determine the values for the Ancillary Service Margin_Peak and Margin_Off-Peak parameters under the Market Rules. In making its determination, the ERA must undertake a public consultation process which must include publishing an issues paper and a call for public submissions.

The underlying principle for determining these values is to ensure Verve Energy, in providing the relevant ancillary services as the default provider, is appropriately compensated for: the energy sales foregone; and the generation efficiency losses that could reasonably be expected to be incurred in providing the relevant ancillary services. This is vital to ensure that fair and efficient outcomes are delivered to customers.

Under the Market Rules, the determined values for these ancillary service parameters are used in market settlement payment calculations for the provision of Spinning Reserve Ancillary Services (SRAS) and Load Following Ancillary Services (LFAS) in the WEM.

Recent amendments to the Market Rules required the ERA to make a determination on the values for these ancillary service parameters by the commencement day of the new Competitive Balancing and Load Following Market (1 July 2012). These amendments include significant changes to the provision of LFAS, whereby a competitive market process will be introduced, allowing other market participants to provide this service. Hence, the Ancillary Service Margin_Peak and Margin_Off-Peak parameters will no longer include compensation for the provision of LFAS.

The ERA received a submission from the IMO on 30 November 2011 proposing the values of the ancillary service parameters that compensate for the provision of both SRAS and LFAS for the period from 1 July 2012 to 30 June 2013.

On 28 March 2012, the IMO submitted to the ERA proposed values for the SRAS parameters under the amended Market Rules for the period from the Balancing Market Commencement Day to 30 June 2013.

The ERA published an issues paper and a notice inviting public submissions on its website on 20 April 2012. On 22 June 2012, the ERA published its determined values for the Ancillary Service Margin_Peak and Margin_Off-Peak parameters for the 2012/13 financial year.

CASE STUDY

Wholesale Electricity Market Surveillance

The ERA monitors the effectiveness of the WA Wholesale Electricity Market (WEM) and, with the assistance of the Independent Market Operator (IMO), investigates anomalous behaviour in the market

The WEM allows for competition between generators and retailers, which is expected to deliver electricity at prices less than would otherwise be possible. The market mechanisms are aimed at ensuring the most efficient and least cost generators are used to supply electricity, thus keeping prices as low as practicable. Customers benefit from having a mechanism that ensures they can use electricity when they need it and the electricity is delivered at the minimum practicable cost.

The ERA's review of the effectiveness of the WEM is important as it identifies whether there are problems with the market design and if improvements are required to make the market more effective in meeting the Market Objectives.

At least annually, the ERA must provide the Minister for Energy with a report on the effectiveness of the market.

The report includes any recommended measures to increase the effectiveness of the WEM in meeting the Market Objectives, as well as reporting on a large number of prescriptive items specified within the *Wholesale Electricity Market Rules*.

In its 2011 assessment of the performance of the WEM in meeting the Market Objectives, the ERA concluded that the outcomes in the WEM, over the five and a half years since market commencement, indicate that the market functions well, to the benefit of electricity consumers. The volume of trading in the Short Term energy Market (STEM) is at its highest level since market commencement and average STEM prices are at their lowest levels.

The price for capacity has fluctuated over time, but has recently been reduced by one third. There has also been greater competition in the market, particularly in the generation sector.

Notwithstanding the above, the report highlights that there are a number of issues regarding the market's operation that require resolution, including:

- the potential merger between Verve Energy and Synergy, which would further extend structural barriers to effective competition and increase cost pressures on consumers;
- the substantial excess capacity procured under the Reserve Capacity Mechanism;
- the increasing costs to the market of Demand Side Management;
- the effectiveness of the outage planning process, and in particular, the high rates of planned outages allowed for certain generation facilities, and their associated impact on market prices;
- the impact of increasing intermittent generation as a result of climate change policies; and
- the potential for a conflict of interest under the current market governance arrangements.

Reviews

The ERA is required by legislation to periodically review certain industry codes. In other cases we are empowered to make amendments and can initiate a review if deemed necessary, for example, when changes take place which affect our operations.

A relevant Minister may also request the ERA to conduct a review of the effectiveness of particular legislation.

Review of the Railways (Access) Code 2000

During the year the ERA finalised its most recent review of the *Railways (Access) Code 2000* with a final report submitted to the Treasurer on 23 December 2011.

We are required to conduct a review of the *Railways (Access) Code 2000* and provide a final report to the Treasurer after the third anniversary of its commencement and after the expiry of each five yearly interval after that anniversary.

The Department of Treasury undertakes further public consultation on the issues raised in the ERA's final report and arranges Code changes based on the advice provided in the ERA review and taking into account other policy changes.

The code commenced in September 2001 and the first review was undertaken in 2004. The second review of the code commenced with the publication of the ERA's issues paper in October 2009.

A draft report for the review was published in November 2010. In response to comments raised in public consultation, the ERA undertook additional analysis of some issues raised in the draft report. In particular, the ERA explored the issue of the appropriateness of the valuation method prescribed in the Code (the "Gross Replacement Value" (GRV) method) with particular regard to the ease with which additional value associated with capital expansions may be accommodated by that method.

The ERA was satisfied that the 2004 Code amendments had adequately addressed this issue and that the GRV method enables railway owners and access seekers to negotiate agreements involving capital expansions.

In the process of investigating this issue, the ERA clarified the requirements for floor and ceiling costs to be determined and published an issues paper in May 2011 and a final decision in August 2011 on these matters in order to clarify the minimum requirements of the Code in this respect.

The final report makes recommendations which seek to:

- improve the availability of information for parties seeking access to the railway to promote competition in the provision of above rail operations;

- reduce the likelihood that access negotiations may be unnecessarily delayed if a railway owner withholds information by broadening the definition of disputes to include disputes relating to information provision and negotiation obligations;

- remove barriers to the efficient/effective administration of the Code and ensure that the consultation provisions within the Code are applied consistently;

- clarify the definitions of railways which are subject to the Code;

- clarify the considerations a railway owner might properly have regard to in providing differential treatment to prospective access seekers; and

- expedite timely resolution of proposals for access to new railways by development of a set of 'model' Part 5 instruments to apply to all new railways from commencement of their operations.

The report includes an appendix which covers all issues associated with the valuation method which were raised in public consultation and the conclusions of the ERA in respect of those issues.

Further consultation and finalisation of any resulting Code amendments will be managed by the Department of Treasury, following consideration of the report by the Treasurer.

Code of Conduct for the Supply of Electricity to Small Use Customers

The *Code of Conduct for the Supply of Electricity to Small Use Customers* regulates and controls the conduct of retailers, distributors and electricity marketing agents who supply electricity to residential and small business customers. The code was developed to protect the interests of customers who consume no more than 160 MWh of electricity per annum (equates to an annual electricity bill of approximately $40,000).

A statutory review of the code is conducted bi-annually, with the last review taking place in late 2011 to mid 2012. As a result of this review, we made a number of amendments to the code, which will take effect from 1 January 2013. These amendments include removal of duplication with other legislation, in particular the Australian Consumer Law (which commenced on 1 January 2011), requiring retailers to include additional information such as concessions and consumption amounts on customers' bills, and changes to bill smoothing requirements.

Additional customer protection measures were also introduced for life support customers. These measures include the introduction of timeframes for the registration of life support customers (for both retailers and distributors), and a requirement on distributors to use best endeavours to obtain written or verbal acknowledgment of planned interruptions from a life support customer.

The next review of the code is due to commence in late 2013. The Electricity Code Consultative Committee (ECCC) is currently compiling a register of issues to be proposed for consideration in the review. Some issues for consideration include:

- the inclusion of electricity consumption benchmarks on residential customers' bills;
- payment difficulty and financial hardship policy provisions; and
- extending the service standard payments for wrongful disconnection.

The ECCC is also further considering issues surrounding life support, including registration and deregistration of life support customers and definitions of life support equipment, in advance of the commencement of the next code review.

Gas Marketing Code of Conduct

Following completion of the 2010 review, the Gas Marketing Code of Conduct 2012 came into force on 1 July 2012.

The next review of the code is due to commence in May 2013. The review will identify issues for consideration by the Gas Marketing Code Consultative Committee (GMCCC).

New appointments to the GMCCC will be made in March 2013, as the current term of appointments will expire at that time.

Review of the Requirements for Railway Owners to Submit Floor and Ceiling Costs

The ERA published its final decision on the review of the requirements for railway owners to submit floor and ceiling costs on 25 August 2011.

The *Railways (Access) Code 2000* requires railway owners to submit floor and ceiling cost proposals when the ERA expects an access proposal is likely to be made (clause 9 of Schedule 4 of the Code) or if an access proposal is actually received by the railway owner (clause 10 of Schedule 4 of the Code). Prior to the review, railway owners were required to submit floor and ceiling costs for re-determination every three years, regardless of whether an access proposal is received by any railway owner.

On 11 May, the ERA published a notice calling for submissions from interested parties on its issues paper on the review of the requirements for railway owners to submit floor and ceiling costs to establish if there is merit in continuing its current practice of requiring re-determination of floor and ceiling costs every three years. Eight public submissions were received in response to the issues paper.

The ERA's final decision increased the period over which floor and ceiling cost determinations remain current from three years to five years, and removed the requirement for automatic re-determination of costs on the expiration of each determination.

The requirement to submit floor and ceiling cost determinations on the commencement of a railway's operations will remain, and costing models reflecting an accurate specification of relevant route sections of railway owners' networks will remain available on the ERA's website.

The final decision document provides clarity on the circumstances under which the ERA will require re-determination of costs, and where railway owners' interests are best served by ensuring that their cost determinations are kept up-to-date.

The final decision ensures that railway owners will provide, at the commencement of the application of the Code to their railway, a working costing model which will ensure adequate transparency of costs to potential access seekers. The ERA decided to continue this practice in response to submissions which argued that a basic level of cost transparency is required to support the aims of the Western Australian Railways Access Regime.

None of the amendments to the ERA's processes outlined in the final decision document required changes to legislation.

Reports

The ERA is required to publish a number of reports on the performance of the industries it regulates.

Annual Report to the Minister for Energy - WA Wholesale Electricity Market

Under the Wholesale Electricity Market Rules, the ERA must provide the Minister with a report on the effectiveness of the Wholesale Electricity Market (WEM) at least annually, and to publish the report after consultation with the Minister.

During the reporting year, we published the 2010 and the 2011 annual reports to the Minister for Energy on the effectiveness of Western Australia's wholesale electricity market.

The reports provide the ERA's assessment of the effectiveness of the market in promoting economically efficient, safe and reliable production and supply of electricity and related services in the South West interconnected system. The reports also provide a summary of market information and data for each calendar year and provide the ERA's recommended measures to increase the effectiveness of the market.

2011 Minister's Report

The 2011 WEM report was submitted to the Minister for Energy on 5 April 2012. Following a period of consultation with the Minister for Energy, the report was published on our website on 14 May 2012.

In producing the report the ERA underwent a public consultation process where interested parties were invited to comment on a discussion paper, published on 25 October 2011, and on any other strategic, policy or high-level issues that are impacting on the effectiveness of the market.

The ERA received eight submissions in response to its invitation for public submissions on its discussion paper. Submissions were received from Synergy, Alinta, Landfill Gas and Power, System Management, Western Power, Energy Supply Association of Australia, Sustainable Energy Association of Australia and ERM Power.

In the 2011 WEM annual report, the ERA concluded that the market has functioned well since the market commenced, to the benefit of electricity consumers. However, a number of issues regarding the market's operation that require resolution were highlighted.

The ERA finalised the report and provided both the confidential and public versions of the report to the Minister for Energy on 5 April 2012. The public version of the report was published on the ERA website on 14 May 2012.

2010 Minister's Report

The ERA provided its 2010 WEM report to the Minister for Energy on 6 May 2011 and after a period of consultation with the Minister for Energy, published the public version of the report on the ERA's website on 10 August 2011. The 2010 WEM report for the Minister for Energy was tabled in both Houses of Parliament accompanied by a Ministerial Statement in the Legislative Council on 10 August 2011 as required under the *Electricity Industry Act 2004*.

In its 2010 report, the ERA concluded the Wholesale Electricity Market in Western Australia has to date been relatively successful. In its report, the ERA assessed the performance of the market in meeting its objectives and concluded that the Market has been relatively successful thus far, with:

- a number of new generators becoming established in the Market;
- increased trade volumes in the Short Term Energy Market; and
- greater bilateral contracting activities between market participants other than Verve Energy and Synergy.

However, the report also highlighted that the Market is still dominated by Verve Energy and Synergy, with Synergy's energy sold market share remaining steady at 80 per cent.

A number of issues that are limiting the progression to a more competitive electricity market which concern the ERA include:

- Market competition, particularly the slow progress towards increased competition in the retail market and the need for clarity about the State Government's policy intentions and timeframe for increasing competition.
- Whether the Replacement Vesting Contract encourages the development of competition in the generation, wholesaling and retailing of electricity.
- The inefficiencies of renewable energy schemes and their adverse impact on consumers.

The ERA recommended a review should be carried out into the overall level of competition in the market and that this review should be undertaken in a transparent, open and consultative manner led by a better resourced Office of Energy (now Public Utilities Office).

Annual Service Provider Performance Reports

The ERA publishes reports on the performance of electricity, gas and water service providers in Western Australia annually. These reports inform customers, government and the community about the level of service that is being delivered to small use customers who do not have a choice of utility retailer.

The reports cover the performance of:

- Energy distributors.
- Energy retailers.
- Water service providers.

An example of some of the information is provided in the following case study.

CASE STUDY

2010/11 Annual Performance Report - Energy Retailers

The ERA has a role in informing customers about the levels of service provided by electricity and gas retailers, particularly those retailers who supply residential and small business customers. The purpose of the Energy Retailer Report is to bring transparency and accountability to the performance of electricity retailers and gas retailers who supply small use customers. It presents the performance of retailers based on a nationally consistent reporting framework which measures: affordability; access to supply; customer service and compensation payments.

Competition in the small use electricity and gas retail markets

The majority of residential and small business customers (those using less than 50MWh or approximately $12,500 worth of electricity per annum) are not able to choose an alternative retailer if they are dissatisfied with the pricing or service provided by their current retailer.

This is because competition in both the small use electricity and gas retail markets continues to be constrained by structural issues.

In the South West Interconnected System (SWIS), which includes the coastal area from Kalbarri to Bremer Bay and the Goldfields, there are legislative constraints that prevent retailers other than Synergy from supplying the majority of small use residential and business customers.

Outside the SWIS there is full retail contestability. However, customers in these areas of the State are only supplied by a single retailer, Horizon Power.

The absence of other retailers in regional areas of the State is due to the distribution of the customers and Horizon Power's tariffs for residential and small use customers being capped at the same level as those that apply in the SWIS, which makes supplying these customers a commercially unattractive proposition for other retailers.

In the gas retail market, the Gas Market Moratorium prevents Synergy from supplying customers who consume less than 180GJ of gas per annum within the Alinta Sales supply areas.

Affordability

Over the past three years, the number of residential and non-residential customers seeking more time to pay a bill has increased significantly, with the number of Synergy's customers on instalment plans (to pay off arrears) peaking in 2010/11:

- It appears that the effects of the rapid increase in electricity tariffs since 2009 continue to be felt by customers.
- In contrast, the number of gas customers seeking assistance with their bills has remained relatively unchanged, probably because the recent increases in gas tariffs have been much lower than those in electricity.

Disconnections and Reconnections

A key indicator of financial stress is the number of customers who are disconnected for non payment of a bill:

- The state-wide level of electricity disconnections increased by 137 per cent (from 3,348 to 8,295 customers) in 2010/11, largely attributable to the number of disconnections by Synergy.
- Synergy has previously informed the ERA that the historically low electricity customer disconnection rate in 2009/10 was unsustainable due to temporary moratoria on disconnections throughout that year.
- Compared to 2009/10, there was an increase in the proportion of disconnected electricity customers being reconnected within seven days of disconnection.
- Western Australia had the second highest electricity customer disconnection rate of all states in 2010/11, up from the previous year where Western Australia had the lowest disconnection rate.

The ERA sees the increase in electricity disconnections as indicating that retailers could do more to assist customers avoid disconnection through the application of their hardship policies.

The level of residential and non-residential gas disconnections both fell in 2010/11, by 38 per cent (17,232 to 10,848 customers) and 47 per cent (158 to 86 customers) respectively, largely due to similar falls in the number of Alinta Sales' customers who were disconnected. The residential gas disconnection rate (1.76 per 100 customers) was still almost double the residential electricity disconnection rate (0.9 per 100 customers).

Customer Service

The level of customer service provided by retailers is measured by complaints and call centre performance, for those retailers who operate a call centre:

- Residential customer complaints to electricity and gas retailers increased significantly in 2010/11.
- The individual retailer performance presents a mixed picture, with Horizon Power seeing their complaints fall to historically low levels, while both Alinta Sales and Synergy recorded historically high levels of complaints.
- The increase in complaints made to Synergy relate to billing, mostly due to tariff increases and billing system issues. In contrast, the majority of complaints made to Alinta Sales relate to problems with the level of service provided to customers.
- The volume of calls to call centres in 2010/11 (1,518,371 calls to electricity retailers and 911,203 calls to gas retailers) was the highest since the ERA commenced reporting retailer performance in 2006.
- The overall performance of both electricity and gas retailers against the three measures of call centre service (calls answered within 30 seconds, average time to answer a call and the percentage of calls abandoned) fell during 2010/11, although some individual retailers may have seen an improvement in one or more of their service measures.

Other Cyclical Regulatory Activities

Western Power Price Lists

Under the *Electricity Networks Access Code 2004*, Western Power is required to submit its price list to the ERA each year for approval 45 business days prior to the charges coming into effect. The ERA must make its determination within 15 days of receiving the proposed price list.

Our determination of Western Power's 2012/13 Price List for Western Power's Electricity Network was published on 18 May 2012. Western Power submitted its proposed 2012/13 Price List on 27 April 2012. In our assessment of the proposed 2012/13 price list, we considered that it did not comply with either the price control or pricing methods of the current access arrangement. Consequently, we determined that existing prices will remain in effect until a revised proposed price list is approved. The price list sets out details of Western Power's charges to its customers for the twelve months from 1 July 2012.

Western Power submitted its proposed 2012/13 price list under the current access arrangement that applies to the Western Power Network that commenced on 1 March 2010. While Western Power submitted proposed revisions to the current access arrangement with the intention for the revisions to have effect from 1 July 2012, the current access arrangement will continue to have effect until a final decision is made later in 2012.

The current access arrangement was approved by the ERA on 19 January 2010 with a commencement date of 1 March 2010. Under the Access Code, this current version of the access arrangement continues in effect until proposed revisions that have been assessed and approved by the ERA come into effect. Western Power submitted proposed revisions to its access arrangement on 30 September 2011, with a target revisions commencement date of 1 July 2012. Based on current timelines, the assessment process will not be completed until sometime after 1 July 2012.

Service Standards

We monitor and publish, on an annual basis, Western Power's actual service standard performance against its service standard benchmarks.

A service standard can refer to either the technical standard and/or reliability, of delivered electricity. Under the *Electricity Networks Access Code 2004* (Access Code), a service provider must include, as part of its access arrangement, service standard benchmarks for each of its reference services.

Under the Access Code, the ERA may request a "service standard performance report" from Western Power for the purposes of monitoring actual performance against service standard benchmarks.

On 26 September 2011, we published Western Power's service standard performance report for the year ending 30 June 2011. Under the Access Code, service providers must supply reference services at a standard at least equivalent to the benchmarks set out in their access arrangements.

Western Power reported that all benchmark targets were met or exceeded with the exception of circuit availability and system minutes interrupted on the radial network.

The performance data in Western Power's Service Standard Performance Report covers the following measures: circuit availability, system minutes interrupted, loss of supply events, average outage duration, system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI), and streetlight repairs.

We continue to monitor Western Power's performance against these measures.

Further to the performance standards that are monitored as part of the access arrangement, we are also responsible for monitoring Western Power's compliance with its electricity licence obligations and publish separate annual reports in relation to this.

Service Standard Adjustment Mechanism

As required under the Access Code, Western Power's current access arrangement includes a service standard adjustment mechanism (SSAM). At the next access arrangement review we will apply a financial reward or penalty to Western Power in relation to its actual performance over the second access arrangement period (2009/10 to 2011/12).

Western Power's Service Standard Performance Report - Year ending 30 June 2011 sets out its assessment of the reward that arises from the operation of the SSAM for the 2009/10 and 2010/11 period. Western Power calculates this cumulative reward to be $19.7 million.

We are reviewing the operation of the SSAM as part of the Western Power access arrangement review to determine the total reward or penalty to be applied to Western Power's access arrangement for the period 2012-2017.

One-off Activities

Economic inquiries

The ERA undertakes inquiries referred to it by the State Government of Western Australia. An inquiry is initiated when a 'terms of reference' is issued by the Treasurer to the ERA. The terms of reference details the scope, process and duration of an inquiry.

Soon after receiving the terms of reference the ERA publishes an issues paper and invites public consultation. Once the consultation period closes, a draft report is released for further consultation before the final report is completed.

The ERA draws on the information it receives in submissions and information, research and expertise assembled from other sources to formulate its findings. Any member of the public can participate in a public consultation process.

Once complete, the final report is forwarded to the Treasurer who then has 28 days to table the report in Parliament and release it to the public.

In 2011/12 the ERA concluded two major inquiries:

- Inquiry into the Costs and Benefits of the State Underground Power Program; and
- Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs.

The ERA is currently progressing two inquiries, both of which are expected to be completed in 2012/13. These inquiries are the:

- Inquiry into the Efficient Costs and Tariffs of the Water Corporation, Aqwest and the Busselton Water Board; and
- Inquiry into Western Australia's Home Indemnity Insurance Arrangements.

Completed Inquiries

Inquiry into the Costs and Benefits of the State Underground Power Program Inquiry

Our final report on the inquiry into the overall costs and benefits of the State Underground Power Program (SUPP) was submitted to the Treasurer on 30 September 2011.

The final report was publicly released on 20 October 2011.

Our final report found that the program has provided an overall positive value to Western Australians, particularly to property owners in suburbs where underground power has been installed.

Overall, property owners have benefited more from the SUPP than they have paid for it, as reflected in increased property values. Western Power has also benefited from the program through lower maintenance costs and avoided replacement costs of overhead distribution assets (such as poles, transformers and wires).

On average, it is estimated that Western Power has contributed an amount similar to the benefit that it has received from the SUPP, although benefits have varied for each project depending on the required replacement and maintenance costs that would have been spent on the pre-existing overhead network in each project area.

The wider Western Australian community (taxpayers) have benefited from the SUPP as well, although it appears to have contributed funding to the SUPP to a greater extent than it has benefited from it. In doing so, taxpayers have subsidised the cost of the program to the property owners.

Under the existing program, major residential projects are funded by local governments (50 per cent, which is generally passed on to ratepayers), Western Power (25 per cent) and the State Government (25 per cent).

Although the ERA's view is that the amount that each of these parties should fund in the future should be based on the benefits that they are estimated to receive from the SUPP, it is recognised that the Government may still want to continue to fund a portion of the SUPP costs which is greater than the benefit that the wider community receives from the program.

This could be due to the fact that to date, the SUPP has been installed in some of Perth's wealthier suburbs (on average). This means that the subsidy from taxpayers has been directed more towards property owners in wealthier suburbs than those in less wealthy suburbs. The ERA's view is that this is inequitable and the subsidy to suburbs with higher property values does not represent an efficient use of taxpayer funds, because the ratepayers in these suburbs may have paid for their entire share of the costs of undergrounding. Further, it is likely that more SUPP projects could have been provided for the same amount of funding from public funds.

The ERA therefore considered who should pay for the SUPP in the future, based on the proportion of benefits that have accrued to each party in the cost benefit analysis of the SUPP.

We proposed that a more flexible approach be adopted, where Western Power could contribute an amount equal to the value of its avoided costs for each individual project area (on average, the contribution from Western Power could be between 15 and 35 per cent although it could be more or less than this depending on the actual project area).

The State Government's contribution could vary depending on the property values in each project area (with households in higher property value areas paying more). Additionally, the State Government may wish to increase its contribution for projects in areas with low socio-economic status.

The ERA proposed an example of where the State Government could continue contributing 25-40 per cent of the cost of SUPP projects where the median house price is at or below the Perth median house price at the time when the projects are short listed. However, there is no justification (on efficiency or equity grounds) for the Government to continue to provide a 25 per cent contribution for high-value suburbs that benefit most through improved amenity values, as measured by increased house prices.

Consequently, the contribution from the State Government could then decrease as the median property prices increase, with the highest value suburbs receiving a State Government contribution of 5 per cent.

The funding contribution from local governments (through ratepayers) should be the residual of the total project cost of an area, after the variable contributions from Western Power and the State Government, to a maximum indicated by the proportion of quantifiable benefits to property owners.

Based on an example in the final report (see table below), which uses illustrative shares for the beneficiaries depending on Western Power's actual avoided costs and the median value of properties in each future SUPP project area, local governments (ratepayers) could contribute between 25 and 80 per cent to the cost of future SUPP projects.

The ERA's proposed approach to the funding of the SUPP would also mean that more underground power projects could be undertaken for the same amount of funding from taxpayers, if the State Government continued with the current level of funding.

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Table 1 Illustrative Example of ERA's Proposed Contribution Shares to Costs of State Underground Power Program

Differential contribution shares from ratepayers	(A) Western Power* (%)	(B) State Government (%)	(C=Costs – A-B) Ratepayers** (%)
Median house prices of project area at or below Perth median house price and area is identified as low income***	15-35	40	25-45
Median house prices of project area at or below Perth median house price	15-35	25	40-60
Median house prices of project area greater than Perth median house price but below Perth median house price +$250,000****	15-35	10	55-75
Median house prices of project area greater than Perth median house price +$250,000	15-35	5	60-80

* Western Power's avoided costs will vary from project area to project area. Based on Western Power's analysis of four round four projects, the mean value of avoided cost to Western Power was around 25 per cent.

** Ratepayers would pay the balance of the costs (total project costs *less* Western Power's avoided costs *less* the contribution from the State Government).

*** Low income areas can be defined using the Australian Bureau of Statistics Socio Economic Index for Areas (ABS SEIFA). Currently, the Office of Energy defines lower socio-economic areas as those in the lowest quintile of the ABS SEIFA.

**** A step at $250,000 has been included as this is approximately one standard deviation (SD) above the median house price.

Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs

During the year, we commenced and completed an independent inquiry into the cost efficiency of Synergy in its provision of retail electricity services and the cost-reflectivity of its tariffs. Synergy retails electricity to customers within the South West Interconnected System (SWIS), which covers the more densely populated areas of the State, extending from Kalbarri in the north, to Kalgoorlie in the east and to Albany in the south.

The State Treasurer requested that the ERA undertake the inquiry into the efficiency of Synergy's costs and electricity tariffs on 11 July 2011. The inquiry terms of reference required the ERA to determine the efficient cost-reflective level for each regulated retail tariff available in the SWIS over the period 2012/13 to 2015/16 and to consider and develop findings on the efficiency of Synergy's operating expenditure and capital expenditure, and procurement of wholesale electricity and renewable energy certificates.

The ERA's final report was provided to the Treasurer on 5 June 2012 and tabled in Parliament on 3 July 2012. In preparing the final report, the ERA conducted two rounds of public consultation and published an issues paper and a draft report. A total of 18 public submissions were received over the course of the inquiry.

In its investigations, the ERA determined the efficient cost-reflective level for each regulated tariff available in the South West Interconnected System (SWIS) and found that:

- Synergy's actual cost is more than the overall efficient cost of supplying retailer services.
- Synergy's tariffs (including residential tariffs) are below efficient cost reflective levels.
- The Tariff Equalisation Contribution should not be part of Synergy's tariffs.

The ERA found that Synergy's estimated overall revenue from regulated customers, on average, will have to increase by approximately 21 per cent to achieve efficient cost reflectivity. Of this amount, the new carbon pricing regime introduced by the Federal Government on 1 July this year will increase the average price by an estimated 8.3 per cent.

The ERA found that Synergy's residential tariff (the 'A1' tariff) needs to increase by 29 per cent on 2011/12 levels to reach cost reflectivity. 2.5 per cent of this increase is attributable to inflation, with another 8.6 per cent relating to carbon costs.

In addition to inflation and carbon costs, a further 17.7 percent increase is required to reach cost reflective levels for residential tariffs; this gap will drop to approximately 12 per cent with the announcement of the tariff increase that apply from 1 July 2012.

In determining efficient cost reflective tariffs, the ERA considered that the TEC (Tariff Equalisation Contribution, an amount paid by SWIS customers to subsidise regional and remote customers) should not be part of these tariffs and recommended that the TEC no longer be paid for by electricity consumers in the South West. If the TEC continues to be retained it will add, for example, a further 7.1 per cent to the average residential tariff, over and above the estimated cost reflective level.

The ERA found that Synergy's tariffs, on average across all tariff classes, need to increase by 21 per cent on 2011/12 levels to reach cost reflectivity. 2.5 per cent of this increase is attributable to inflation, with another 8.3 per cent relating to carbon costs. In addition to inflation and carbon costs, a further 10.2 percent increase is required to reach cost reflective levels on average across all tariffs.

The ERA's estimate of Synergy's efficient cost of service has then been allocated to individual customer classes, to derive an average efficient cost of service (c/kWh) for each tariff, as identified in the table below.

Table 2 Tariffs with All Components Being Cost Reflective (c/kWh, nominal) TEC Exclusive 2012/13 to 2015/16

Tariff	Tariff Description	2011/12 Actual	2012/13 Budget	2012/13 Budget + Carbon[2]	2012/13	2013/14	2014/15	2015/16
	Non-contestable							
A1	Residential	22.34	23.12	25.37	28.78	28.83	29.40	30.83
B1	Residential water heating	14.25	14.74	17.00	18.77	18.81	19.26	20.21
C1	Non-profit organisations	22.26	22.77	25.02	25.47	25.54	25.80	27.01
D1	Charitable residential	18.79	17.91	20.16	24.87	25.14	25.37	26.05
K1	Mixed commercial & residential	23.75	24.58	26.83	27.54	27.61	28.07	29.29
L1	Low voltage supply (<50 MWh)	24.02	24.86	27.11	27.95	28.00	28.45	29.71
R1	Time-of-use tariff (<50 MWh)	17.37	17.97	20.23	30.12	30.23	30.63	32.03
W1	Traffic lights	22.91	25.66	30.18	24.56	24.73	25.05	26.62
Z1	Street lights	36.50	34.68	35.12	38.54	38.92	39.76	41.19
UMS	Unmetered supply	22.91	24.06	30.18	20.01	20.05	20.35	21.45
	Contestable							
L3	Low voltage supply (>50 MWh)	29.04	30.90	31.74	26.84	26.92	27.41	28.61
M1	General supply (high voltage)	25.21	26.02	29.64	26.39	27.65	28.21	28.99
R3	Time-of-use tariff (>50 MWh)	23.25	24.53	26.04	21.91	21.87	22.25	23.42
S1	Low/med voltage time-of-use	19.33	21.26	23.94	21.93	21.83	22.14	23.27
T1	High voltage time-of-use	18.56	20.79	22.86	20.61	20.53	20.81	21.88
	Average across all tariffs	**22.93**	**23.77**	**25.89**	**27.74**	**27.78**	**28.32**	**29.74**

[2] Based on the ERA's estimate of Synergy's carbon costs.

Other recommendations made by the ERA in its final report were that regulated tariffs for the M1, S1 and T1 customers be removed. Given the large average annual expenditure on electricity by these customers, they are likely to be able to negotiate fair contracts with retailers of their choice. The ERA also noted that Western Australia is the only State that regulates tariffs for customers with consumption greater than 160 MWh.

The ERA also considered that the B1 Residential Hot Water Tariff should be removed or merged with the A1 Residential Tariff. The ERA considered that there is currently no justification for merging any other tariff categories.

The ERA also recommended that the next inquiry into the efficiency of Synergy's costs and electricity tariffs be conducted in 2014/15, rather than at the end of the four year review period, to allow for a timely assessment of changes in Synergy's carbon cost. In addition, the ERA recommended that a mid-period review should be undertaken if there are significant changes to economic conditions.

What does cost-reflective mean?

Cost reflective tariffs mean that each customer class is charged a tariff that reflects the economically sustainable efficient cost of servicing that class of customer.

The economically sustainable concept includes provision for the service provider to earn a reasonable return; for the retail business (also known as the profit margin). This margin will assure sustainability for the service provider, justifying continued investment in, and operation of the business.

Cost reflective also ensures that there is no cross subsidy built into the tariffs being charged; that is, the tariffs from each customer class recover only the costs incurred in serving that customer class.

Inquiry into the benefits and costs associated with the provision of shared corporate services within the public sector

The ERA's final report on the benefits and costs associated with the provision of shared corporate services within the public sector was tabled in Parliament on 7 July 2011.

The final report was delivered to the Treasurer on 10 June 2011.

On the same day the report was tabled, the State Government released a media statement that it accepted in principle the recommendations from the ERA's final report: decommissioning of the Department of Treasury and Finance Shared Service Centre (Office of Shared Services or OSS) and for agencies to provide their own corporate services, announcing that work on the decommissioning implementation process would start immediately.

The ERA's 2010/11 annual report provides a summary of the ERA's findings and recommendations.

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Inquiries in Progress

Inquiry into the Efficient Costs and Tariffs of the Water Corporation, Aqwest and the Busselton Water Board

On 10 January 2012, the State Treasurer asked the ERA to undertake an inquiry into the efficient costs and tariffs of the Water Corporation, Aqwest and the Busselton Water Board for the three year period to 2015-16.

The inquiry was referred to the ERA under section 32(1) of the *Economic Regulation ERA Act 2003*, which provides for the Treasurer to refer to the ERA inquiries on matters relating to regulated industries.

In accordance with the terms of reference, the ERA is investigating and will report on the efficient costs and appropriate charges for the services provided by the Water Corporation, Aqwest and the Busselton Water Board. As part of the inquiry, the ERA is required to consider recommended tariff levels and charging structures for water, wastewater and drainage services.

The ERA will also make recommendations on the most appropriate level and structure of water storage charges to the South West Irrigation Management Co-operative (Harvey Water).

The ERA published an issues paper on 6 February 2012 to help interested parties understand the matters under review and to facilitate submissions.

After considering the responses to the issues paper, the ERA will publish a draft report for further public consultation.

The final report for the inquiry is due to be delivered to the State Government by 2 November 2012, after which the Government will have 28 days to table the report in Parliament.

What is the Significance of the Inquiry into the Efficient Costs and Tariffs of the Water Corporation, Aqwest and the Busselton Water Board?

This inquiry presents an opportunity for the ERA to continue to ensure that water tariffs reflect the efficient cost of supply and that customers receive value for money for water, wastewater and drainage services.

This inquiry is the third major review of the Water Corporation's water and wastewater tariffs, and of Aqwest and Busselton Water's water tariffs. This will be the second major review of the Water Corporation's drainage tariffs.

Inquiry into Western Australia's Home Indemnity Insurance Arrangements

The ERA received the terms of reference for an inquiry into the effectiveness of Western Australia's home indemnity insurance arrangements on 11 June 2012. As part of the investigations, we are required to consider how Part 3A of the *Building Contracts Act 1991* currently operates, including measures taken by the State Government to underwrite the private provision of home indemnity insurance since the Act was amended in 2002.

We will also investigate whether there is an ongoing need for the mandatory provision of home indemnity insurance, and any alternative regulatory models that could be applied to replace or improve current arrangements (including but not limited to the establishment of a fidelity fund).

In addition, we will look at whether the State's home indemnity insurance arrangements should also address the costs to homeowners of damage caused by ground subsidence due to underlying geological causes.

The inquiry will involve the publication of an issues paper to help interested parties understand the matters under review and to facilitate submissions. After considering responses to the issues paper, the ERA will publish a draft report for further public consultation.

The final report is due to be delivered to the State Treasurer by 30 April 2013, after which the Government will have 28 days to table the report in Parliament.

What is the significance of independent economic inquiries?

The purpose of independent inquiries is to assist and advise the Western Australian Government on improvements that can be made to the economic outcomes for a particular industry. These independent inquiries can be on any economic issue and need not relate to the regulation of utilities.

The inquiries result in recommendations, identifying areas where greater economic efficiency can be achieved, and a final report for the Government's consideration. The decision to accept or reject any of the ERA's recommendations is made by the Government.

Independent economic inquiries help to ensure that the Government decision making process is well informed. Government policy-making is often better served by the information gathering, open and transparent consultation process and scrutiny of different proposals and ideas that the inquiry process stimulates.

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Other projects

Network Augmentations

The ERA is responsible for assessing the capital investments proposed by Western Power in respect of augmentations to its regulated electricity network.

An augmentation to Western Power's regulated electricity network means an increase in the capability of the network to provide regulated services, including by the development, construction, acquisition or commissioning of new network services.

Regulatory Test Assessments

Prior to committing to an investment in a major augmentation of its regulated network Western Power must submit a major augmentation proposal to the ERA and satisfy a "regulatory test" (a major augmentation is one that exceeds $10.9 million for a distribution system and $32.7 million for a transmission system or both a distribution system and a transmission system)[3].

The regulatory test is an assessment conducted by the ERA to determine whether the proposed major augmentation maximises the net benefit to those who generate, transport and consume electricity in the regulated network after alternative options for providing additional services have been considered.

Western Power may choose to either submit a major augmentation proposal for a regulatory test assessment as part of its proposed access arrangement or outside of the access arrangement approval process.

Where a major augmentation proposal is submitted outside an access arrangement approval process, the proposal may include a request for Western Power to be given prior approval in respect of the new facilities investment.

Western Power may apply to the ERA to request that the regulatory test be expedited, modified or waived. Under certain circumstances, the ERA can decide to waive, modify or expedite the regulatory test if it believes that the augmentation would be contrary to the objectives of the test.

This includes cases where there is no, or not likely to be any viable alternative options to the proposed major augmentation, where the nature of the proposed major augmentation is such that significant advance planning is required and no alternative options exist, or the nature of the funding of the proposed major augmentation will not cause a net cost to those who generate, transport and consume electricity in the covered network and any interconnected system.

[3] The values indicated apply from 1 July 2011 to 30 June 2012. These threshold values for a major augmentation are updated annually on 1 July by the Consumer Price Index.

Shenton Park Zone Substation

On 16 March 2012, the ERA published a notice on its website to inform that Western Power had invited submissions on a proposal to construct a new Shenton Park zone substation. Comment was invited on alternative options or opinions on Western Power's proposed major augmentation.

Western Power's proposal involves the construction of a new 132kV/11kV zone substation on land adjacent to the existing substation at Shenton Park.

Following the consultation process, Western Power must consider the views and alternative options that may be expressed in the submissions it receives. Subsequent to this, it is expected that Western Power will submit a major augmentation proposal to the ERA. At such time, the ERA must then determine whether the regulatory test prescribed in Chapter 9 of the *Electricity Networks Access Code 2004* has been satisfied.

Once the ERA determines the regulatory test has been met, Western Power will be able to proceed with the proposed augmentation.

Southdown Mine

On 16 June 2011, we received a regulatory test waiver application from Western Power for a proposed major augmentation to supply electricity to the proposed Southdown magnetite mine. The proposed mine, which is approximately 90 km north east of Albany, is a joint venture comprising Grange Resources Limited and Sojitz Resources and Technology Limited.

We released our final determination on Western Power's regulatory test waiver application on 23 August 2011 following consideration of two further submissions received from Western Power in response to requests we made for further information.

The ERA waived the requirement for a regulatory test as it considered that the application of the regulatory test in respect of the proposed major augmentation would be contrary to the Chapter 9 objectives of the Code, as there is only one viable option which can be delivered within the timescale required to supply electricity to the proposed Southdown mine by March 2014.

New Facilities Investment Tests

Under the *Electricity Networks Access Code 2004*, Western Power may at any time make an application to the ERA to determine whether actual or forecast new facilities investment, meets or will meet, the “new facilities investment test”.

The purpose of the new facilities investment test is to determine whether, or to what extent, investments can be added (rolled in) to the regulated capital base and therefore financed through network tariffs applying to all network users, or alternatively whether the investment must be financed by some other means (such as capital contributions from specific network users).

The new facilities investment test is not required to enable Western Power to proceed with an investment. Western Power may choose to submit a new facilities investment test application to the ERA as it can provide more certainty that the investment can be recovered through network tariffs.

On receiving an application, the ERA must make an assessment and publish a determination within a reasonable time after having consulted with the public.

For the new facilities investment test to be satisfied, the investment must not exceed the amount that would be invested by a service provider efficiently minimising costs (must pass an ‘efficiency’ test) and must satisfy at least one or more of the following conditions:

- the investment generates enough revenue to cover the investment costs (the ‘incremental revenue’ test); or
- the investment provides a net benefit to justify higher network tariffs (the ‘net benefits’ test); or
- the investment is necessary to maintain the safety or reliability of the network or its ability to provide network services (the ‘safety and reliability’ test).

Through these conditions, the new facilities investment test seeks to ensure that participants in the electricity market (generators, network operators, customers) realise a benefit that is at least sufficient to offset the cost of the new facility.

Western Power Mid-West Energy Project (Southern Section)

The ERA had previously determined (on 3 February 2011), that Western Power’s proposed Mid-West Energy Project (Southern Section) major augmentation satisfied the regulatory test. The proposed major augmentation was required to pass the regulatory test before Western Power was able to commit to the planned investment.

On 3 August 2011, the ERA received a new facilities investment test application from Western Power for forecast new facilities investment proposed for the Mid-West Energy Project. The application was submitted under section 6.71(b) of the *Electricity Networks Access Code 2004*.

The ERA released an issues paper on 26 August 2011 seeking public comment on Western Power's application to include $383.4 million of forecast new facilities investment associated with the Mid-West Energy Project (Southern Section) in its regulatory capital base. The new facilities investment involves the construction of a 330 kV transmission line from Neerabup to Three Springs and the interconnection of the existing 132 kV Three Springs substation with a new 330 kV Three Springs Terminal.

We released a draft determination on Western Power's proposal on 14 November 2011. Following consideration of the nineteen public submissions received in response to the draft determination, we released our final determination on Western Power's application for a new facilities investment test for the Mid West Energy Project (Southern Section) on 27 January 2012.

The ERA's final determination gave pre-approval for Western Power to include $377.8 million (real dollars as at 30 June 2010) of the $383.4 million sought by Western Power as capital expenditure for their capital base. The amount not approved ($5.6 million) did not meet the 'efficiency' test.

What is the significance of "regulatory tests" and "new facilities investment tests"?

The ERA's role in conducting regulatory tests and new facilities investment tests under the Access Code is important to ensure that Western Power's electricity network charges reflect only those investments that are of maximum net benefit to network users, and are prudent and efficient.

The "regulatory test" is designed to ensure that, before Western Power commits to a major augmentation to its regulated network, there is in fact a need for the augmentation and that the proposed augmentation is of maximum net benefit after alternative options have been considered.

The "new facilities investment test" is designed to determine whether, or to what extent, Western Power can recover the cost of investments in its regulated network through network charges that are regulated by the ERA and paid by third parties who connect to and use the network.

The amount invested by Western Power in operating, enhancing and expanding its regulated network affects its ability to deliver reliable power to customers on behalf of energy retailers (like Synergy in the case of residential and small business customers) and its ability to meet the requirements of growing demand and to connect new customers.

Western Power seeks to recover the cost of its investments through regulated network charges. Such charges are an integral component of the retail prices that are set by State Government and paid by residential and small business customers for the electricity they consume.

Ongoing Regulatory Activities

Licensing, Monitoring and Customer Protection

Licensing

As at 30 June 2012, there were a total of 89 electricity, gas and water licences (50 electricity, 8 gas, and 31 water). During the reporting year, the ERA granted three new licences: Peel Water (potable and non potable water services, OL41), EDL Pilbara (electricity retail, ERL16) and Merredin Energy (electricity generation, EGL25). Copies of the licences can be found on the ERA's website.

In addition, the ERA approved amendments to four licences: two amendments to Horizon Power's electricity integrated regional licence (EIRL2), Southern Cross Energy Partnership's electricity transmission licence, (ETL 4), and ATCO Gas Australia's gas distribution licence (GDL8).

Application Guidelines and Forms: Electricity, Gas and Water Licences

The ERA published an updated application guideline and application forms on 1 November 2011 for licence applications made under the *Electricity Industry Act 2004* (electricity licensing), *Energy Coordination Act 1994* (gas licensing) and the *Water Services Licensing Act 1995* (water licensing). The ERA licence application guideline is relevant for all parties interested in applying for new or amended licences under the above legislation.

Reporting Handbooks and Datasheets

Licensees are required to prepare and submit annual performance reports to the ERA. The reporting handbooks and datasheets are designed to impart a shared understanding amongst all stakeholders in respect of the information that is to be reported by licensees, including the definitions to be applied to performance indicators, how to calculate performance data (where applicable) and the ERA's expectations as to the manner in which the information should be presented.

During the year, we published the following handbooks and datasheets to assist licensees in their reporting obligations.

2012 Performance Reporting Handbooks	2012 Compliance Manual Datasheets
Gas Distribution Licence Performance Reporting Handbook - May 2012	Gas Compliance Manual Datasheets – Distribution Indicators
Gas Trading Licence Performance Reporting Handbook - May 2012	Gas Compliance Manual Datasheets – Retail Indicators
Electricity Distribution Licence Performance Reporting Handbook - May 2012	Electricity Compliance Manual Datasheets – Distribution Indicators
Electricity Retail Licence Performance Reporting Handbook - May 2012	Electricity Compliance Manual Datasheets – Retail Indicators
Water, Wastewater and Irrigation Licence Performance Reporting Handbook	Water, Wastewater and Irrigation Licence Performance Reporting Datasheets

Monitoring

Licence audits and asset management reviews

It is important that licensees comply with the conditions of their licence; which include minimum standards in respect of service quality, reliability of supply, public safety and consumer service. Licence audits and asset management reviews are public documents available on the ERA website that provide stakeholders with an independent assessment of a licensee's compliance with its licence and the effectiveness of the systems used to manage the assets that deliver the services covered by the licence.

The ERA assessed independent audits and asset management review reports on the following 28 electricity, gas and water licensees during 2011/2012.

The ERA maintained the period of time between audits and asset management reviews for the majority of these licensees, but there were a total of eight licensees who had their audit/review period increased as a result of a positive audit and/or asset management review report, and four licensees who had their audit/review period reduced following an unsatisfactory report.

Reducing the period of time until future audits and asset management reviews provides an earlier opportunity for the ERA to review a licensee's progress towards addressing the issues identified by the auditors.

Independent audits and asset management review reports assessed by the ERA during 2011/2012.

Company	Licence Type: Electricity – generation	Electricity – transmission	Electricity – distribution	Electricity – retail	Electricity – Integrated regional	Gas – distribution	Gas – trading	Water – Water services	Review Type: Performance audit	Asset Management Review	Operational Audit
Alinta Sales							✓		✓		
ATCO Power (Karratha)	✓								✓	✓	
Busselton Water Board								✓	✓	✓	
City of Kalgoorlie Boulder								✓			✓
CSBP	✓								✓	✓	
EDL NGD (WA)	✓								✓		
Electricity Networks Corporation (t/a Western Power)		✓	✓						✓		
Gascoyne Water Cooperative								✓	✓	✓	
Goldfields Power	✓		✓						✓	✓	
Landfill Gas & Power				✓					✓		
NewGen Power Kwinana	✓								✓	✓	
Newmont Power			✓	✓					✓	✓	
Newmont AP Power				✓					✓		
Ord Hydro					✓				✓	✓	
Regional Power Corporation (t/a Horizon Power)					✓				✓	✓	
Rottnest Island Authority					✓			✓	✓	✓	✓
Shire of Brookton								✓		✓	✓
Shire of Coolgardie								✓		✓	✓
Shire of Dalwallinu								✓		✓	✓
Shire of Dowerin								✓		✓	✓
Shire of Goomalling								✓		✓	✓
Shire of Lake Grace								✓		✓	✓
Shire of Morawa								✓		✓	✓
Shire of Victoria Plains								✓		✓	✓
Shire of Wickepin								✓		✓	✓
Southern Cross Energy Partnership	✓	✓	✓	✓					✓	✓	
WA Gas Networks (now ATCO Gas Australia)			✓							✓	
Wesfarmers Kleenheat Gas						✓	✓		✓	✓	

Notices served for licence non-compliance

The electricity, gas and water legislation include powers for the ERA to serve a notice on licensees requiring them to rectify non-compliances that are identified in audits and reviews. If the licensee does not comply with a notice then the ERA has a range of sanctions it can apply.

Western Power – Notice Served

On 17 October 2011, the ERA served a notice on Western Power under section 32 of the *Electricity Industry Act 2004* for failure to comply with its licence obligations. The decision was made after considering the audit reports on the distribution and transmission licences and taking into consideration the number and severity of the licence contraventions disclosed in the reports.

The section 32 notice covers a total of seven contraventions: five in relation to the distribution licence and two in relation to the transmission licence. The five distribution licence contraventions relate to the accuracy of records kept in accordance with the Code of Conduct (three contraventions) and problems with meter data validation (two contraventions). The two transmission licence contraventions relate to the same meter data validation problems as the distribution licence.

Western Power is required to take the actions prescribed in the section 32 notice, or alternative actions that are satisfactory to the ERA, to rectify the non-compliances and prevent future recurrence by the dates specified in the notice. The ERA decided to reduce the period of time until the next audit of Western Power's electricity retail licence from 18 months to 14 months. The next audit will cover the period 1 May 2011 to 30 June 2012, with the report to be submitted to the ERA by 30 September 2012.

Western Power - Notice Closure

On 8 January 2009, the ERA served a notice of contravention under section 32(1) of the *Electricity Industry Act 2004* on Western Power. The section 32 notice required that Western Power rectify the licence contraventions identified in the utility's 2008 performance audit report and address the issues identified in the asset management system review report for the electricity integrated regional licence by 31 October 2009.

A subsequent audit and review of Western Power's licence covering the period ending 31 October 2009 found that seven contraventions had not been rectified. This resulted in the ERA deciding that the section 32 notice would remain in force until the reports on the audit and review, for the period ending 30 April 2011, were prepared.

The audit and review reports for the period ending 30 April 2011 found that Western Power had made some progress towards addressing the actions required to rectify the contraventions in the 2009 section 32 notice, but that this has not been sufficient to fully rectify the contraventions. The ERA also noted that some of the issues that gave rise to the 2009 section 32 notice have been overtaken by new issues in the 2011 audits. Taking these factors into consideration, the ERA decided to close the 2009 section 32 notice on 17 October 2011.

CASE STUDY

Compliance Case Study – Local Government Authority Asset Management System Reviews

Recent asset management effectiveness reviews undertaken by small local government sewerage and non-potable water licensees have disclosed problems with the standard of asset management practised by almost half of the licensees.

The ERA licences 18 local government authorities (LGA) located in the Goldfields and Wheatbelt regions of the State. Section 36 of the *Water Services Licensing Act 1995* (Act) requires licensees to provide a report prepared by an independent expert on the effectiveness of the system used to manage their water services assets (asset management review). The interval of time between asset management reviews is 24 months, but this can be varied by the ERA.

The recent asset management reviews of LGA's covered the three year period to 30 November 2011, with the reports being provided to the ERA between February 2012 and August 2012.

The asset management review reports revealed that 16 of the 18 LGA's need to improve their contingency planning, which covers the procedures that the LGA will follow if there is an unexpected failure of an asset.

The ERA considers this to be a serious issue because it could increase the risk to the health and safety of the community if an asset failure results in untreated sewage escaping into the environment. In general, the sewerage schemes operated by the LGA's service between 100 and 500 connected residential and commercial properties. The collected sewage is treated using simple separation and filtration processes and some or all of the treated effluent is then used to irrigate public open spaces such as parks and gardens as well as sports ovals and school fields.

A further 10 LGA's are not collecting sufficient revenue from their customers to fund the future costs of refurbishing or replacing their sewerage assets, which may increase the risk of asset failure if the assets are operated beyond their useful life.

The reports on six of the 18 LGA's caused the ERA particular concern because, in addition to the contingency and financial planning problems described earlier, there were also significant problems with the standard of asset operations, asset maintenance and risk management. In most cases the procedures used to operate and maintain the assets were either undocumented or partially documented and often there was too much reliance on the individual knowledge of key staff members. Risk management was also problematic because the risks associated with operating the assets have not been assessed. Risk assessments are used to plan asset operations and maintenance activities and are a key input to the development of contingency plans.

When deciding what action to take in response to the asset management review report provided by each LGA, the ERA took into account three key factors:

- the direct risk to public health and safety presented by the asset management problems identified in the reports;
- the extent of the asset management problems (number, type and severity); and
- whether the problems identified in the reports had also been identified in the previous asset management review in 2008, but had not been rectified in the intervening three years.

The ERA has taken compliance action in relation to asset management reviews of eight LGA's. The actions can be grouped into three distinct categories, depending on the seriousness of the asset management problems:

- Group 1 - documentation and minor procedural issues
- Group 2 - documentation and significant procedural issues
- Group 3 - health and safety risk and significant documentation/procedural problems.

Under group 1 were the Shires of Gnowangerup and Morawa, which are required to provide an independent report to the ERA in early 2013 on the progress made towards rectifying the problems, with the period of time until the next review set at 36 months, subject to a satisfactory report.

There were five LGA's categorised under group 2: the Shires of Brookton; Coolgardie; Kent; Moora; and Ravensthorpe.

The period of time until the next review for these LGAs have been reduced from 36 months down to 12 months, for the Shires of Brookton and Coolgardie, and to 18 months, for the other three Shires, based on the time required to rectify the problems.

The Shire of Yilgarn was the only LGA in group 3. The ERA has reduced the review period from 36 months to 15 months and also served a notice under section 39 of the Act for failure to comply with the licence. The notice requires the Shire to rectify the asset management problems by 28 February 2013.

Customer Protection

Customer Service Charter reviews

All water licensees are required to produce a customer service charter and to review their charter every 36 months. Water licensees are required to submit the reviewed charters to the ERA for assessment and approval.

A customer service charter is a published statement containing information relevant to the relationship between a licensee and its customers, and includes a list of customer entitlements and details regarding a licensee's services. The charter approval process provides a minimum level of customer protection for water customers. The ERA's Water Customer Service Charter Guidelines (2011) provide the basis for the ERA's consideration of customer service charters.

The future requirement of water licensees to produce a customer service charter is uncertain. During 2011/12, the ERA approved four customer service charters for the Shire of Morawa, Peel Water Pty Ltd, Shire of Koorda and Hamersley Iron Pty Ltd. The ERA also approved minor amendments to the Water Corporation's customer service charter and summary charter, the Shire of Denmark's customer service charter, and Gascoyne Water Cooperative Ltd's customer service charter (in both December 2011 and June 2012).

The *Water Services Legislation and Amendment Repeal Bill 2011* is currently before Parliament. The Department of

Water has formed the Water Services Customer Code Working Group to develop a water services customer code.

Due to uncertainty as to whether the new code will require licensees to produce a customer service charter for review and approval by the ERA in the future, we provided a 12 month extension to the deadline for all water customer service charter reviews that would be due between 1 July 2012 and 30 June 2013. These charters were last approved between July 2008 and June 2010. The extension applies to 22 water licensees.

If a licensee wishes to amend their charter before the extended review date they may submit amendments to the ERA at any time.

Non-Standard Water Agreements

Under their respective operating licences, water licensees who wish to enter into an agreement with a customer for a non-standard water supply service are required to have the proposed agreement and any amendments to that agreement approved by the ERA prior to its commencement.

During the reporting year, the ERA received an application and approved an amendment to the Busselton Water Board's (Busselton Water's) non-standard water supply service agreement to clarify that any non-potable water supplied under that agreement is not fit for human consumption and does not meet the *Australian Drinking Water Guidelines (2004)*.

Standard Form Contract Assessments

In the energy industry, licensees are required to produce a standard form contract and have it approved by the ERA. The standard form contract specifies the minimum terms and conditions on which a retailer will supply energy to its customers, providing a "safety net" for customers. The standard form contract is required for electricity licensees under the *Electricity Industry Act 2004* and for gas licensees, under the *Energy Coordination Act 1994*.

In the water industry, where there is no approved standard form contract, the customer service charter developed by water licensees represents the principal document governing the relationship between the licensee and customer.

In January 2011, the ERA requested that electricity and gas licensees review their electricity and gas standard form contracts to ensure that they comply with the requirements of the new Australian Consumer Law as well as the current versions of the *Code of Conduct for the Supply of Electricity to Small Use Customers*, the *Gas Marketing Code of Conduct* and the Compendium of *Gas Customer Licence Obligations* (Gas Customer Code).

During the reporting year we approved the following replacement standard form contracts to supply electricity and gas to small use customers:

Electricity

- Alinta Sales Pty Ltd (August 2011)
- Horizon Power (September 2011)
- Clear Energy Pty Ltd (October 2011)
- Perth Energy Pty Ltd (October 2011)
- Rottnest Island Authority (December 2011)

Gas

- Alinta Sales Pty Ltd (August 2011)
- Wesfarmers Kleenheat Gas Pty Ltd (August 2011)
- WorleyParsons Asset Management Pty Ltd (October 2011)
- Perth Energy Pty Ltd (October 2011)

In October 2011, the ERA also approved a minor amendment to Wesfarmers Kleenheat Gas Pty Ltd's standard form contract to supply gas to small use customers (previously approved by the ERA in August 2011).

Synergy's standard form contracts in electricity and gas are currently under review by Synergy and the ERA expects to shortly finalise these amended contracts.

Financial Hardship Policy assessments

Electricity retail, integrated regional licence holders, and gas trading licensees are required to have a financial hardship policy. Since 1 July 2010, electricity and gas retailers have been required to review their financial hardship policies annually and submit a copy of the policy, guidelines and results of their review to the ERA for assessment by 31 December annually.

The assessment considers the extent to which the licensee's financial hardship policy complies with the requirements of the *Code of Conduct for the Supply of Electricity to Small Use Customers* and the *Compendium of Gas Customer Licence Obligations* (Gas Customer Code) and whether the policy is consistent with the ERA's Financial Hardship Policy Guidelines.

The Guidelines provide guidance to electricity and gas retailers in undertaking their policy review, and are used by the ERA in assessing financial hardship policies of licensees.

In August and September 2011, the ERA completed its assessment of the financial hardship policies due from licensees by 31 December 2010. Financial hardship policies were received from:

- Horizon Power
- Synergy

- Alinta Sales Pty Ltd
- WorleyParsons Asset Management Pty Ltd
- Wesfarmers Kleenheat Gas Pty Ltd

The assessment of these policies had been delayed in the 2010/11 year due to limited resourcing; however the ERA met its revised publication date of September 2011.

Also during the reporting year, the ERA received and assessed the financial hardship policies due by December 2011 from:

- Synergy
- Horizon Power
- Alinta Sales Pty Ltd
- WorleyParsons Asset Management Pty Ltd
- Wesfarmers Kleenheat Gas Pty Ltd

The Guidelines provide that the ERA will endeavour to publish its assessment and a copy of the licensee's financial hardship policy every two years, unless a policy contains substantial amendments or a previous assessment was poor. As the ERA published assessments of the five licensees' financial hardship policies last year, the ERA did not publish the assessments this year.

Wholesale Electricity Market

The ERA continued ongoing surveillance and monitoring of the wholesale electricity market (WEM), to examine its effectiveness and efficiency, as well as to identify any inappropriate and anomalous behaviour in the market. We also determined a number of parameters that influence the operation of the WEM.

These included approval of values for the energy price limits and the maximum reserve capacity price, and the determination of the ancillary service parameters.

The approved ancillary service parameters are used in the calculation of payment for the load following, spinning reserve, system restart and load rejection ancillary services.

REMCo Gas Retail Market Scheme

The gas Retail Market Scheme began operation on 31 May 2004 when gas full retail contestability reforms commenced in Western Australia. The aim of the Scheme was to ensure that the retail gas market supplied through a distribution system was regulated and operated in a manner that was:

- open and competitive;
- efficient; and
- fair to gas market participants and their customers.

Under Part 2B of the *Energy Coordination Act 1994*, the ERA is responsible for the economic regulation of the Western Australian gas retail market scheme, which includes approval of amendments to the retail market scheme.

During the reporting period, the ERA approved eight rule changes submitted for approval by the retail market operator for the contestable gas retail markets in Western Australia, the Retail Energy Market Company Ltd (REMCo). Details of the ERA's decisions are available on the ERA website.

The REMCo is an important part of the measures in place to ensure full retail contestability for gas retailers in the Western Australian market.

This means that companies seeking to sell gas to customers in the Western Australian market are able to enter and operate in the Western Australian market without undue barriers to entry, thereby promoting a more competitive gas market and delivering fair and efficient outcomes to customers.

Goldfields Gas Pipeline - Quarterly Reference Tariff Variation

The Goldfields Gas Pipeline (GGP) access arrangement provides for quarterly adjustments of the reference tariff in accordance with Consumer Price Index (CPI). The operator of the pipeline notifies the ERA of adjustments to the reference tariff for the pipeline on a quarterly basis. These variations are subject to ERA approval. The approved tariff adjustments are published on our website.

During 2011/12, quarterly reference tariff variations for the following periods were approved:

- 1 October to 31 December 2011.
- 1 January 2012 to 31 March 2012.
- 1 April 2011 to 30 June 2011.
- 1 July 2011 to 30 September 2011.

In addition, the GGP access arrangement provides for an annual tariff variation that allows a reference tariff increase based on a measure of actual expenditure relative to forecast operating expenditure. On 21 November 2011, GGP proposed to pass through additional cost totalling $761,936. The ERA approved this proposal on 28 December 2011.

Mid-West and South-West Gas Distribution Systems - Annual Tariff Variation

The Mid-West and South-West Gas Distribution Systems access arrangement allows for annual tariff variations to adjust for changes in the CPI and certain actual operating and capital expenditure relative to forecast expenditure.

Under the *National Gas Access (Western Australia) Act 2009*, distribution tariffs stay fixed during an access arrangement process.

ATCO submitted a tariff variation report to the ERA on 18 May 2012. This tariff variation included a CPI related increase and cost pass through for carbon tax and regulatory costs.

The ERA approved this tariff variation on 30 May 2012. Subsequent to the orders of the Australian Competition Tribunal of 20 June 2012, the ATCO access arrangement has required amendment and an amended tariff variation in accordance with the access arrangement was approved by the ERA on 25 June 2012.

Dampier to Bunbury Natural Gas Pipeline –Tariff Variation

The reference tariff variation mechanism in the DBP access arrangement allows for the effects of inflation, and adjustment for the expenditure incurred as a result of tax changes as well as pass-through of new costs due to specific events (as specified in Clause 11.4 of the Access arrangement).

On 13 February 2012, the ERA approved a tariff variation for DBP to apply from 23 January 2012 - 31 December 2012. DBP notified the ERA of the variation to reference tariffs on 6 February 2012. The variation amounts to a 6 per cent increase from the 2010 nominal tariff.

Rail Networks - Annual Weighted Average Cost of Capital (WACC) Determination

The ERA is required by the *Railways (Access) Code 2000* to calculate the weighted average cost of capital (WACC) for WestNet Rail (WNR), the Public Transport Authority (PTA) and The Pilbara Infrastructure (TPI) rail networks as at 30 June each year.

On 8 July 2011 the ERA published the determined WACC values to apply to the WNR, PTA and TPI rail networks from 1 July 2011 to 30 June 2012.

The methodology applied in the 2011 determination was similar to that used in 2010, but with a change to the method for calculating debt risk premiums. In early 2011, following consultation with infrastructure owners, the ERA endorsed a 'bond-yield' approach for calculating debt risk premium.

The access code requires public consultation on the WACC methodology in 2003 and every five years thereafter. Therefore, the next public review of the WACC methodology will be undertaken in 2012/13.

WestNet Rail's Floor and Ceiling Costs - Annual Adjustments for 2011/2012

The ERA approved WestNet Rail's proposed annual adjustments to floor and ceiling costs for its network on 21 July 2011.

WestNet Rail wrote to the ERA with its proposed adjusted floor and ceiling costs for certain lines on 15 July 2011.

WestNet Rail's approved Part Five Instruments (Costing Principles) require annual adjustments to be made to floor and ceiling costs in line with changes to the WACC as determined by the ERA and 75 per cent of the relevant CPI.

Consumer Price Index Adjustments under the Electricity Networks Access Code 2004

The ERA adjusts and publishes a schedule of CPI amounts annually as required under the *Electricity Networks Access Code 2004*. Under the code, CPI means the CPI (all groups) for the weighted average of eight capital cities most recently published by the Australian Bureau of Statistics.

Where the code refers to an amount being "CPI adjusted", the ERA is required to adjust the amount from 1 July each year and publish the figure on our website. The 2012 CPI adjustment was published on our website on 30 May 2012.

Corporate Activities

Committees

The Economic Regulation Authority Consumer Consultative Committee

The Economic Regulation Authority Consumer Consultative Committee (ERACCC) was established in March 2005 to ensure that the ERA's communication and compliance strategies meet the needs of consumers. ERACCC members inform the ERA about issues that impact on both the groups they represent and consumers more generally. Members are also a conduit for informing customers regarding the work of the ERA and providing feedback to the ERA on its work.

The ERACCC continued to hold quarterly meetings throughout 2011/12. The highlights from meetings conducted over the year include:

- a mixture of presentations from different divisions of the ERA on issues of interest to ERACCC members and the community generally, and the work conducted by the ERA (for example, ERA inquiries);
- a focus on conveying technical information relating to the ERA's work in a manner that is clear and accessible to all members;
- high quality presentations from ERACCC members regarding issues specific to their constituencies; and
- an informal feedback process whereby ERACCC members individually had the opportunity to provide direct feedback on the ERACCC meetings and areas of particular interest to them.

The ERA will soon prepare a draft Work Plan and forward agenda for 2013-2015 for the ERACCC to approve. The Work Plan will take account of the feedback provided by members.

Organisations represented on the ERACCC in 2011/12 were:

- WA Council of Social Service
- WA Farmers Federation
- Pastoralists and Graziers Association of WA
- Chamber of Commerce and Industry of WA (Small Enterprise Network)
- Financial Counsellors Association of WA
- Chamber of Minerals and Energy of WA (Inc)
- WA Local Government Association
- Consumer Credit Legal Service (WA) (until April 2012)
- Property Council of Australia (WA).

Observers that participated in the ERACCC in 2011/12 included:

- Mr Chris Field (The Energy Ombudsman WA); and
- Mr Gary Newcombe (Department of Commerce).

The current ERACCC appointments were made in February 2011 for a three year period ending in 2014.

The ERA would like to thank all of those members who continue their involvement in ERACCC and wishes to acknowledge the contribution of the Consumer Credit Legal Service (WA) which ceased membership of the ERACCC in April 2012.

Electricity Code Consultative Committee

The ERA has established the Electricity Code Consultative Committee (ECCC), as required under section 81 of the *Electricity Industry Act 2004*, to review the *Code of Conduct for the Supply of Electricity to Small Use Customers*.

Following the reviews completed in 2007 and 2009, the ERA commenced the code review in mid 2011. The review of the code was finalised by the ECCC in July 2012, with the ERA making its decision regarding amendments to the code shortly thereafter and publishing the decision on 20 July 2012.

The ECCC has four consumer representatives, four industry representatives, two government representatives and a non-voting chairperson and executive officer. ECCC appointments for 1 April 2010 to 31 March 2013 are provided below.

The four consumer representatives are:

- Mr Charles Brown (Financial Counsellors Association of WA);
- Mr Andrew Canion (Small Enterprise Network – Chamber of Commerce & Industry);
- Mr Chris Twomey (WACOSS); and
- Ms Effie Harris (Goldfields Community Legal Centre).

The four industry representatives are:

- Mr Ray Myles (Alinta Sales)
- Ms Margaret Pyrchla (Western Power)
- Mr Simon Thackray (Synergy)
- Mr David Tovey (Horizon Power)

The two government representatives are:

- Mr Gerald Milford (Department of Commerce); and
- Ms Sarah Woenne (Public Utilities Office, previously the Office of Energy).

Mr Paul Kelly (ERA) chairs the ECCC. Ms Cathryn Greville, also from the ERA, acts as executive officer. Ms Greville was appointed to the ECCC in February 2012 to replace Ms Lanie Chopping.

Gas Marketing Code Consultative Committee

The Gas Marketing Code Consultative Committee (GMCCC) was established to advise the ERA on matters relating to the *Gas Marketing Code of Conduct 2004*, including its review.

The GMCCC completed its review of the code in 2011, and the new *Gas Marketing Code of Conduct 2012* came into force on 1 July 2012.

The GMCCC has three consumer organisation representatives, three industry representatives, a government agency representative from the Department of Commerce, a government agency representative from the Office of Energy (now the Public Utilities Office) and a non-voting chairperson and executive officer. GMCCC appointments for the period March 2011 to 31 December 2013 are provided below.

The three industry representatives are:

- Mr Geoff White (Alinta Sales);
- Mr Simon Thackray (Synergy); and
- Mr Brendan McColl (Wesfarmers Kleenheat).

The three consumer organisation representatives are:

- Mr Andrew Canion (Small Enterprise Network (Chamber of Commerce & Industry));
- Mr Brent Savage (WACOSS); and
- Ms Julie Abela (Salvation Army).

The Department of Commerce has appointed Mr Gerry Milford and the Office of Energy (now Public Utilities Office) has appointed Ms Lita Geros as government representatives to the committee.

Mr Paul Kelly (ERA) continues as chairman of the committee and Ms Cathryn Greville (ERA) was appointed to act as executive officer in place of Ms Lanie Chopping in February 2012.

2012 Stakeholder Survey: what our stakeholders think

As an organisation that extensively deals with external stakeholders, particularly in the electricity, gas, rail and water industries, it is important for us to gather feedback and respond to any issues raised by these stakeholders. The ERA's stakeholders include:

- non-governmental organisations such as industry and consumer associations;
- government, government departments, government agencies; and
- owners, users and licensees of regulated infrastructure.

Methodology, design and outcomes

In line with our commitment to good corporate governance, accountability and transparency, the ERA surveys stakeholders every three years. In 2012, we engaged an independent consultant to survey key stakeholders. The survey enabled us to assess stakeholders' satisfaction with our performance in relation to our strategic goals.

A contact list of 133 potential survey respondents was provided to the consultant, along with a short questionnaire. Attempts were made to contact all potential respondents by telephone. 99 stakeholders completed the questionnaire providing a response rate of 74 per cent, giving a maximum standard error ratio of +/- 5.0 per cent at the 95 per cent confidence level.

While some elements of this year's questionnaire are identical to those used in the 2009 survey, the ERA goals measured this year were updated to reflect those outlined in the current ERA Strategic Plan.

All the individual surveys were conducted in accordance with the requirements of the Federal Privacy Act and the Australian Market & Social Research Society Professional Code of Conduct. In addition, a minimum of 10 per cent of all respondents was recontacted to validate the information provided (as required by Market Research Quality Standards).

The outcomes of this survey will be used to streamline our processes, and improve our effectiveness and efficiency in performing our functions to ensure that the services we provide meet our stakeholder's needs and expectations. Additionally they will be used as a reference in the development of the 2012/13 CEO KPIs, as well as the next ERA Strategic Plan.

Overview of survey results

Overall satisfaction with the Authority

Stakeholders were asked to indicate how satisfied they were with our overall performance. The majority (83 per cent) of respondents were satisfied to some extent (either very satisfied or satisfied) with our overall performance, although there has been a decrease of 7 percentage points for this KPI score compared with the 2009 survey. Additionally, 17 of the 99 respondents (17 per cent) indicated they were dissatisfied in some way. One of these survey respondents was 'very dissatisfied'.

As shown below, a larger proportion of survey respondents were 'very satisfied' with overall performance this year – 21 per cent compared with 13 per cent in 2009. However 'dissatisfied' respondents increased from 10 per cent in 2009 to 17 per cent this survey.

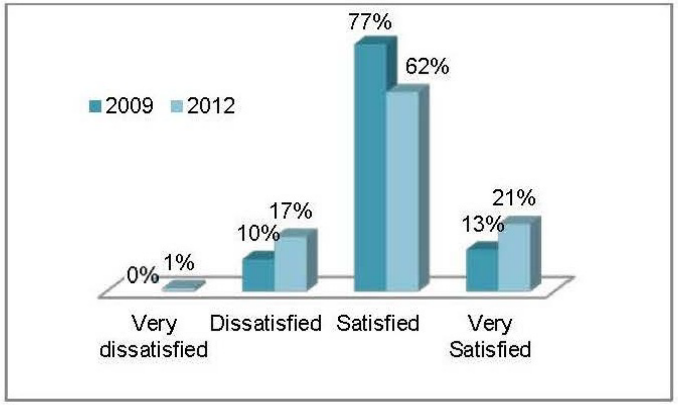


Chart 4 - Satisfaction with Overall Performance of the ERA (comparison 2009/2012)

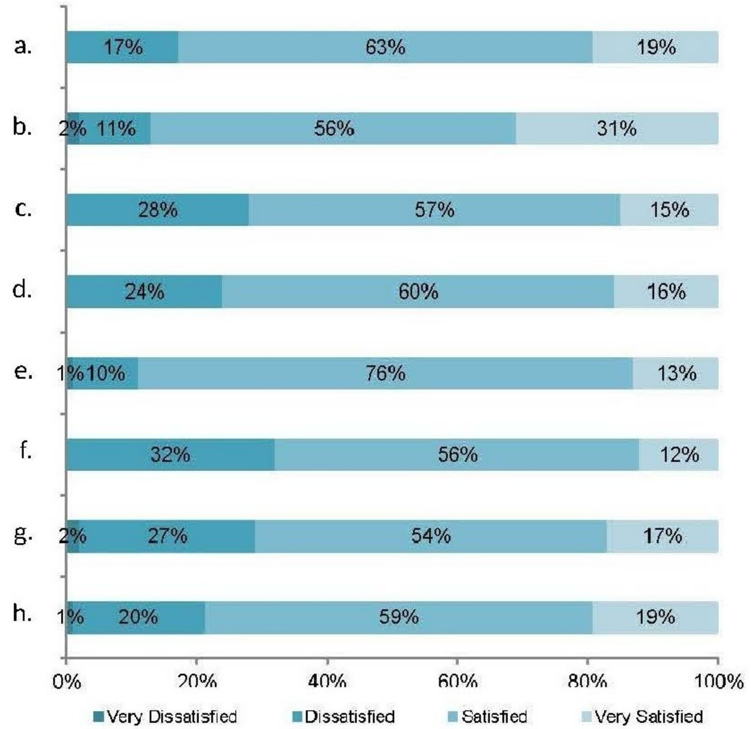
Satisfaction with the performance of the ERA in achieving its goals

Respondents were read out a list of the ERA's goals and asked to indicate how satisfied they were with the ERA's performance in each area as either very satisfied, satisfied, dissatisfied or very dissatisfied.

Perception of the ERA's performance in meeting its goals is very positive. The highest levels of net satisfaction (KPI Score) were for "improvement of regulatory compliance" (89 per cent) and for being "a respected and recognised provider of high quality advice to government" (87 per cent).

As in 2009, the lowest net satisfaction was with the performance of the ERA in "minimising regulatory compliance costs" (68 per cent). All other goal areas achieved net satisfied scores of between 71 per cent and 83 per cent. Overall scores showed a high proportion of respondents perceive that we are performing well in meeting our various goals.

The goals receiving the highest proportion of satisfied ratings (satisfied and very satisfied) were improvement of regulatory compliance (89 per cent) and a respected and recognised provider of high quality advice to Government (87 per cent). The lowest satisfied rating was for our performance in promotion of certainty to minimise regulatory risks (71 per cent) and "provision of accessible, understandable and compelling communications" (72 per cent).



a. Leading in the application of economic regulation
b. A respected and recognised provider of high quality advice to Government
c. Provision of accessible, understandable and compelling communications
d. Ongoing efficiency and effectiveness in regards to regulatory decision making
e. Improvement of regulatory compliance
f. Minimisation of regulatory compliance costs
g. Promotion of certainty to minimise regulatory risks
h. Achievement of a high degree of confidence in regulatory decisions made by the ERA

Chart 5 - Satisfaction with the performance of the ERA in achieving its goals

Importance of the ERA's Goals

Respondents were asked to indicate the importance of each ERA goal as either very important, important, unimportant or very unimportant.

There is a high degree of importance associated with all of the ERA's goals. Five of the eight goal areas achieved a net important score (either important or very important) of 98 per cent or above. The lowest net important score was for "leading in the application of economic regulation" (91 per cent).

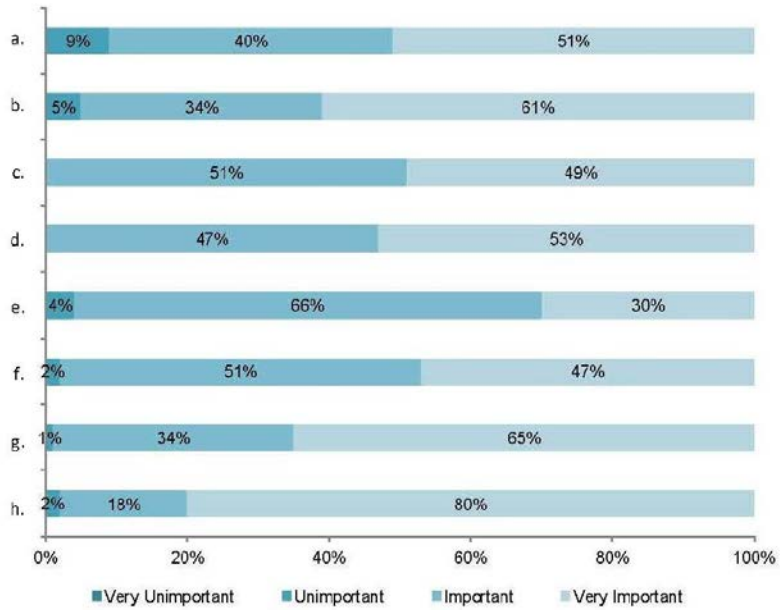
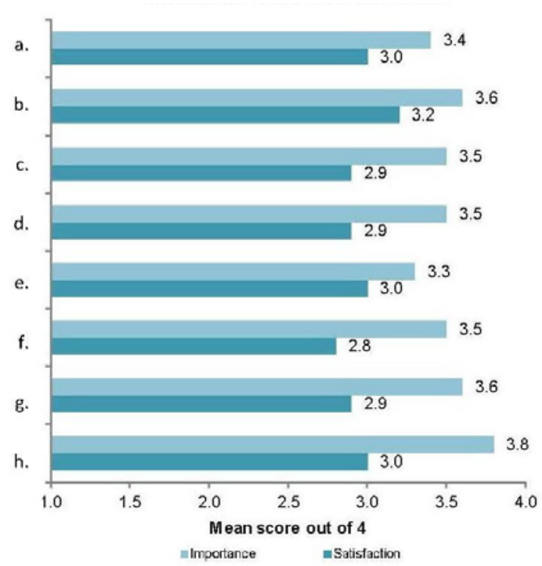


Chart 6 - Importance of the ERA's Goals

Importance/Satisfaction Gap Analysis

A gap analysis measuring the differences between mean scores for importance and satisfaction across the ERA's goal areas indicates that the largest gaps exist for "achieving a high degree of confidence in regulatory decisions" (gap of 0.8) "promoting certainty to minimise regulatory risk" (0.7) and "minimising regulatory compliance costs" (0.7), while the smallest gaps are for "a respected and recognised provider of high quality advice to government" (0.4) and "leading in the application of economic regulation" (0.4).



a. Leading in the application of economic regulation
b. A respected and recognised provider of high quality advice to Government
c. Provision of accessible, understandable and compelling communications
d. Ongoing efficiency and effectiveness in regards to regulatory decision making
e. Improvement of regulatory compliance
f. Minimisation of regulatory compliance costs
g. Promotion of certainty to minimise regulatory risks
h. Achievement of a high degree of confidence in regulatory decisions made by the ERA

Chart 7 - Comparison between satisfaction and importance for each ERA goal area

Satisfaction that ERA Demonstrates Core Values

Respondents were read a list of several values and asked to indicate to what extent they agreed that these values are demonstrated by the ERA as either strongly agree, agree, disagree or strongly disagree.

The survey shows the ERA has performed well in demonstrating core values. Most performance indicators are consistent with the high levels seen in 2009. The highest scores were for “professionalism” (97 per cent) and commitment (97 per cent). The lowest net agreement was for “transparency in its dealings” (75 per cent) which has decreased significantly from 2009 (down 11 percentage points).

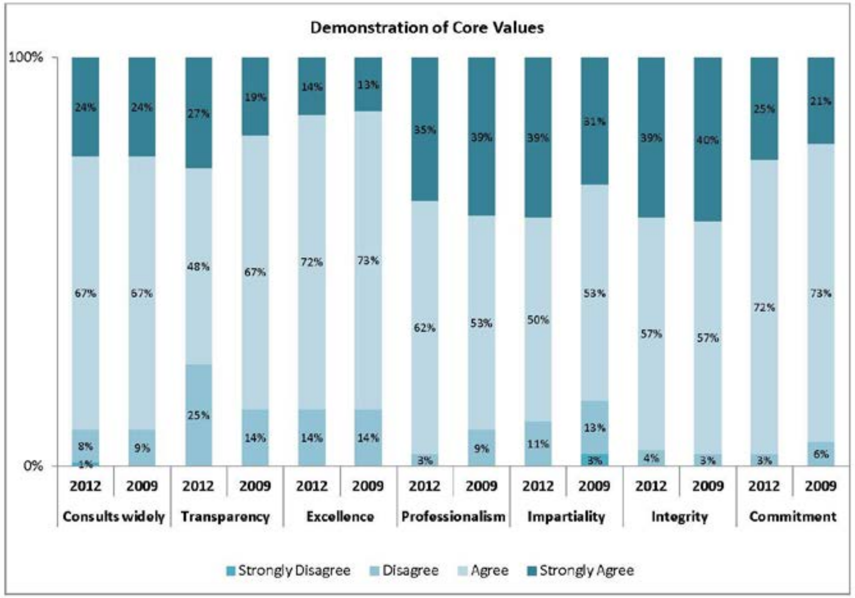


Chart 8 – Satisfaction that the ERA Demonstrates Core Values

Performance of the ERA in Effectively Promoting Itself

Respondents were asked to indicate the extent to which they believe that the ERA effectively promotes itself to the wider community as either strongly agree, agree, disagree or strongly disagree.

54% of respondents agreed to some extent that the ERA effectively promotes itself to the wider community– 5% “strongly agreed” and 49% “agreed”. 46% disagreed that the ERA effectively promotes itself – 3% “strongly disagreed” and 43% “disagreed”.

These results are not significantly different from those recorded in 2009.

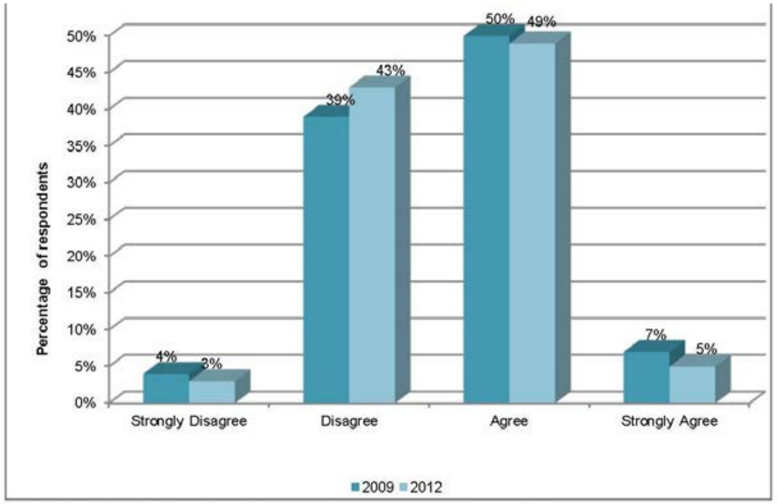


Chart 9 - Satisfaction that the ERA effectively promotes itself (comparison 2009/2012)

Governing Body performance self-appraisal

The ERA's Corporate Governance Manual makes provision for the Governing Body to review its performance on an annual basis. This review seeks to assess the Governing Body's effectiveness including:

- its success in pursuing the ERA's objectives;
- subcommittee effectiveness;
- procedural matters including meeting frequency and detail, conduct of meetings, protocol and clarity of roles; and
- individual performance including attendance, contribution and knowledge.

The annual performance self-appraisal was conducted in-house during October and November 2011 using an online survey tool.

Traditionally, there is only a self-assessment by the Government Body members; however, this reporting year, the Governing Body was also assessed by each member of the Corporate Executive.

The findings of the self-assessment and of the Corporate Executive assessment are consistent and did not identify any significant areas of concern.

Engaging with stakeholders

In undertaking our regulatory and inquiry functions, the ERA is very reliant on submissions and information from stakeholders, as well as on the advisory committees that we have formed.

Liaison Meetings

Throughout the year the Secretariat held numerous stakeholder liaison meetings. Stakeholders include:

- Horizon Power
- Synergy
- Western Power
- System Management
- Independent Market Operator
- Water Corporation
- Department of Water
- Energy Ombudsman
- Energy Safety
- Public Utilities Office (formerly the Office of Energy)
- WA Council of Social Services (WACOSS)

- the South West Water Industry Group (SWWIG)
- Economic Regulation Authority Consumer Consultative Committee (ERACCC)
- Regulatory Managers Forums covering licensing, monitoring and customer protection matters.

The Secretariat also meets with the Treasurer, and the Ministers for Energy, Transport and Water on a regular basis.

Public Forums

Western Power Access Arrangement 3 Forum

The ERA held a public forum on Western Power's proposed revisions to its Access Arrangement for the third access arrangement period on 14 November 2011. The purpose of the forum was to help interested parties understand Western Power's proposed revisions to the Access Arrangement for the Western Power Network and the ERA's process for considering the proposal. The forum also provided interested parties an opportunity to raise questions on Western Power's proposed revisions and on the ERA's process for assessing these revisions. Over 80 stakeholders attended the forum.

Communications

Switched on – a guide for electricity and gas customers

In mid-2011, we launched a series of information sheets about the electricity and gas regulatory framework. The publication, Switched On – A Guide for Electricity & Gas Customers, is designed to assist consumer organisations, financial counsellors, utilities, government agencies and the energy ombudsman to educate customers, including residential and small business consumers. Switched On details customers' rights and supplier requirements in relation to areas such as:

- choosing retailers;
- household meters;
- bills;
- interruptions and entry to your property; and
- complaints and service standards.

Switched On has been distributed to energy utilities, government agencies, the energy ombudsman, financial counsellors, emergency relief organisations and other welfare services. The information sheets are also available free to download either as a complete publication or as individual information sheets.

Since the launch date, around 3,000 hard copies have been distributed, over 900 people have downloaded the complete publication and over 500 people have downloaded individual information sheets.

ERA E-News

We continued to publish and distribute our quarterly agency 'e-news' newsletter on our website and via email to close to 600 stakeholders and interested parties.

The ERA is undertaking a review of its e-news publication and significant improvements are planned for 2012/13 to improve on the way we communicate our activities, and the impact of our decisions for our readers.

Marketing Material

With the publication of the ERA's revised Strategic Plan in late 2011 it was recognised that the ERA's corporate brochure and pull-up banner required updating to be consistent with the new Strategic Plan.

The new brochure and a series of fact sheets, including an organisational chart, have been developed to provide the general public and our stakeholders, including ministers, parliamentarians, and senior public servants, with a general overview of who the ERA is and what we do.

The fact sheets provide a summary of the following functions of the ERA:

- Our energy related work.
- Our inquiry function.
- Our rail related work.
- Our water related work.
- Our licensing function.

Corporate Plans

Strategic Plan 2011-2013

The ERA published its new Strategic Plan on 17 November 2011. The plan was developed following an extensive review and consultation process that took place over the preceding four months, and involved:

- a review of the 2008-10 Strategic Plan.
- an assessment of the expected economic environment.
- planning sessions by the Governing Body, Corporate Executive, Assistant Directors Group and Divisions.
- an all-staff planning day on Tuesday 28 June 2011, where staff identified the key issues that needed to be addressed.
- an assessment of the resources and processes required to deliver the desired outcomes.

- an assessment of our organisational values and development of new values consistent with our purpose.

One of the key differences of the new strategic plan compared with the previous plan is the inclusion of a purpose statement, replacing the existing vision and mission statements. The ERA considered it more effective and meaningful to develop one purpose statement that encapsulates our core business.

Another key difference is the development of a planning framework to ensure all the required components are linked and aligned to achieve the purpose. These components include strategic goals and objectives, our business plan, CEO KPIs, divisional KPIs, risk management, our organisational values and code of conduct, and our organisational performance development and management program.

Work Plan 2012-2013

Each year the ERA develops a work plan, which sets out the activities that the ERA will undertake associated with its key functions. The work plan for 2012-13 was published on our website on 7 June 2012. The ERA's core activities for the 2012-13 year include:

- Undertaking economic inquiries requested by the Western Australian State Government: the ERA will finalise its inquiry into Western Australia's home indemnity insurance arrangements, and finalise the inquiry into tariffs of the Water Corporation, Aqwest and Busselton Water Board. In the past, the ERA has provided reports to Government on issues affecting the grain industry, chicken meat industry, transport sector, water resource management and provision of shared services within the public sector.

- Setting the terms and prices (access arrangement) that gas pipeline owners/operators and Western Power can offer companies wanting to use their infrastructure: The ERA will conduct pre-lodgement work in advance of the owner and operator of the Mid-West and South-West Gas Distribution System, ATCO Gas Australia, lodging proposed revisions to its access arrangement on 1 July 2013.

- Administering the licensing regime for the provision of gas, electricity and water services in Western Australia: In approving licence applications, the ERA will continue to ensure that licensees have the financial and technical capability to provide customers specific levels of service. The ERA will also continue to monitor whether companies that provide these services comply with licence conditions and meet service standards.

- Reporting on the performance of licensees providing utility services to consumers.

- Monitoring the Wholesale Electricity Market, where electricity generators and retailers can buy and sell electricity, to ensure the market is operating effectively. The ERA will also provide its annual report on the state of the market to the Minister for Energy.

- Approving lower and upper limits between which railway owners: (those who own the actual railway lines) can recover costs from railway users (those who own the trains).

Code of Conduct

As part of process of developing the ERA's new Strategic Plan, the ERA has developed a new Code of Conduct. The Code was developed with extensive involvement from all staff, and aligns with the current Strategic Plan.

Using the Public Sector Code of Conduct as a base, this Code clearly identifies the standards of behaviour that are expected of all ERA staff, regardless of their employment status or position, including contractors, temporary staff and consultants.

The Code also clearly explains how all staff ensure that the Code is adhered to, and how to deal with behaviour that is not consistent with the Code.

Significant issues impacting the agency

Current and emerging issues

The following issues will either definitely impact or potentially impact the ERA in 2012/13.

- The Treasury is responsible for implementing an increase in cost recovery for the ERA's regulatory functions. Cabinet has agreed to the introduction of regulations that allow for full cost recovery of the ERA's electricity access functions, which will result in revenue from Western Power of approximately $1.5 million, and to an increase in cost recovery of the ERA'S licensing functions, which will result in revenue from licensees of approximately $3 million. This project is being managed by Treasury and impacted stakeholders are being consulted. It is anticipated that the relevant regulations will be approved during 2012/13. The forward estimates assume that the ERA will be receiving this additional funding from industry from 1 July 2012.

- The 2012/13 Budget discontinued the ERA's expenditure limit that had been in place for the last three years and required the ERA's expenditure for 2012/13 to be limited to a level that is 20 per cent below the amount-expended in 2011/12.

  It is uncertain whether it is possible for the ERA to operate within the expenditure limit for 2012/13 because the level of work associated with our access function is less than normal in 2012/13. However, we are monitoring our expenditure closely and may need to make a submission to the mid-year review if we have to incur any unexpected expenditure.

- Changes resulting from reviews of the Western Australian Wholesale Electricity Market directly impact on the ERA's role in surveillance of the market and on its requirement to report on the effectiveness of the market. With the commencement of the new competitive balancing and ancillary services markets, expected from 1 July 2012, the ERA's surveillance obligations will be expanded to include balancing and load following ancillary services submissions by market participants.

- The *Electricity Networks Access Code 2004* (Code) is due for review to identify what aspects of the Code may require amendment to ensure the effective regulation of third party access to regulated electricity networks. This review could potentially have a significant impact on the ERA's current regulatory approach.

- The *Water Services Bill 2011* is expected to proceed through parliament in the spring session of 2012. This Bill will considerably impact on the way the ERA is to administer its regulatory licensing, customer protection and monitoring functions of the water industry in Western Australia under the new legislation. A review and reissuing of all existing licences will need to occur in addition to the development and application of various other associated regulatory instruments.

- New rules proposed by the Australian Energy Market Commission (AEMC) have potential to affect the ERA's future regulatory determinations for Western Australian natural gas access regimes under the National Gas Rules (NGR). The AEMC is proposing a new uniform rate of return framework for gas access that would be consistent with the post-tax approach adopted for electricity access by the Australian Energy Regulator.

- The proposed NGR framework also requires that the ERA develop rate of return guidelines, setting out its intended approach to estimating the allowed rate of return for service providers. Consultation on the guidelines would give all stakeholders an opportunity to contribute views on how the overall rate of return should be estimated.

- The *Economic Regulation Authority Act 2003* (Act) is overdue for a review. The purpose of the review is to ensure the Act allows the ERA to effectively and efficiently carry out all of its functions.

Expected demands

The major projects that will be undertaken in 2012/13 include:

- Finalising Western Power's proposed third access arrangement revisions. The ERA released a draft decision at the end of March 2012 and is currently considering public submissions. While Western Power proposed substantial network tariff increases, of around 11 per cent on average per year for the five year period, the draft decision was for a slight reduction in tariffs. A final decision is expected in September 2012.

- Finalisation of the Western Australian water services legislation will determine the framework for regulating water services providers. The ERA's licensing, monitoring and customer protection function will be directly impacted by the *Water Services Licensing Bill 2011* as the agency responsible for regulating water services providers.

- Finalisation of an inquiry into the efficient costs and tariffs of the Water Corporation, Aqwest and the Busselton Water Board for the three year period to 2015-16. The terms of reference require the ERA to investigate and report on the efficient costs and appropriate charges for the services provided by the Water Corporation, Aqwest and the Busselton Water Board. The ERA is required to consider, but not limit its investigation to, recommended tariff levels and charging structures for water, wastewater and drainage services. The ERA is also required to make recommendations on the most appropriate level and structure of water storage charges to the South West Irrigation Management Co-operative (Harvey Water). The ERA has published an issues paper to help interested parties understand the matters under review and to facilitate submissions. After considering the responses to the issues paper, the ERA will publish a draft report for further public consultation. The final report for the inquiry is due to be delivered to the State Government by 2 November 2012.

- Another ERA inquiry currently underway relates to home indemnity insurance, which is an insurance product intended to protect homeowners in the event that a builder becomes insolvent, disappears or dies. Currently, the Government is exposed to a risk amounting to about $250 million as a result of underwriting claims in this market. The ERA is considering whether the current interventions by government in this market are appropriate, including whether it is appropriate to make this type of insurance mandatory. This inquiry is at a very early stage. An issues paper was released on 6 July 2012 calling for submissions. The final report is due by April 2013.

- The ERA is scheduled to roll-out of Shared Services (OSS) on 22 October 2012. We have entered into an arrangement to utilise a finance system hosted by the Department of the Premier and Cabinet (DPC). This is a major project for our small finance team and once the DPC hosted system is live, the ERA for the first time in its history will be running its own finance system. Historically, a finance system has been managed through Service Level Agreements with other agencies, including OSS.

- The ERA is required to provide a report to the Western Australian Minister for Energy, at least annually, on the effectiveness of the Wholesale Electricity Market (WEM) in meeting the Wholesale Market Objectives (Market Objectives). The 2012 Report will be provided to the Minister following consideration of submissions received in response to a soon to be released Discussion Paper, and analysis of the available WEM data. It is expected the Report will contain at least:

    - a summary of the information and data compiled by the Independent Market Operator (IMO) and the ERA;
    - the ERA's assessment of the effectiveness of the market, including the effectiveness of the IMO and System Management in carrying out their functions;
    - an assessment of any specific events, behaviour or matters that impacted on the effectiveness of the market; and

- any recommended measures to increase the effectiveness of the market in meeting the Market Objectives to be considered by the Minister.

In addition, there is expected to be an ongoing high level of demand associated with the ERA’s licensing, monitoring and customer protection functions.

Auditor General's independent audit opinion

Auditor General

INDEPENDENT AUDITOR'S REPORT
To the Parliament of Western Australia

ECONOMIC REGULATION AUTHORITY

Report on the Financial Statements
I have audited the accounts and financial statements of the Economic Regulation Authority.

The financial statements comprise the Statement of Financial Position as at 30 June 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows of the Authority for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

Authority's Responsibility for the Financial Statements
The Authority is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Treasurer's Instructions, and for such internal control as the Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Authority, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the financial position of the Economic Regulation Authority at 30 June 2012 and its financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.

Report on Controls

I have audited the controls exercised by the Economic Regulation Authority during the year ended 30 June 2012.

Controls exercised by the Economic Regulation Authority are those policies and procedures established by the Authority to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions.

Authority's Responsibility for Controls

The Authority is responsible for maintaining an adequate system of internal control to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities are in accordance with the Financial Management Act 2006 and the Treasurer's Instructions, and other relevant written law.

Auditor's Responsibility

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the controls exercised by the Economic Regulation Authority based on my audit conducted in accordance with Australian Auditing and Assurance Standards.

An audit involves performing procedures to obtain audit evidence about the adequacy of controls to ensure that the Authority complies with the legislative provisions. The procedures selected depend on the auditor's judgement and include an evaluation of the design and implementation of relevant controls.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the controls exercised by the Economic Regulation Authority are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions during the year ended 30 June 2012.

Report on the Key Performance Indicators
I have audited the key performance indicators of the Economic Regulation Authority for the year ended 30 June 2012.

The key performance indicators are the key effectiveness indicators and, the key efficiency indicators that provide information on outcome achievement and service provision.

Authority's Responsibility for the Key Performance Indicators
The Authority is responsible for the preparation and fair presentation of the key performance indicators in accordance with the Financial Management Act 2006 and the Treasurer's Instructions and for such controls as the Authority determines necessary to ensure that the key performance indicators fairly represent indicated performance.

Auditor's Responsibility
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the key performance indicators based on my audit conducted in accordance with Australian Auditing and Assurance Standards.

An audit involves performing procedures to obtain audit evidence about the key performance indicators. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the key performance indicators.

In making these risk assessments the auditor considers internal control relevant to the Authority's preparation and fair presentation of the key performance indicators in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the relevance and appropriateness of the key performance indicators for measuring the extent of outcome achievement and service provision.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the key performance indicators of the Economic Regulation Authority are relevant and appropriate to assist users to assess the Authority's performance and fairly represent indicated performance for the year ended 30 June 2012.

Independence
In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and the Australian Auditing and Assurance Standards, and other relevant ethical requirements.

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Economic Regulation Authority for the year ended 30 June 2012 included on the Authority's website. The Authority is responsible for the maintenance and integrity of the Authority's website. I have not been engaged to report on the integrity of the Authority's website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 2 August 2012 to confirm the information included in the audited financial statements presented on this website.

GLEN CLARKE
DEPUTY AUDITOR GENERAL
Delegate of the Auditor General for Western Australia
Perth, Western Australia
2 August 2012

Certification of key performance indicators

We hereby certify that the key performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Economic Regulation Authority's performance, and fairly represent the performance of the Economic Regulation Authority for the financial year ended 30 June 2012.

Mr. Lyndon Rowe – Chairman
30 July 2012

Mr. Steve Edwell – Member
30 July 2012

Dr. Stephen King – Member
30 July 2012

Ms. Pam Herbener – Chief Finance Officer
30 July 2012

Key performance indicators

Formulating the Authority's key performance indicators

Broad, high-level government strategic goals are supported at agency level by more specific desired outcomes. Agencies deliver services/programs to achieve these desired outcomes, which ultimately contribute to meeting the higher level government strategic goals. These services/programs are the basis for performance indicators. The strategic high-level government goal relevant to the ERA is:

> *"Greater focus on achieving results in key service delivery areas for the benefit of all Western Australians"*

The desired outcome of the activities of the ERA in support of this high level strategic goal is:

> *"The efficient, safe and equitable provision of utility services in Western Australia"*

The ERA cannot achieve this high-level outcome directly, but instead seeks to play its part towards the achievement of this goal. The ERA's Strategic Plan includes the purpose statement:

> *"to ensure consumers receive quality services for a reasonable price"*

It is recognised that decisions of the ERA in support of this outcome are very difficult to measure objectively, as the ERA must balance the interests of various parties.

The requirement on the ERA to prepare performance indicators has, therefore, been modified by legislation to limit them to management functions. Section 23 of the *Economic Regulation Authority Act 2003* states that:

> "*any requirement under the Treasurer's Instructions (issued under section 78 of the Financial Management Act 2006) that the ERA prepare performance indicators be limited to the ERA's management functions (including financial management), and is not to apply to the performance of any other function of the ERA*"

More objective administrative measures of performance are the quality, quantity and cost of the submissions considered by the ERA's Governing Body that facilitate its decision making. Therefore, the essential measureable outcome for the ERA in support of this outcome is:

> *"submissions to the ERA Governing Body"*

Key effectiveness indicators

The Authority's key effectiveness indicators are:

Quantity: number of submissions made to the ERA Governing Body.

Quality: rating by the ERA Governing Body as to the content, accuracy and presentation of these submissions.

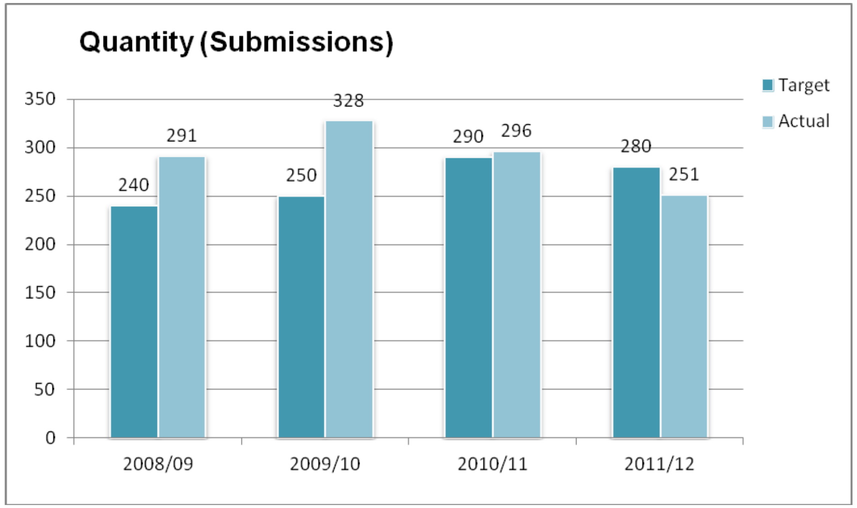
Timeliness: number and % of submissions provided to the ERA Governing Body within the required deadline.

2011/12 Performance Effectiveness

Quantity

The Authority's Governing Body met 45 times during 2011/12 to review and discuss submissions. 63 of these submissions were reviewed by email and 188 were reviewed in meetings by the Governing Body. The number of submissions did not exceed the 2011/12 target of 280.

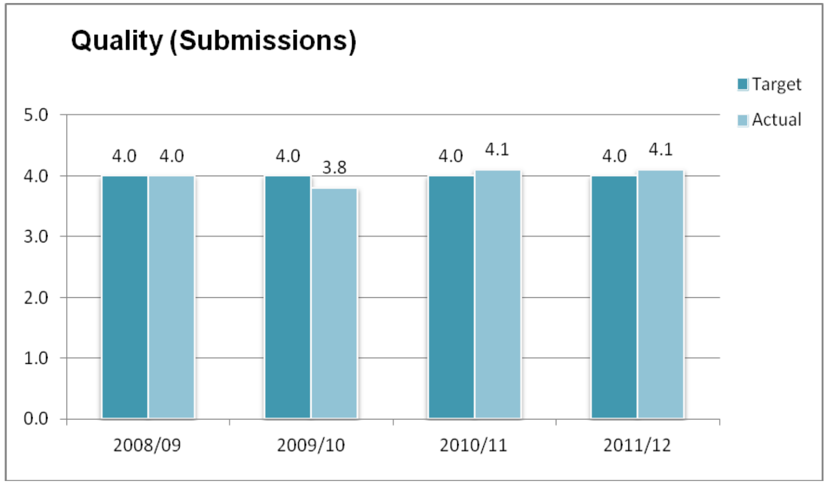
The targets are based on estimates provided by each Division on the number of submissions they will need to provide to the Governing Body to carry out their regulatory work program for the year. The target varies on an annual basis in accordance with the cyclical nature of regulation.



Quality (Submissions)

On a monthly basis the Governing Body reviews the submissions that have been prepared by the Secretariat and considered at a meeting. They consider the relevance, accuracy and readability and provide an overall rating of all submissions received. Using the rating scale of one - five, with one being "very poor", three being "satisfactory" and five being "excellent", the Governing Body have set a target of four meaning that all submissions received are of a very high standard.

For 2011/12, quality was rated above the targeted level of performance (4.0), with the average rating for the year being 4.1.

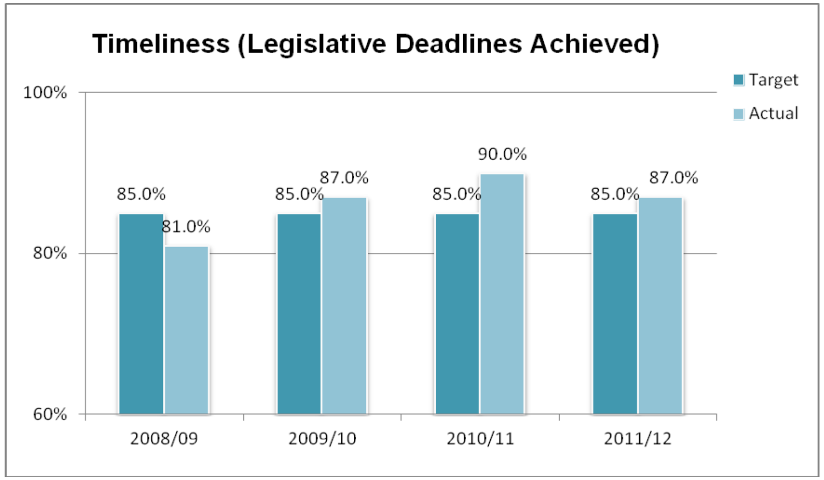


Timeliness (Legislative deadlines achieved)

Of the 251 submissions reviewed during the year, 38 related to functions that had legislative time limits. This is less than the previous year, during which 40 submissions related to functions with time limits.

These time limits were either firm deadlines or timelines within which the Authority, taking all reasonable steps, was to complete its assessments.

Of the 38 submissions with deadlines, 33 were completed on or before expiry of the prescribed time limit; this equated to 87 per cent of submissions which was greater than the 2011/12 target of 85 per cent.

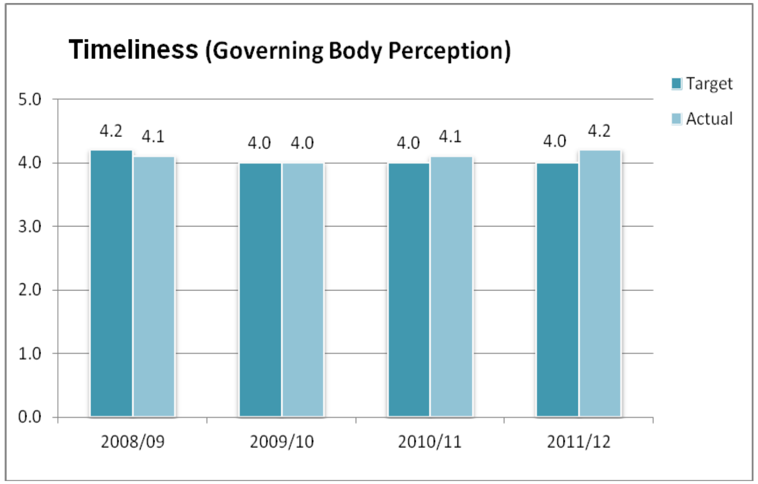


Timeliness (Governing Body perception)

In addition to measuring the number of submissions that meet a deadline, Members of the Authority's Governing Body provide a rating on a monthly basis to indicate their perception of the Secretariat's timeliness in preparing submissions.

The average rating for timeliness for the year was 4.2, which was greater than the 2011/12 target of 4.0.

The Governing Body's perception of the Secretariat's timeliness has improved from last year's rating of 4.1.



Key efficiency indicators

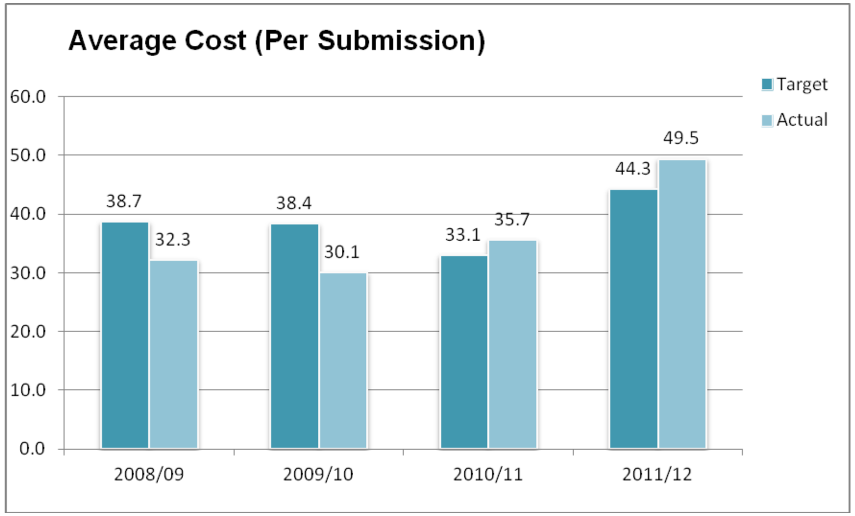
The Authority's key efficiency indicator is *cost (efficiency) - $ per submission made to the ERA Governing Body*. The cost is calculated to include the costs of all staff and other resources involved in preparing submissions to the Governing Body.

2011/12 Performance – Efficiency

Average Cost (per submission)

The total cost of the Authority's operations for the 12 months under review was $12.416 million, compared to an expenditure limit of $12.419 million. There were 251 submissions compared to the target of 280. The average cost per submission was $49,466 against the target $44,354.

Compared to $35,770 in the previous financial year, the average cost per submission has increased by $13,696 due to the employment of additional staff to build in-house capacity and expertise.



Financial statements

Certification of Financial Statements

For the year ended 30 June 2012

The accompanying financial statements of the Economic Regulation Authority have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2012 and the financial position as at 30 June 2012.

At the date of signing we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.

Ms. Pam Herbener
Chief Finance Officer
30 July 2012

Mr. Steve Edwell
Member of Accountable Authority
30 July 2012

Mr. Lyndon Rowe
Chairman of Accountable Authority
30 July 2012

Dr. Stephen King
Member of Accountable Authority
30 July 2012

Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 $000	2011 $000
COST OF SERVICES			
Expenses			
Employee benefits expense..	6.	6,921	6,581
Supplies and services..	7.	4,114	3,027
Depreciation and amortisation expense	8.	85	90
Accommodation expenses	9.	1,095	862
Loss on disposal of non-current assets	13.	174	-
Other expenses	10.	27	28
Total cost of services		**12,416**	**10,588**
Income			
Revenue			
User charges and fees	11.	3,568	4,447
Interest revenue	12.	278	120
Other revenue	14.	26	26
Total Revenue		**3,872**	**4,593**
Total income other than income from State Government		3,872	**4,593**
NET COST OF SERVICES		**8,544**	**5,995**

DISCLOSURES & COMPLIANCE

Income from State Government	15.		
Service appropriation..		14,678	2,525
Resources received free of charge..		199	52
Total income from State Government		**14,877**	**2,577**
SURPLUS/(DEFICIT) FOR THE PERIOD		**6,333**	**(3,418)**
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**6,333**	**(3,418)**

DISCLOSURES & COMPLIANCE

Statement of Financial Position

As at 30 June 2012

	Note	2012 $000	2011 $000
ASSETS			
Current Assets			
Cash and cash equivalents	26.	8,698	1,426
Restricted cash	16. 26.	25	27
Receivables	17.	1,250	1,065
Amounts receivable for services	18.	-	90
Other current assets	19.	136	112
Total Current Assets		**10,109**	**2,720**
Non-Current Assets			
Restricted cash and cash equivalents	16. 26.	113	91
Amounts receivable for services	18.	393	309
Plant and equipment	20.	117	279
Intangible assets	21.	6	-
Total Non-Current Assets		**629**	**679**
TOTAL ASSETS		**10,738**	**3,399**

LIABILITIES			
Current Liabilities			
Payables	23.	1,343	661
Provisions	24.	1,516	1,118
Total Current Liabilities		**2,859**	**1,779**
Non-Current Liabilities			
Provisions	24.	266	340
Total Non-Current Liabilities		**266**	**340**
TOTAL LIABILITIES		**3,125**	**2,119**
NET ASSETS		**7,613**	**1,280**
EQUITY	25		
Contributed equity		773	773
Accumulated surplus/(deficit)		6,840	507
TOTAL EQUITY		**7,613**	**1,280**

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2012

	Note	Contributed equity $000	Reserves $000	Accumulated surplus/(deficit) $000	Total equity $000
Balance at 1 July 2010	25	773	-	3,925	4,698
Total comprehensive income for the year		-	-	(3,418)	(3,418)
Balance at 30 June 2011		**773**	**-**	**507**	**1,280**
Balance at 1 July 2011		773	-	507	1,280
Total comprehensive income for the year		-	-	6,333	6,333
Balance at 30 June 2012		**773**	**-**	**6,840**	**7,613**

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2012

	Note	2012 $000	2011 $000
CASH FLOWS FROM STATE GOVERNMENT			
Service appropriation		14,594	2,445
Holding account drawdowns		90	53
Net cash provided by State Government		**14,684**	**2,498**
Utilised as follows:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee benefits		(6,607)	(6,376)
Supplies and services		(3,308)	(2,933)
Accommodation		(910)	(856)
GST payments on purchases		(455)	(427)
Other payments		(27)	(28)
Receipts			
User charges and fees		3,359	5,199
Interest received		278	120
GST receipts on sales		41	100
GST receipts from taxation authority		314	329
Other receipts		26	26
Net cash provided by/(used in) operating activities	26.	**(7,289)**	**(4,846)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of non-current physical assets		(103)	(60)
Net cash provided by/(used in) investing activities		**(103)**	**(60)**

Net increase/(decrease) in cash and cash equivalents..		7,292	(2,408)
Cash and cash equivalents at the beginning of period		1,544	3,952
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	26.	**8,836**	**1,544**

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

DISCLOSURES & COMPLIANCE

For the year ended 30 June 2012

Note 1. Australian Accounting Standards

General

The Authority's financial statements for the year ended 30 June 2012 have been prepared in accordance with Australian Accounting Standards. The term 'Australian Accounting Standards' includes Standards and Interpretations issued by the Australian Accounting Standards Board (AASB).

The Authority has adopted any applicable new and revised Australian Accounting Standards from their operative dates.

Early adoption of standards

The Authority cannot early adopt an Australian Accounting Standard unless specifically permitted by TI 1101 *Application of Australian Accounting Standards and Other Pronouncements*. There has been no early adoption of Australian Accounting Standards that have been issued or amended (but not operative) by the Authority for the annual reporting period ended 30 June 2012.

Note 2. Summary of significant accounting policies

(a) General statement

The Authority is a not-for-profit reporting entity that prepares general purpose financial statements in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB as applied by the Treasurer's instructions. Several of these are modified by the Treasurer's instructions to vary application, disclosure, format and wording.

The *Financial Management Act* and the Treasurer's instructions impose legislative provisions that govern the preparation of financial statements and take precedence over Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB.

Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

(b) Basis of preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention.

The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000).

Note 3 'Judgements made by management in applying accounting policies' discloses judgements that have been made in the process of applying the Authority's accounting policies resulting in the most significant effect on amounts recognised in the financial statements.

Note 4 'Key sources of estimation uncertainty' discloses key assumptions made concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(c) Reporting entity

The reporting entity comprises the Economic Regulation Authority.

(d) Contributed equity

AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires transfers in the nature of equity contributions, other than as a result of a restructure of administrative arrangements, to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital appropriations have been designated as contributions by owners by TI 955 *Contributions by Owners made to Wholly Owned Public Sector Entities* and have been credited directly to Contributed equity.

The transfer of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

(e) Income

<u>Revenue recognition</u>

Revenue is recognised and measured at the fair value of consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised for the major business activities as follows:

Provision of services

Revenue is recognised by reference to the stage of completion of the transaction.

Interest

Revenue is recognised as the interest accrues.

Service appropriations

Service Appropriations are recognised as revenues at fair value in the period in which the Authority gains control of the appropriated funds. The Authority gains control of appropriated funds at the time those funds are deposited to the bank account or credited to the 'Amounts receivable for services' (holding account) held at Treasury.

Grants, donations, gifts and other non-reciprocal contributions

Revenue is recognised at fair value when the Authority obtains control over the assets comprising the contributions, usually when cash is received.

Other non-reciprocal contributions that are not contributions by owners are recognised at their fair value. Contributions of services are only recognised when a fair value can be reliably determined and the services would be purchased if not donated.

User charges and fees

Revenue for Standing Charges and Specific Charges, raised in accordance with the *Economic Regulation Authority (National Gas Access Funding) Regulations 2009*, is recognised at the time the charge is raised on a client.

Revenue from licence fees are, where possible, recognised at the time the fee is levied on the licensee. In some instances however, the revenue is not measurable until the cash is received.

Licence fees are raised in accordance with:

- Electricity Industry (Licensing Fees) Regulations 2005
- Energy Coordination (Licensing Fees) Regulations 1999
- Water Services Coordination Regulations 1996

Revenue for the recovery of the costs of the Authority in undertaking its Wholesale Electricity Market (WEM) functions, in accordance with the Wholesale Electricity Market Rules, is recognised on an accruals basis in the accounting period in which the services are rendered.

Gains

Realised and unrealised gains are usually recognised on a net basis. These include gains arising on the disposal of non-current assets and some revaluations of non-current assets.

(f) Plant and equipment

Capitalisation/expensing of assets

Items of plant and equipment costing $5,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of plant and equipment costing less than $5,000 are immediately expensed direct to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

Initial recognition and measurement

Plant and equipment are initially recognised at cost.

For items of plant and equipment acquired at no cost or for nominal cost, the cost is the fair value at the date of acquisition.

Subsequent measurement

Subsequent to initial recognition as an asset, the historical cost model is used for all plant and equipment. All items of plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

The Authority does not hold any land, buildings or infrastructure assets.

Derecognition

Upon disposal or derecognition of an item of plant and equipment, any revaluation surplus relating to that asset is retained in the asset revaluation surplus.

Depreciation

All non-current assets having a limited useful life are systematically depreciated over their estimated useful lives in a manner that reflects the consumption of their future economic benefits.

Depreciation is calculated using the straight line method, using rates which are reviewed annually. Estimated useful lives for each class of depreciable asset are:

• Office Equipment	5 years
• Computer Equipment	3 to 5 years
• Furniture and Fittings	10 years

(g) Intangible assets

Capitalisation/expensing of assets

Acquisitions of intangible assets costing $5,000 or more and internally generated intangible assets costing $50,000 or more are capitalised. The cost of utilising the assets is expensed (amortised) over their useful lives. Costs incurred below these thresholds are immediately expensed directly to the Statement of Comprehensive Income.

Intangible assets are initially recognised at cost. For assets acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.

The cost model is applied for subsequent measurement requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life which is reviewed annually) on the straight line basis. All intangible assets controlled by the Authority have a finite useful life and zero residual value.

The expected useful lives for each class of intangible asset are:

Software[(a)]	3 to 5 years

(a) Software that is not integral to the operation of any related hardware

Computer software

Software that is an integral part of the related hardware is recognised as plant and equipment. Software that is not an integral part of the related hardware is recognised as an intangible asset. Software costing less than $5,000 is expensed in the year of acquisition.

(h) Impairment of assets

Plant and equipment and intangible assets are tested for any indication of impairment at the end of each reporting period. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised. As the Authority is a not-for-profit entity, unless an asset has been identified as a surplus asset, the recoverable amount is the higher of an asset's fair value less costs to sell and depreciated replacement cost.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of the asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at the end of each reporting period irrespective of whether there is any indication of impairment.

The recoverable amount of assets identified as surplus assets is the higher of fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. Surplus assets carried at fair value have no risk of material impairment where fair value is determined by reference to market-based evidence. Where fair value is determined by reference to depreciated replacement cost, surplus assets are at risk of impairment and the recoverable amount is measured. Surplus assets at cost are tested for indications of impairment at the end of each reporting period.

(i) Leases

The Authority holds operating leases for accommodation and vehicle fleet.

Operating leases are expensed on a straight line basis over the lease term as this represents the pattern of benefits derived from the leased properties.

(j) Financial instruments

In addition to cash, the Authority has two categories of financial instrument:

- Receivables; and
- Financial liabilities measured at amortised cost.

Financial instruments have been disaggregated into the following classes:

- Financial Assets
    - Cash and cash equivalents
    - Restricted cash and cash equivalents
    - Receivables
    - Amounts receivable for services.
- Financial Liabilities
    - Payables

Initial recognition and measurement of financial instruments is at fair value which normally equates to the transaction cost or the face value. Subsequent measurement is at amortised cost using the effective interest method.

The fair value of short-term receivables and payables is the transaction cost or the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

(k) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalent (and restricted cash and cash equivalent) assets comprise cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

(l) Accrued salaries

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year. Accrued salaries are generally settled within a fortnight of the financial year end. The Authority considers the carrying amount of accrued salaries to be equivalent to its fair value.

The accrued salaries suspense account consists of amounts paid annually into a suspense account over a period of 10 financial years to largely meet the additional cash outflow in each eleventh year when 27 pay days occur instead of the normal 26. No interest is received on this account.

(m) Amounts receivable for services (holding account)

The Authority receives income from State Government partly in cash and partly as an asset (holding account receivable). The accrued amount appropriated is accessible on the emergence of the cash funding requirement to cover leave entitlements and asset replacement.

(n) Receivables

Receivables are recognised at original invoice amount less an allowance for any uncollectible amounts (i.e. impairment). The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written-off against the allowance account. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that the Authority will not be able to collect the debts. The carrying amount is equivalent to fair value as it is due for settlement within 30 days.

(o) Payables

Payables are recognised when the Authority becomes obliged to make future payments as a result of a purchase of assets or services. The carrying amount is equivalent to fair value, as settlement is generally within 30 days.

(p) Provisions

Provisions are liabilities of uncertain timing or amount and are recognised where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period.

<u>Provisions – employee benefits</u>

All annual leave and long service leave provisions are in respect of employees' services up to the end of the reporting period.

Annual leave

The liability for annual leave that is expected to be settled within 12 months after the end of the reporting period is recognised and measured at the undiscounted amounts expected to be paid when the liability is settled.

Annual leave that is not expected to be settled within 12 months after the end of the reporting period is recognised and measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions, as well as the experience of employee departures and periods of service. The expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The provision for annual leave is classified as a current liability as the Authority does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Long service leave

The liability for long service leave that is expected to be settled within 12 months after the end of the reporting period is recognised and measured at the undiscounted amounts expected to be paid when the liability is settled.

Long service leave that is not expected to be settled within 12 months after the end of the reporting period is recognised and measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions, as well as the experience of employee departures and periods of service. The expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Unconditional long service leave provisions are classified as current liabilities as the Authority does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because the Authority has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

Superannuation

The Government Employees Superannuation Board (GESB) and other funds administer public sector superannuation arrangements in Western Australia in accordance with legislative requirements. Eligibility criteria for membership in particular schemes for public sector employees varies according to commencement and implementation dates.

Eligible employees contribute to the Pension Scheme, a defined benefit pension scheme closed to new members since 1987, or the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme closed to new members since 1995.

The GSS is a defined benefit scheme for the purposes of employees and whole-of-government reporting. However, it is a defined contribution plan for agency purposes because the concurrent contributions (defined contributions) made by the Authority to GESB extinguishes the agency's obligations to the related superannuation liability.

The Authority has no liabilities under the Pension Scheme or the GSS. The liabilities for the unfunded Pension Scheme and the unfunded GSS transfer benefits attributable to members who transferred from the Pension Scheme, are assumed by the Treasurer. All other GSS obligations are funded by concurrent contributions made by the Authority to the GESB.

Employees commencing employment prior to 16 April 2007 who were not members of either the Pension Scheme or the GSS became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). From 30 March 2012, existing members of WSS or GESBS and new employees became able to choose their preferred superannuation fund. The Authority makes concurrent contributions to GESB or other funds on behalf of employees in compliance with the *Commonwealth Government's Superannuation Guarantee (Administration) Act 1992*. Contributions to these accumulation schemes extinguish the Authority's liability for superannuation charges in respect of employees who are not members of the Pension Scheme or GSS.

The GESB makes all benefit payments in respect of the Pension Schemes and GSS, and is recouped from the Treasurer for the employer's share.

Provisions – other

Employment on-costs

Employment on-costs, including workers' compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of 'Other expenses' and are not included as part of the Authority's 'Employee benefits expense'. The related liability is included in 'Employment on-costs provision'.

(q) Superannuation expense

The superannuation expense in the Statement of Comprehensive Income comprises employer contributions paid to the GSS (concurrent contributions), WSS, and the GESBS, or other superannuation funds.

(r) Resources received free of charge or for nominal cost

Resources received free of charge or for nominal cost that can be reliably measured are recognised as income at fair value. Where the resource received represents a service that the Authority would otherwise pay for, a corresponding expense is recognised. Receipts of assets are recognised in the Statement of Financial Position.

Assets or services received from other State Government agencies are separately disclosed under Income from State Government in the Statement of Comprehensive Income.

(s) Comparative figures

Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

Note 3. Judgements made by management in applying accounting policies

The preparation of financial statements requires management to make judgements about the application of accounting policies that have a significant effect on the amounts recognised in the financial statements. The Authority evaluates these judgements regularly.

Operating lease commitments

The Authority has entered into a lease for office accommodation. It has been determined that the lessor retains substantially all the risks and rewards incidental to ownership. Accordingly, this lease has been classified as an operating lease.

Note 4. Key sources of estimation uncertainty

Key estimates and assumptions concerning the future are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Long Service Leave

Several estimations and assumptions used in calculating the Authority's long service leave provision include expected future salary rates, discount rates, employee retention rates and expected future payments. Changes in these estimations and assumptions may impact on the carrying amount of the long service leave provision.

Note 5. Disclosure of changes in accounting policy and estimates

Initial application of an Australian Accounting Standard

The Authority has applied the following Australian Accounting Standards effective for annual reporting periods beginning on or after 1 July 2011 that impacted on the Authority.

AASB 1054 *Australian Additional Disclosures*

This Standard, in conjunction with *AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*, removes disclosure requirements from other Standards and incorporates them in a single Standard to achieve convergence between Australian and New Zealand Accounting Standards. There is no financial impact.

AASB 2009-12 *Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Int 2, 4, 16, 1039 & 1052]*

This Standard makes editorial amendments to a range of Australian Accounting Standards and Interpretations. There is no financial impact.

AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, 7, 101 & 134 and Int 13]*

The amendments to *AASB 7* clarify financial instrument disclosures in relation to credit risk. The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is no longer required to be disclosed. There is no financial impact.

The amendments to *AASB 101* clarify the presentation of the Statement of Changes in Equity. The disaggregation of other comprehensive income reconciling the carrying amount at the beginning and the end of the period for each component of equity can be presented in either the Statement of Changes in Equity or the Notes. There is no financial impact.

AASB 2010-5 *Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Int 112, 115, 127, 132 & 1042]*

This Standard makes editorial amendments to a range of Australian Accounting Standards and Interpretations. There is no financial impact.

AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, 5, 101, 107, 108, 121, 128, 132 & 134 and Int 2, 112 & 113]*

This Standard, in conjunction with *AASB 1054*, removes disclosure requirements from other Standards and incorporates them in a single Standard to achieve convergence between Australian and New Zealand Accounting Standards. There is no financial impact.

Future impact of Australian Accounting Standards not yet operative

The Authority cannot early adopt an Australian Accounting Standard unless specifically permitted by TI 1101 *Application of Australian Accounting Standards and Other Pronouncements*. Consequently, the Authority has not applied early any of the following Australian Accounting Standards that have been issued that may impact the Authority. Where applicable, the Authority plans to apply these Australian Accounting Standards from their application date.

		Operative for reporting periods beginning on/after
AASB 9	*Financial Instruments* This Standard supersedes AASB 139 *Financial Instruments: Recognition and Measurement*, introducing a number of changes to accounting treatments. The Standard was reissued in December 2010. The Authority has not yet determined the application or the potential impact of the Standard.	1 Jan 2013
AASB 10	*Consolidated Financial Statements* This Standard supersedes requirements under AASB 127 *Consolidated and Separate Financial Statements and Int 112 Consolidation – Special Purpose Entities*, introducing a number of changes to accounting treatments. The Standard was issued in August 2011. The Authority has not yet determined the application or the potential impact of the Standard.	1 Jan 2013
AASB 11	*Joint Arrangements* This Standard supersedes AASB 131 *Interests in Joint Ventures*, introducing a number of changes to accounting treatments. The Standard was issued in August 2011. The Authority has not yet determined the application or the potential impact of the Standard.	1 Jan 2013

AASB 12	*Disclosure of Interests in Other Entities* This Standard supersedes disclosure requirements under AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*. The Standard was issued in August 2011. The Authority has not yet determined the application or the potential impact of the Standard.	1 Jan 2013
AASB 13	*Fair Value Measurement* This Standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. There is no financial impact.	1 Jan 2013
AASB 119	*Employee Benefits* This Standard supersedes AASB 119 (October 2010). As the Authority does not operate a defined benefit plan, the impact of the change is limited to measuring annual leave as a long-term employee benefit. The resultant discounting of the annual leave benefit has an immaterial impact.	1 Jan 2013
AASB 127	*Separate Financial Statements* This Standard supersedes requirements under AASB 127 *Consolidated and Separate Financial Statements*, introducing a number of changes to accounting treatments. The Standard was issued in August 2011. The Authority has not yet determined the application or the potential impact of the Standard.	1 Jan 2013
AASB 128	*Investments in Associates and Joint Ventures* This Standard supersedes AASB 128 *Investments in Associates*, introducing a number of changes to accounting treatments. The Standard was issued in August 2011. The Authority has not yet determined the application or the potential impact of the Standard.	1 Jan 2013

AASB 1053	*Application of Tiers of Australian Accounting Standards* This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. There is no financial impact.	1 Jul 2013
AASB 2009-11	*Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Int 10 & 12]* [Modified by AASB 2010-7]	1 Jul 2013
AASB 2010-2	*Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Int 2, 4, 5, 15, 17, 127, 129 & 1052]* This Standard makes amendments to Australian Accounting Standards and Interpretations to introduce reduced disclosure requirements for certain types of entities. There is no financial impact.	1 Jul 2013
AASB 2010-7	*Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Int 2, 5, 10, 12, 19 & 127]* This Standard makes consequential amendments to other Australian Accounting Standards and Interpretations as a result of issuing AASB 9 in December 2010. The Authority has not yet determined the application or the potential impact of the Standard.	1 Jan 2013
AASB 2011-2	*Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & 1054]* This Standard removes disclosure requirements from other Standards and incorporates them in a single Standard to achieve convergence between Australian and New Zealand Accounting Standards for reduced disclosure reporting. There is no financial impact.	1 Jul 2013

AASB 2011-6	*Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASB 127, 128 & 131]* This Standard extends the relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity comply with Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements. There is no financial impact.	1 Jul 2013
AASB 2011-7	*Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Int 5, 9, 16 & 17]* This Standard gives effect to consequential changes arising from the issuance of AASB 10, AASB 11, AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*. The Authority has not yet determined the application or the potential impact of the Standard.	1 Jan 2013
AASB 2011-8	*Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Int 2, 4, 12, 13, 14, 17, 19, 131 & 132]* This Standard replaces the existing definition and fair value guidance in other Australian Accounting Standards and Interpretations as the result of issuing AASB 13 in September 2011. There is no financial impact.	1 Jan 2013

AASB 2011-9	*Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]* This Standard requires to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The Authority has not yet determined the application or the potential impact of the Standard.	1 Jul 2012
AASB 2011-10	*Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, 8, 101, 124, 134, 1049 & 2011-8 and Int 14]* This Standard makes amendments to other Australian Accounting Standards and Interpretations as a result of issuing AASB 119 in September 2011. There is no financial impact.	1 Jan 2013
AASB 2011-11	*Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements for AASB 119 (September 2011). There is no financial impact.	1 Jul 2013
AASB 2012-1	*Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements* [AASB 3, 7, 13, 140 & 141] This Standard establishes and amends reduced disclosure requirements for additional and amended disclosures arising from AASB 13 and the consequential amendments implemented through AASB 2011-8. There is no financial impact.	1 Jul 2013

Note 6. Employee benefits expense

	2012 $000	2011 $000
Wages and salaries[(a)]	6,133	5,925
Superannuation - defined contribution plans[(b)]	545	527
Other related expenses	243	129
	6,921	**6,581**

(a) Includes the value of the fringe benefit to the employee plus the fringe benefits tax component, leave entitlements including superannuation contribution component.
(b) Defined contribution plans include West State, Gold State and GESB Super Scheme (contributions paid).

Employment on-costs expenses, such as workers' compensation insurance are included at note 10 'Other expenses'. Employment on-costs liability is included at note 24 'Provisions'.

Note 7. Supplies and services

	2012 $000	2011 $000
Communications	146	87
Consultants and contractors	377	165
Professional services	1,866	1,621
Consumables	97	66
Legal costs	1,052	604
Motor vehicle	146	131
Travel	104	80
Other	326	273
	4,114	**3,027**

Note 8. Depreciation and amortisation expense

	2012 $000	2011 $000
Depreciation		
Computer equipment	45	30
Furniture and fittings	31	53
Office equipment	7	7
Total depreciation	**83**	**90**
Amortisation		
Intangible assets	2	-
Total amortisation	2	-
Total depreciation and amortisation	**85**	**90**

Note 9. Accommodation expenses

	2012 $000	2011 $000
Office accommodation rental	1,033	795
Other accommodation expenses	6	13
Repairs and maintenance	41	43
Cleaning	15	11
	1,095	**862**

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Note 10. Other expenses

	2012 $000	2011 $000
Employment on-costs	1	-
Audit Fee[(a)]	26	28
	27	**28**

(a) See also note 34 'Remuneration of auditor'.

Note 11. User charges and fees

	2012 $000	2011 $000
Standing charges	1,171	1,922
Specific charges	230	756
Licence fees and charges	456	450
Regulatory fees	1,711	1,319
	3,568	**4,447**

Note 12. Interest revenue

	2012 $000	2011 $000
Interest revenue	278	120
	278	**120**

Note 13. Net gain/(loss) on disposal of non-current assets

	2012 $000	2011 $000
Proceeds from disposal of non-current assets		
Furniture and Fittings	-	-
Costs of disposal of non-current assets		
Furniture and Fittings	(174)	-
Net gain/(loss)	**(174)**	**-**

Note 14. Other revenue

	2012 $000	2011 $000
Miscellaneous revenue	26	26
	26	**26**

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Note 15. Income from State Government

	2012 $000	2011 $000
Appropriation received during the year:		
Service appropriation[(a)]	14,678	2,525
	14,678	**2,525**
Resources received free of charge [(b)]		
Determined on the basis of the following estimates provided by agencies:		
State Solicitor's Office	14	46
FIN Building Management Works	185	6
	199	52
	14,877	**2,577**

(a) Service appropriations fund the net cost of services delivered. Appropriation revenue comprises a cash component and a receivable (asset). The receivable (holding account) comprises the depreciation expense for the year and any agreed increase in leave liability during the year.

(b) Assets or services received free of charge or for nominal cost are recognised as revenue at fair value of the assets and/or services that can be reliably measured and which would have been purchased if they were not donated. Contributions of assets or services in the nature of contributions by owners are recognised direct to equity.

Note 16. Restricted cash and cash equivalents

	2012 $000	2011 $000
Current		
Indian Ocean Territories funding	25	27
	25	**27**
Non-current		
Accrued salaries suspense account [(a)]	113	91
	138	**118**

(a) Amount held in the suspense account is only to be used for the purpose of meeting the 27th pay in a financial year that occurs every 11 years.

Note 17. Receivables

	2012 $000	2011 $000
Current		
Receivables	687	396
Accrued revenue	325	563
GST receivable	238	100
	1,250	1,059
Loans and advances:		
- Other debtors	-	6
Total current	**1,250**	**1,065**

The Authority does not hold any collateral as security or other credit enhancement relating to receivables.

Note 18. Amounts receivable for services (Holding Account)

	2012 $000	2011 $000
Current	-	90
Non-Current	393	309
	393	**399**

Represents the non-cash component of service appropriations. It is restricted in that it can only be used for asset replacement or payment of leave liability.

Note 19. Other assets

	2012 $000	2011 $000
Current		
Prepayments	94	70
Other assets	42	42
Total current	**136**	**112**

Note 20. Plant and equipment

	2012	2011
	$000	$000
Computer hardware	143	188
At cost	(43)	(138)
Accumulated depreciation	100	50
Furniture fixtures and fittings		
At cost	-	526
Accumulated depreciation	-	(321)
	-	205
Office equipment		
At cost		
Accumulated depreciation	33	69
	(16)	(45)
	17	24
	117	**279**

Reconciliation

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the reporting period are set out below:

	Computer hardware	Furniture and fittings	Office equipment	Total
2012	**$000**	**$000**	**$000**	**$000**
Carrying amount at start of year	50	205	24	279
Additions	95	-	-	95
Disposal	-	(174)	-	(174)
Depreciation	(45)	(31)	(7)	(83)
Carrying amount at end of year	**100**	**-**	**17**	**117**
2011	**$000**	**$000**	**$000**	**$000**
Carrying amount at start of year	37	258	14	309
Additions	43	-	17	60
Depreciation	(30)	(53)	(7)	(90)
Carrying amount at end of year	**50**	**205**	**24**	**279**

Note 21. Intangible assets

	2012 $000	2011 $000
Computer Software		
At cost	22	14
Accumulated amortisation	(16)	(14)
	6	**-**
Reconciliation:		
Computer Software		
Additions	8	-
Amortisation expense	(2)	-
Carrying amount at end of year	**6**	**-**

Note 22. Impairment of assets

There were no indications of impairment to plant and equipment or intangible assets at 30 June 2012.
The Authority held no goodwill or intangible assets with an indefinite useful life during the reporting period. At the end of the reporting period there were no intangible assets not yet available for use.
All surplus assets at 30 June 2012 have either been classified as assets held for sale or written-off.

Note 23. Payables

	2012 $000	2011 $000
Current		
Trade payables	123	161
Accrued expenses	1,026	325
Accrued salaries	138	148
Other payables	56	27
Total current	**1,343**	**661**

Note 24. Provisions

	2012 $000	2011 $000
<u>Current</u>		
Employee benefits provision		
Annual leave[(a)]	777	503
Long service leave[(b)]	735	612
	1,512	1,115
Other provisions		
Employment on-costs[(c)]	4	3
	4	3
	1,516	**1,118**
<u>Non-current</u>		
Employee benefits provision		
Long service leave[(b)]	265	339
	265	339
Other provisions		
Employment on-costs[(c)]	1	1
	1	1
	266	**340**

(a) Annual leave liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after the reporting period. Assessments indicate that actual settlement of the liabilities will occur as follows:

	2012 $000	2011 $000
Within 12 months of the end of the reporting period	413	263
More than 12 months after the reporting period	364	240
	777	503

(b) Long service leave liabilities have been classified as current where there is no unconditional right to defer settlement for at least 12 months after the reporting period. Assessments indicate that actual settlement of the liabilities will occur as follows:

	2012 $000	2011 $000
Within 12 months of the end of the reporting period	269	252
More than 12 months after the reporting period	731	699
	1,000	951

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(c) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments. The associated expense, apart from the unwinding of the discount (finance cost), is disclosed in note 10 'Other expenses'.

Movement in other provisions

Movements in each class of provisions during the financial year, other than employee benefits, are set out below:

	2012 $000	2011 $000
Employment on-cost provision		
Carrying amount at start of year	4	4
Additional provisions recognised	1	-
Carrying amount at end of year	**5**	**4**

Note 25. Equity

The Government holds the equity interest in the Authority on behalf of the community. Equity represents the residual interest in the net assets of the Authority.

Contributed equity	2012 $000	2011 $000
Balance at start of period	773	773
Balance at end of period	**773**	**773**

Accumulated surplus/(deficit)

	2012 $000	2011 $000
Balance at start of year	507	3,925
Result for the period	6,333	(3,418)
Balance at end of period	**6,840**	**507**
Total Equity at end of period	**7,613**	**1,280**

Note 26. Notes to the Statement of Cash Flows

Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2012 $000	2011 $000
Cash and cash equivalents	8,698	1,426
Restricted cash and cash equivalents (note 16 'Restricted cash and cash equivalent')	138	118
	8,836	**1,544**

Reconciliation of net cost of services to net cash flows provided by/(used in) operating activities

	2012 $000	2011 $000
Net cost of services	(8,544)	(5,995)
Non-cash items:		
Depreciation and amortisation expense	85	90
Resources received free of charge	199	52
Net (gain)/loss on sale of property, plant and equipment	174	-
(Increase)/decrease in assets:		
Current receivables[(a)]	(47)	763
Other current assets	(25)	(13)
Increase/(decrease) in liabilities:		
Current payables [(a)]	682	123
Current provisions	398	127
Non-current provisions	(74)	5
Net GST receipts/(payments)[(b)]	(100)	229
Change in GST in receivables/payables[(c)]	(37)	(227)
Net cash provided by/(used in) operating activities	**(7,289)**	**(4,846)**

(a) Note that the Australian Taxation Office (ATO) receivable/payable in respect of GST and the receivable/payable in respect of the sale/purchase of non-current assets are not included in these items as they do not form part of the reconciling items.
(b) This is the net GST paid/received, i.e cash transaction.
(c) This reverses out the GST in receivables and payables.

Note 27. Resources provided free of charge

	2012 $000	2011 $000
During the year the following resources were provided to other agencies free of charge for functions outside the normal operations of the Authority:		
Energy Disputes Arbitrator - Administrative support	8	7
	8	**7**

Note 28. Commitments

The commitments below are inclusive of GST where relevant.

Lease commitments

Non-cancellable operating lease commitments

	2012 $000	2011 $000
Commitments for minimum lease payments are payable as follows:		
Within 1 year	725	486
Later than 1 year and not later than 5 years	1,295	48
	2,020	**534**

The Authority has entered into a property lease which is a non-cancellable lease with a three year term, with rent payable monthly in advance. Contingent rent provisions within the lease agreement require that the minimum lease payments shall be increased by the lower of CPI or 5% per annum. An option exists to renew the lease at the end of the three year term for an additional term of three years.

Other expenditure commitments

	2012 $000	2011 $000
Other expenditure commitments for operational expenditure contracted for at the end of the reporting period but not recognised as liabilities, are payable as follows:		
Within 1 year	509	414
	509	**414**

These commitments are all inclusive of GST.

Note 29. Contingent liabilities and contingent assets

Contingent liabilities
The Authority had no contingent liabilities as at 30 June 2012.

Contingent assets
The Authority had no contingent assets as at 30 June 2012.

Note 30. Events occurring after the end of the reporting period

There were no events occurring after the reporting date that impact on the financial statements.

Note 31. Explanatory statement

This statement provides details of any significant variations between estimates and actual results for 2012 and between actual results for 2011 and 2012. Significant variations are considered to be those greater than 10% and $100,000.

Significant variances between estimated and actual result for 2012

	2012 Estimate $000	2012 Actual $000	Variance $000
Employee benefits expense	8,339	6,921	(1,418)
Supplies and services	2,862	4,114	1,252
Accommodation	596	1,095	499
Other expenses	538	27	(511)
User charges and fees	3,181	3,568	387

Employee benefits expense
The Authority was unable to fill all positions in 2011/12 and also experienced a high attrition rate.

Supplies and services
The Variance is due to legal costs associated with appeals against the Authority's decisions relating to gas access arrangements, technical advice relating to the Western Power access arrangement and the inquiry into the Tariffs of the Water Corporation, Aqwest and Busselton Water Board.

Accommodation
Increased costs associated with Authority's office relocation which was not anticipated until 2012/13. Additional accommodation was required in 2011/12 due to an increase in FTEs.

Other expenses
The estimate for 2011/12 contains expenses that relate to the supplies and services category.

User charges and fees
There was an increase in regulatory fees due to increased work in monitoring the wholesale electricity market.

Significant variances between actual results for 2011 and 2012

	2012 Actual $000	2011 Actual $000	Variance $000
<u>Income</u>			
User charges and fees	3,568	4,447	(879)
Interest revenue	278	120	158
Service appropriation	14,678	2,525	12,153
<u>Expenses</u>			
Supplies and services	4,114	3,027	1,087
Accommodation	1095	862	233

<u>User charges and fees</u>
Due to the cyclical nature of the work of the Authority, revenue fluctuates on an annual basis. Two gas access arrangement revisions took place in 2010/11 while there were none in 2011/12 resulting in less revenue from standing and specific charges.

<u>Interest revenue</u>
An increase in interest occurred due to a larger bank account balance during the year that resulted from the increase in service appropriation.

<u>Service appropriation</u>
The increase in appropriation in 2012 was due to the reinstatement of consolidated funding as a result of a delay in the drafting of regulations to increase the level of cost recovery from regulatory activities and funding to build in-house capacity and expertise.

Supplies and services
The increase is due to legal costs associated with appeals against the Authority's decisions relating to gas access arrangements, technical advice relating to the Western Power access arrangement, the inquiry into the Tariffs of the Water Corporation, Aqwest and Busselton Water Board and the implementation of a new server environment.

Accommodation
The 2011/12 amount includes resources received free of charge from the Department of Finance relating to the relocation of the Authority's office.

Note 32. Financial instruments

(a) Financial risk management objectives and policies

Financial instruments held by the Authority are cash and cash equivalents, restricted cash and cash equivalents, receivables and payables. The Authority has limited exposure to financial risks. The Authority's overall risk management program focuses on managing the risks identified below.

Credit risk

Credit risk arises when there is the possibility of the Authority's receivables defaulting on their contractual obligations resulting in financial loss to the Authority.

The maximum exposure to credit risk at the end of the reporting period in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any provisions for impairment as shown in the table at note 32(c) 'Financial instruments disclosures' and note 17 'Receivables'.

Credit risk associated with the Authority's financial assets is minimal because the main receivable is the amounts receivable for services (holding account). For receivables other than government, the Authority trades only with recognised, creditworthy third parties. The Authority has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that the Authority's exposure to bad debts is minimal. At the end of the reporting period there were no significant concentrations of credit risk.

Liquidity risk

Liquidity risk arises when the Authority is unable to meet its financial obligations as they fall due.

The Authority is exposed to liquidity risk through its trading in the normal course of business.

The Authority has appropriate procedures to manage cash flows including drawdowns of appropriations by monitoring forecast cash flows to ensure that sufficient funds are available to meet its commitments.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Authority's income or the value of its holdings of financial instruments. The Authority does not trade in foreign currency and is not materially exposed to other price risks. The Authority's exposure to market risk for changes in interest rates relates primarily to the long-term debt obligations.

(b) Categories of financial instruments

In addition to cash, the carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are:

	2012 $000	**2011 $000**
Financial Assets		
Cash and cash equivalents	8,698	1,426
Restricted cash and cash equivalents	138	118
Receivables[a]	1,405	1,364
Financial Liabilities		
Financial liabilities measured at amortised cost	1,343	661

(a) The amount of receivables excludes GST recoverable from the ATO (statutory receivable).

(c) Financial instrument disclosures

Credit risk

The following table discloses the Authority's maximum exposure to credit risk and the ageing analysis of financial assets. The Authority's maximum exposure to credit risk at the end of the reporting period is the carrying amount of financial assets as shown below. The table discloses the ageing of financial assets that are past due but not impaired and impaired financial assets. The table is based on information provided to senior management of the Authority.

The Authority does not hold any collateral as security or other credit enhancements relating to the financial assets it holds.

Aged analysis of financial assets

	Carrying Amount $000	Not past due and not impaired $000	Past due but not impaired: Up to 1 month $000	1 – 3 months $000	3 months to 1 year $000	1-5 years $000	More than 5 years $000	Impaired financial assets $000
2012								
Cash and cash equivalents	8,698	8,698	-	-	-	-	-	-
Restricted cash and cash equivalents	138	138	-	-	-	-	-	-
Receivables[(a)]	1,012	1,010	-	2	-	-	-	-
Amount receivable for services	393	393	-	-	-	-	-	-
	10,241	**10,239**	**-**	**2**	**-**	**-**	**-**	**-**
2011								
Cash and cash equivalents	1,426	1,426	-	-	-	-	-	-
Restricted cash and cash equivalents	118	118	-	-	-	-	-	-
Receivables[(a)]	965	959	-	-	6	-	-	-
Amount receivable for services	399	399	-	-	-	-	-	-
	2,908	**2,902**	**-**	**-**	**6**	**-**	**-**	**-**

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).

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Liquidity risk and interest rate exposure

The following table details the Authority's interest rate exposure and the contractual maturity analysis of financial assets and financial liabilities. The maturity analysis section includes interest and principal cash flows. The interest rate exposure section analyses only the carrying amounts of each item.

Interest rate exposure and maturity analysis of financial assets and financial liabilities

			Interest rate exposure				Maturity dates				
	Weighted Average Effective Interest Rate %	Carrying Amount $000	Interest rate $000	Variable interest rate $000	Non-interest bearing $000	Nominal Amount $000	Up to 1 month $000	1 – 3 months $000	3 months to 1 year $000	1 – 5 years $000	More than 5 years $000
2012											
Financial Assets											
Cash and cash equivalents	4.71%	8,698	-	8,698	-	8,698	8,698	-	-	-	-
Restricted cash and cash equivalents[b]	4.71%	138	-	25	113	138	-	-	25	113	-
Receivables[a]		1,012	-	-	1,012	1,012	1,010	2	-	-	-
Amount receivable for services		393	-	-	393	393	-	-	-	-	393
		10,241	-	**8,723**	**1,518**	**10,241**	**9,708**	**2**	**25**	**113**	**393**
Financial Liabilities											
Payables		1,343	-	-	1,343	1,343	1,343	-	-	-	-
		1,343	**-**	**-**	**1,343**	**1,343**	**1,343**	**-**	**-**	**-**	**-**

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).
(b) Only the Indian Ocean Territories funding closing balance attracts interest

Interest rate exposure and maturity analysis of financial assets and financial liabilities

			Interest rate exposure				Maturity dates				
	Weighted Average Effective Interest Rate %	Carrying Amount	Fixed interest rate	Variable interest rate	Non-interest bearing	Nominal Amount	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	More than 5 years
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2011											
Financial Assets			-								
Cash and cash equivalents	5.00%	1,426	-	1,426	-	1,426	1,426	-	-	-	-
Restricted cash and cash equivalents[b]	5.00%	118	-	27	91	118	-	-	27	91	-
Receivables[a]		959	-	-	959	959	953	-	6	-	-
Amount receivable for services		399	-	-	399	399	-	-	-	-	399
		2,902	-	**1,453**	**1,449**	**2,902**	**2,379**	-	**33**	**91**	**399**
Financial Liabilities											
Payables		661	-	-	661	661	661	-	-	-	-
		661	**-**	**-**	**661**	**661**	**661**	**-**	**-**	**-**	**-**

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).
(b) Only the Indian Ocean Territories funding closing balance attracts interest.

Interest rate sensitivity analysis

The following table represents a summary of the interest rate sensitivity of the Authority's financial assets and liabilities at the end of the reporting period on the surplus for the period and equity for a 1% change in interest rates. It is assumed that the change in interest rates is held constant throughout the reporting period.

	Carrying Amount $000	-100 basis points Surplus $000	-100 basis points Equity $000	+100 basis points Surplus $000	+100 basis points Equity $000
2012					
Financial Assets					
Cash and cash equivalents	8,698	(87)	(87)	87	87
Total Increase/(Decrease)		**(87)**	**(87)**	**87**	**87**

	Carrying Amount $000	-100 basis points Surplus $000	-100 basis points Equity $000	+100 basis points Surplus $000	+100 basis points Equity $000
2011					
Financial Assets					
Cash and cash equivalents	1,426	(14)	(14)	14	14
Total Increase/(Decrease)		**(14)**	**(14)**	**14**	**14**

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Fair values

All financial assets and liabilities recognised in the Statement of Financial Position, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

Note 33. Remuneration of members of the accountable authority and senior officers

Remuneration of members of the accountable authority

The number of members of the accountable authority, whose total of fees, salaries, superannuation, non-monetary benefits and other benefits for the financial year, fall within the following bands are:

$	2012	2011
20,001 - 30,000[(a)]	-	1
70,001 - 80,000[(b)]	-	1
130,001 - 140,000	-	1
140,001 - 150,000	2	-
530,001 - 540,000	-	1
580,001 - 590,000	1	-
	$000	**$000**
The total remuneration of members of the accountable authority	**883**	**780**

The total remuneration includes the superannuation expense incurred by the Authority in respect of members of the accountable authority.

(a) The Board Member against this band left the Authority in October 2010.

(b) The Board Member against this band joined the Authority in December 2010.

Remuneration of senior officers

The number of senior officers, other than senior officers reported as members of the accountable authority, whose total fees, salaries, superannuation, non-monetary benefits and other benefits for the financial year fall within the following bands are:

	2012	2011
$		
50,001 - 60,000[(a)]	1	-
70,001 - 80,000[(c)]	-	1
110,001 - 120,000[(b)]	1	-
130,001 - 140,000	1	-
140,001 - 150,000	-	1
160,001 - 170,000	1	-
170,001 - 180,000	-	1
240,001 - 250,000	1	1
250,001 - 260,000	1	-
260,001 - 270,000	-	1
330,001 - 340,000	1	-
340,001 - 350,000	-	1
	$000	**$000**
The total remuneration of senior officers	**1,300**	**1,254**

The total remuneration includes the superannuation expense incurred by the Authority in respect of senior officers other than senior officers reported as members of the accountable authority.

(a) The senior officer against this band was no longer part of the management group from November 2011.

(b) The senior officer against this band joined the Authority in January 2012.

(c) The senior officer against this band was no longer part of the management group from November 2010.

Prior period has been restated for change to Treasurer's Instruction 952.

Note 34. Remuneration of auditor

Remuneration payable to the Auditor General in respect of the audit for the current financial year is as follows:

	2012 $000	2011 $000
Auditing the accounts, financial statements and key performance indicators	28	26

Note 35. Indian Ocean Territories

The Agreement between the Treasurer and the Authority provides for the retention of moneys received by the Authority from the Commonwealth in respect of the Indian Ocean Territories. Revenue retained pursuant to this agreement is to be applied to the Authority's services. Money received by the Authority in respect of the services provided are credited to the Authority's operating account.

	2012 $000	2011 $000
Balance at the start of the year	27	29
Receipts	-	-
Payments	(2)	(2)
Balance at the end of the year	**25**	**27**

Note 36. Supplementary financial information

	2012 $000	2011 $000
Write-off		
Minor equipment written off by the Board during the financial year- ladder	1	-

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Other financial disclosures

Pricing policies of services provided

The ERA currently receives revenue for the following regulated industries.

Gas Industry

Fees and charges are payable for services provided by the ERA under the provisions of the *Economic Regulation Authority (National Gas Access Funding) Regulations 2009*. Payments to the ERA from operators of regulated pipelines include:

- Standing charges that are levied on service providers for costs incurred by the ERA which are not directly attributed to activities of a particular pipeline system.
- Specific charges that are levied by the ERA for specific work carried out for a particular service provider.

The Regulations require that our annual report includes details of the total amount of standing charges, specific charges and fees paid by pipeline operators in a financial year. These details for the year ended 30 June 2012 are listed in the following table.

Service provider	Standing charges ($)	Specific charges ($)
ATCO Gas Australia (formerly WA Gas Networks Pty Ltd)	343,172	45,702
DBNGP (WA) Transmission Pty Ltd	635,269	384,408
Goldfields Gas Transmission	257,538	0
Southern Cross Pipelines Pty Ltd	34,559	0
Total	1,270,537	430,110

The Regulations also provide for the ERA to levy fees for:

- providing documents prepared by or on behalf of the ERA;
- admission to a meeting held by the ERA for the purposes of public consultation; and
- interest on any outstanding amounts.

No document fees were received in 2010/11. Interest on outstanding amounts in 2010/11 amounted to $456.08.

Licensing

Fees and charges are payable for licences issued by the ERA. These fees and charges are determined by regulations created under the *Electricity Industry Act 2004*, the *Energy Coordination Act 1994* and the *Water Services Licensing Act 1995*. It is the responsibility of the relevant minister for each Act to determine the amount of fees charged.

Electricity Market

Regulator fees for our surveillance function are recovered from participants of the Wholesale Electricity Market (WEM) through the Independent Market Operator. Under the WEM Rules, the fees are set to fully recover the costs of the surveillance function.

Commonwealth Service Agreement

Under an agreement with the Commonwealth, the ERA is responsible for licensing water and electricity utilities on the Christmas and Cocos Islands. Applications for licences are yet to be received. However, any costs incurred as a result of pre-lodgement negotiations can be recovered from the Commonwealth Government based on an agreed amount.

Capital works

The ERA's capital works program mainly comprises of expenditure on multi-function devices, the computer network and other servers operated by the ERA. This year we upgraded the servers at a cost of $103,543. The server upgrade was made as part of the three year asset replacement policy.

Employment and industrial relations

The following table provides a breakdown of the categories of staff employment as at 30 June 2012 in comparison to 30 June 2011.

Employee category	No. of staff at 30 June 2012	No. of staff at 30 June 2011
Permanent full-time	39	42
Permanent part-time	4 (2.8 FTE)	2 (1.4 FTE)
Fixed term full-time	6	10
Fixed term part-time	0	4 (0.8 FTE)
Total	**47.8**	**54.2**

As at 30 June 2012, there were seven vacant positions compared to nine in the previous year.

Staffing policies

The ERA continues to be committed to the ongoing development and retention of our staff and the effective achievement of organisational outcomes. This year, we again reviewed our performance management processes with the aim of improving the process. We implemented a new program that focuses more on the training needs of staff. By focussing performance management on training we have been able to put in place a training and development program to ensure that all staff can access appropriate training programs as we move into the new financial year.

The ERA continues to create and develop flexible work arrangements for all staff, such as job sharing, job rotation and work/life balance initiatives. This assists in attracting and retaining people to the ERA with relevant expertise and promoting a more attractive working arrangement for prospective applicants.

In pursuing this objective, we have initiated and continued with a number of human resource management initiatives such as:

- introducing a divisional information series where divisional staff volunteer to conduct a presentation on the work they are undertaking;
- continuing with a work/life balance committee;
- continuing to conduct quarterly surveys so that staff can provide anonymous feedback;
- reviewing staffing related policies to simplify the processes and make them more user friendly;
- providing feedback to staff on issues raised through surveys and at staff meetings;
- continuing to review policies, with reviewed policies replaced on the intranet; and
- a new intranet is planned along with an improvement in the presentation of policies to move away from PDFs.

All of the ERA's staffing policies are available through the intranet and also form part of the induction process for new employees.

Industrial relations

Our staff are employed under the *Public Service Award 1992* and the *Public Service and Government Officers General Agreement 2011*. No industrial disputes were recorded during 2011/12.

Workers compensation claims

The ERA complies with the requirements of the *Occupational Safety and Health Act 1984*. There were no workers compensation claims. There was one minor incident report submitted during the 2011/12 reporting year. There were no outstanding workers compensation claims from a prior period.

Ministerial directives

The ERA is independent of direction or control by the State, or any Minister or officer of the State, in performing its functions. However, under section 28(2) and 28(3) of the *Economic Regulation Authority Act 2003*, the relevant Minister may give direction in writing to the ERA on administration and financial administration matters.

No ministerial directives were received from the relevant Minister during 2011/12.

Governance disclosures

Shares in statutory authority

The ERA has no shares for senior officers to hold.

Shares in subsidiary bodies

The ERA does not have any subsidiary bodies.

Interests in contracts by senior officers

In 2011/12, no senior officers had any interest in existing or proposed contracts (other than employment contracts) with the ERA.

Benefits to senior officers through contracts with the Authority

In 2011/12, no senior officers disclosed having received any benefits through contracts held by the ERA.

Insurance premiums

There are no senior officers of the ERA defined as directors under Part 3 of the *Statutory Corporations (Liability of Directors) Act 1996* and therefore the ERA is not required to pay an insurance premium to indemnify any senior officer.

Other legal requirements

Advertising

The ERA incurred the following expenditure on advertising, market research, polling, direct mail and media advertising in 2011/12. Total expenditure for the period 1 July 2011 to 30 June 2012 was $52,165. The expenditure was incurred as shown in the table below:

Agencies / Organisation	Total Expenditure ($)	Agency	Class Expenditure ($)
Advertising agencies	$0		$0
Market research organisations	$7,007	Standard & Poor's Financial Services	$3,667
		Advantage Communications & Marketing	$3,340
Polling organisations	$0		$0
Direct mail organisations	$0		$0
Media advertising organisations	$45,158	Adcorp	$41,607
		State Law Publisher	$2,888
		Elite Assistants	$140
		Energy Supply Association of Australia Ltd	$523
total	**$52,165**		**$52,165**

Disability access and inclusion plan outcomes

In accordance with the *Disability Services Act 1993* and the *Disability Services Regulations 2004*, the ERA published its Disability Access and Inclusion Plan 2007-2011 (DAIP) in July 2007.

The ERA's DAIP Working Group reviewed its DAIP in 2012 and the outcomes of the review will be reflected in the 2012-17 DAIP. The reviewed DAIP was submitted to the Disability Services Commission for approval.

The ERA addressed the six desired outcomes of the DAIP by maintaining the following initiatives.

Outcome 1

People with disabilities have the same opportunities as other people to access services and events.

An accessibility checklist is maintained and is used to guide staff in the preparation of public events, to ensure that invitations, promotional materials and venues are accessible to people with disabilities. A list of preferred venues for ERA conferences and events is also maintained, which lists specific venues that meet accessibility criteria for people with disabilities.

An accessibility contacts list is also maintained. It provides contacts for the following services:

- Audio loop equipment.
- Australian sign language interpreters.
- Building access issues.
- Braille versions of ERA documents.
- Digital recordings of ERA documents.
- Video captioning.

In 2012 the Accessibility Contacts List was updated to ensure that the following access requests could be met:

- captioning videos or films for corporate services;
- purchasing an audio loop for public events; and
- booking interpreters for public events.

The checklist, list of preferred venues, and contacts list were also updated during the year and are published on the ERA intranet and are circulated to staff annually.

Outcome 2

People with disabilities have the same opportunities as other people to access buildings and facilities.

An accessibility information sheet, which is published on the intranet and is provided to the ERA's customer service officers, details the location of nearby accessible parking bays, the location of the accessible entrance to the building and the location of the building's accessible toilet. It also provides instruction on the ERA's accessible telephone line.

The ERA relocated its office accomodation in early 2012. As a result of this move, the ERA's DAIP Working Group undertook an accessibility assessment of the new location and updated accessibility documentation accordingly, including the location of nearby accessible parking bays, building access and facilities and the customer service information sheet. A new accessible telephone service was adopted and the ERA now also offers TTY service.

Outcome 3

People with disabilities receive information in a format that will enable them to access information as readily as other people.

An accessibility page is maintained on the ERA's website to ensure that all web information and resources are available to users with disabilities. Users can request information in alternative formats, including:

- Audio (mp3).
- Large print (electronic or hard copy).
- Plain text (electronic – suitable for screen readers).
- Braille.

The ERA continues to make information on its website available to users in standard, large and larger text sizes using easy click text sizing. Our accessible telephone line can be used to request information in other formats.

Outcome 4

People with disabilities receive the same level and quality of service from staff as other people receive from staff.

In considering ways in which to improve the level of quality and service from staff, the DAIP Working Group agreed that staff awareness of accessibility issues is a key factor. To foster and maintain staff awareness in making ERA services accessible to people with disabilities, staff are prompted annually to visit the accessibility information set out on the ERA's intranet and website.

A representative from the Disability Service Commission provided an information session to staff at our monthly staff meeting to increase disability awareness. The presentation was well received by staff and was a good introduction to new staff and a good refresher to existing staff.

To provide a better service to customers with disabilities, the ERA maintained an accessibility telephone service, which enables customers to:

- request information in alternative formats;
- make verbal submissions; and
- provide feedback or lodge a formal complaint verbally.

Outcome 5

People with disabilities have the same opportunities as other people to make complaints.

The ERA ensures that people with disabilities are given the same opportunity as other people to lodge a formal complaint. Although the public can provide feedback and submissions to the ERA in hard copy, this information can also be lodged:

- via the ERA's website through an online form (which has easy click text sizing options); and
- via the accessibility telephone service which enables the caller to leave a recording of their query, complaint or submission.

Outcome 6

People with disabilities have the same opportunities as other people to participate in public consultation.

The ERA issues notices calling for public consultation via its website and via notices published in The West Australian and/or The Australian newspapers. Interested parties are notified via email whenever a notice calling for submissions is issued. Submissions can be lodged via an email link on notices published on the website. Alternatively, submissions can be lodged through the ERA's accessibility telephone service, which enables the caller to make a recording of their submission. Submissions can also be made via an online form on the ERA website.

Compliance with public sector standards and ethical codes

The ERA is committed to ensuring the highest standards of accountability and transparency in all our activities. The ERA actively encourages all employees to demonstrate a high level of integrity, consistent with public sector standards and ethical codes, at all times.

The ERA has developed its own code of conduct. This clearly identifies the ethical values and principles that must be met by employees and consultants. During the year the following activities were undertaken with respect to compliance with public sector standards and ethical codes:

- Completed an annual review of the agency code of conduct.
- Commenced an update of the human resource standards and procedures document to take into account changes to public sector standards brought about by the Public Sector Reform Act 2010.
- Commenced a Risk Management Implementation Strategy, which will include the development of a new Risk Register, Risk Management Policy, and a number of processes and guidelines to assist staff manage risk in the workplace.
- Implemented mandatory training for all staff on adherences to standards and legislative requirements.

The ERA places high priority on ensuring that staff are familiar with human resource management policies and procedures. These policies and procedures are regularly reviewed and updated to ensure they reflect current minimum standards of merit, equity and probity in human resource management activities. Policies and procedures are made available to staff on the intranet.

Public Sector Standards

Information about the Public Sector Commissioner Standards is available to all staff via the intranet and is incorporated into the ERA's induction and training processes. During the reporting year, there were two claims of breach lodged. These claims were not supported by the Public Sector Commissioner.

Western Australian Code of Ethics

Staff are aware of the Code of Ethics developed by the Commissioner for Public Sector Standards. As part of the ERA's approach to continuous learning and training, the code of conduct and conflict of interest procedures and processes are available on the intranet, incorporated into the staff training program and discussed regularly at internal staff meetings.

The ERA's Code of Conduct was revised and published in March 2012. The Code of Conduct was updated to align with our new Strategic Plan.

Record keeping plans

The ERA is committed to developing good record keeping practices and meeting the legislative requirements of the *State Records Act 2000* and the State Records Commission Standard 2, Principle 6.

Efficiency and effectiveness of the organisation's recordkeeping systems

The ERA's Internal Audit Plan requires recordkeeping systems to be audited and evaluated every one to three years. The most recent audit, conducted in June 2011 found that the ERA was compliant with the Act.

This audit tested 39 risks associated with good record management practices and found 18 risks where controls needed improvement. These risks related to internal policies and processes. We immediately put in place and actioned remediation plans to improve the controls over our record management processes.

Various improvement opportunities were also identified and the following improvement strategies have been instigated:

- A review of the ERA's Business Classification Scheme (BSC) and Thesaurus is currently being undertaken. Consultation meetings were undertaken with representatives from each of the ERA's divisions to ascertain their level of satisfaction with the current BCS. The Records Coordinator is in the process of updating the BCS to reflect this consultation and the current business activities being undertaken at the ERA.
- A review of the ERA's functional retention and disposal schedule has begun. The Retention and Disposal Schedule Review Report, for the ERA, was submitted to the State Records Commission in April 2012. The report identified that due to the significant change and growth in the functions administered by the ERA, a fully revised Schedule will be needed to be submitted in 2013.
- A review of the security classifications and controls applied to records in TRIM has been completed. The results of the security review revealed a previous ad hoc application of restricting access to numerous documents. This initiated a formal policy which stipulates that records will be accessible to all staff unless there is a legitimate reason for restricting its access.
- A review and update of the documented business processes for Records Management has begun. The Records team have commenced work on updating all business processes that they are responsible for.

The ERA regularly monitors and reviews the effectiveness and efficiency of its electronic document records management system, TRIM. In 2011, an upgrade to Version 7.1 was successfully implemented to resolve and improve performance issues previously identified by staff.

The overriding goal of the ERA is to improve the information culture of our organisation and progressively move from compliance to best practice. One such initiative planned is the implementation of the information audit process.

An information audit reveals the current information environment and facilitates the mapping of information flows, enabling the identification of bottlenecks and inefficiencies. An audit will identify current information needs and how successfully these are being met by the available resources and the services provided. To enable the successful introduction of the information audit process, the Records Coordinator will be attending an Information Audits Basics workshop later in 2012.

Recordkeeping training program

The ERA has purchased an online self-paced records awareness training package from the vendor, Techniworks, which has been specifically developed around the *State Records Act 2000*.

The training is mandatory for all staff to allow them to gain an understanding of their recordkeeping responsibilities and obligations. The training has been rolled out to all existing staff. New staff are enrolled to undertake this training within two weeks of their commencement. Existing staff are enrolled in refresher training every 18 months to ensure that they maintain a current understanding of their responsibilities.

To support the online training there are also information sheets on the intranet to assist staff on topics such as how to recognise a corporate record, who is responsible for recordkeeping and recordkeeping business processes.

As part of induction, all new staff are enrolled in a face to face training session, providing an introduction to TRIM. We have also developed, and now provide on a monthly basis, group training Power User sessions on how to better use TRIM.

We have also updated and developed, based on staff feedback, training material for staff induction packages and for distribution to current staff, covering a diverse range of topics such as the basics of TRIM, records keeping and information management initiatives.

Training Effectiveness

The online records awareness package provided by Techniworks enables participants to provide feedback. This feedback is then used to evaluate the training program. Techniworks reviews its training programs regularly to ensure the currency of its course material. The training program also provides an assessment quiz which gauges the participant's level of understanding. Staff must correctly answer 85 per cent of the assessment quiz in order to attain a completion certificate.

Feedback forms are distributed to staff attending the Power User group training sessions provided on a monthly basis. The feedback collected is then used to improve future sessions. Based upon staff feedback, the course has now been restructured so that it runs for half a day instead of a whole day.

Regular feedback is also sought from staff regarding training and records management processes. As a result of staff feedback, a series of one page Quick Reference Guides was developed, initially focusing on the most frequently asked about functions of TRIM.

The effectiveness of training is reflected in the ERA's overall usage of TRIM. From the initial implementation of TRIM in late 2007 to now, there has been a general steady increase in the number of documents being created in TRIM by staff.

The table below shows a comparison between the use of TRIM in 2011/2012 and previous years.

TRIM usage	2007 /08	2008 /09	2009 /10	2010 /11	2011 /12	Difference
No. of documents created	6,848	15,875	16,116	27,297	21,344	-5,953
No. of containers created	1,694	856	1,446	966	758	-208
No. of archive boxes created	70	71	73	60	383	323

However, as can be seen in the table above, there was a noticeable decrease in documents created for the 2011/2012 financial year in comparison to the previous year. The 2010/11 financial year was an outlier, in that there were several specific factors that led to a significant number of documents being created in TRIM. Several high profile inquiries, such as the Benefits and Costs associated with the Provision of Shared Corporate Services in the Public Sector and the Funding Arrangements of Horizon Power, were undertaken during this period. These inquiries generated a substantial number of records.

Additionally, there was a significant increase in the number of archive boxes created this year, as a result of the office relocation that occurred in February.

Government policy requirements

Substantive equality

The ERA is not a department represented on the Strategic Management Council and does not currently have any obligations under the substantive equality framework. However, the ERA is aware of the intent of the substantive equality framework and seeks to align itself to the goals of the policy by providing equal employment opportunities, eliminating discrimination in the provision of its services and promoting sensitivity to the different needs of people.

The ERA is committed to ensuring that its employment practices are open and transparent, based on the principles of merit and equity at all times. The ERA has an equal employment opportunity and diversity policy. The intent of the policy is publicised in all staff recruitment advertising processes and is adhered to by all staff.

Occupational safety, health and injury management

The ERA is committed to the provision of a safe work environment, ensuring the health and wellbeing of its employees, contractors and visitors.

The ERA has an Occupational Health and Safety (OH&S) Committee that meets regularly to discuss and resolve any OH&S issues. Members of the committee are available to assist staff in the discussion and resolution of OH&S issues such as the assessment of risks and hazards and incident reporting.

The ERA's Occupational Health and Safety Policy on the Intranet, reinforces the responsibility of all employees ensuring they conduct themselves in a safe manner at all times, and do not place themselves or any other person at risk at any time.

The documented injury management system for the ERA is in accordance with the *Workers' Compensation and Injury Management Act 1981*, *Occupational Safety and Health Act 1984* and the *Occupational Safety and Health Regulations 1996*. This system is available to all employees through the induction process and via the intranet. In the event that an injury occurs, the ERA supports the early rehabilitation of injured employees through its return to work program.

The return to work program includes external providers, who work with the employee's supervisors to ensure the injured employee is given the best professional assistance to manage and aid their rehabilitation.

Following the ERA's move to Albert Facey House, an OH&S inspection regime was established to note any potential OH&S issues. An inspection report is reviewed by the Corporate Executive and Corporate Services each month.

Training was provided for the nominated Occupational Health and Safety Representative in June.

Our Occupational Health and Safety Program for 2011/12 included:

- Ongoing management of the Occupational Safety and Health Register.
- Roll out of the online training for all staff 'OSH Compliance-Participate in OSH Processes'.
- Continued ergonomic assessment for staff on an ongoing basis.
- Continuation of the Employee Assistance Program which provides a confidential counselling service.
- Senior First Aid training for an additional two employees.
- Continued provision of preventative health care for staff such as on-site flu vaccination clinics, and work/life balance initiatives for staff.

A report of annual performance for 2011/12 is as follows.

Indicator	Target 2011/12	Actual 2011/12
Number of fatalities	Zero (0)	Zero
Lost time injury/disease (LTI/D) incidence rate	Zero (0) or 10% improvement on the previous three (3) years	Zero
Lost time injury severity rate	Zero (0) or 10% improvement on previous three (3) years	Zero
Percentage of injured workers returned to work within (i) 13 weeks and (ii) 26 weeks	Greater than or equal to 80% return to work within 26 weeks	Zero
Percentage of managers and supervisors trained in occupational safety, health and injury management responsibilities	Greater than or equal to 80%	50%

Other disclosures

Complaints handling

There are three main areas that may be the source of complaints for the ERA: the administration of our Secretariat; employment-related matters; and matters concerning our regulatory functions.

Handling of complaints relating to the administration of the Secretariat and employment-related matters are dealt with under the ERA's Code of Conduct, the WA Public Sector Code of Ethics, and the ERA's Conflict of Interest Policy. These documents are available in either hard copy at our reception desk or on our website and intranet.

The ERA's Code of Conduct advises that concerns in relation to the observance of the Code should preferably be raised directly with the staff member involved. The next step is to raise it with the immediate supervisor, and then the Chief Executive Officer. Staff and consultants working for the ERA are provided with a hard copy of our Code of Conduct during the induction process. The Code was updated in early 2012 to align with our new Strategic Plan.

Staff can also discuss their concerns regarding any employment-related matter with our Senior Human Resource Consultant. Our website allows for any member of the public to express dissatisfaction or make a complaint. There were no complaints lodged during the year.

A variety of circumstances may give rise to complaints on the performance of the ERA's regulatory functions. Many of these functions involve the exercise of discretion in circumstances where the competing interest of owners of infrastructure or other interested parties may give rise to complaints.

Complaints relating to regulatory matters are handled through comprehensive public consultation involving submissions, public forums, and purpose specific conferences and meetings with the Governing Body or Secretariat. Submissions may be made on either a public or confidential basis. Public submissions are published on the ERA website.

The ERA's decisions are subject to legal appeal on legal matters to the Supreme Court and to merit reviews by the Australian Competition Tribunal (ACT) and the Electricity Review Board.

Public interest disclosures

The ERA's public interest disclosure (PID) internal procedures outline how the ERA complies with the *Public Interest Disclosure Act 2003*. These procedures are available on our staff intranet and are also provided to all new employees as part of the induction process. Public interest disclosure is also a regular item for discussion at our monthly staff meetings.

It is expected these procedures will be reviewed in 2012/13. The ERA currently has two PID Officers, and it is planned for another staff member to undergo the PID Officer training in 2012/13.

Memorandums of understanding

A memorandum of understanding (MOU) is a public document that assists with consultation, information sharing, and working relationships. In the 2011/12 financial year, the ERA had MOUs with the following organisations.

Energy Ombudsman Western Australia

We signed an MOU with the Energy Ombudsman on 30 October 2008. The purpose of the MOU is to provide consultation between the two parties and the coordination of their regular activities in relation to the regulation of the electricity and gas industries.

Office of Energy

We signed an MOU with the Office of Energy on 5 February 2007. The MOU sets out the arrangements between the ERA and the Office of Energy to promote effective cooperation and coordination between the two agencies in performing their different but complementary roles in Western Australia's energy market. We will be reviewing the MOU following the recent transfer of the responsibilities of the Office of Energy to the Public Utilities Office.

Independent Market Operator (IMO)

We signed an MOU with the IMO on 9 January 2007. It establishes an agreed framework for mutual cooperation in relation to functions relevant to both agencies. In the MOU, the ERA and the IMO agreed to mutually assist each other with the exchange of information, expert advice, appropriate referral of matters and cooperation more generally, consistent with legislation. An operational protocol has also been agreed between the two agencies to deal with operational matters.

Department of Water

We signed an MOU with the Department of Water on 12 December 2006 to ensure efficient and effective decision making and advisory processes of both agencies in relation to the water service industry. The MOU also promotes best practice regulation and monitoring of compliance under the *Water Services Licensing Act 1995* and other relevant legislation.

This MOU is currently under review.

Director of Energy Safety (Department of Commerce)

We signed an MOU with the Directorate of Energy Safety of the Department of Commerce on 23 May 2006 to promote cooperation between the two agencies on the regulation of the electricity and gas industries in Western Australia. Both agencies recognise that the framework of mutual cooperation established by the MOU can contribute significantly to the ability of the agencies to effectively and efficiently carry out their respective functions.

Risk management and audit program

During the year the ERA was in the final year of its Strategic Audit Plan for 2009/10 – 2011/12. The internal audit for the three year period of the Strategic Audit Plan was conducted by William Buck (WA) Pty Ltd.

This year four planned internal audits were undertaken compared to eight in the previous year. During the year a management initiated audit was instigated to review our project management processes. That audit was in progress at the end of the financial year.

The ERA's three year audit plan covers areas of audit in the corporate environment as well as our regulatory divisions' compliance with legislation. This year we focussed on both areas of audit. The following table summarises the audit activity undertaken during our 2011/12 audit program:

Audit Number	Audit Activity
2012/03	Information Security Management System
2012/02	Financial Management
2012/01	Human Resources and Payroll
2011/06	Management initiated audit: Project Management

The following audits are planned for 2012/13:

- Corporate Governance.
- Financial Management.
- Records Management.
- Risk Management.

Self-Evaluation

In 2012/13 the ERA's Audit and Risk Management Committee will perform a self-evaluation of its effectiveness. The survey involves obtaining feedback and suggestion from the Committee's members for future improvements to the Committee's operations.

It is expected some of the considerations of this self-evaluation will include:

- a measurement of success in pursuing the Committee's objectives;
- procedural effectiveness such as meeting frequency and details, conduct of meetings, clarity of roles; and
- individual performance such as attendance, contribution and knowledge.

Risk Management

At its April 2012 meeting, the ERA's Audit and Risk Management Committee approved a Risk Management Implementation Strategy designed to help embed and integrate risk management across the organisation. Developed in consultation with RiskCover, the strategy will help guide the ERA through the process of developing and embedding a sustainable risk management framework, thus allowing the ERA to consistently identify, assess, treat, monitor and report on risks consistent with an organisation-wide risk management approach.

Strategies to achieve this objective are:

- To further enhance the risk management processes of the ERA to develop consistency in our approach.
- To integrate risk thinking into existing processes.
- To ensure consistent structured risk thinking in the corporate governance framework.

Expected outcomes of this Strategy include:

- Implementation of RiskCover's RiskBase (risk management reporting tool) web application.
- Review and update of the ERA's Risk Management Policy.
- Review and update of existing processes and development of new processes.
- Development and implementation of a risk management education and training program.

As at 30 June 2012, the ERA had commenced the discovery phase of the project which involved workshops with each of the divisions of the ERA to determine the risks associated with their business.

The next phase will involve collating all the information collected from the workshops and ensuring all potential risks have been identified, assigned a risk owner and have a treatment action plan in place.

Appendices

Appendix 1: Administered legislation

Regulated utility	Relevant legislation
Gas	Energy Coordination Act 1994
	Gas Pipelines Access (Western Australia) Act 1998
	National Gas Law
	National Gas Regulations
	National Gas Access (WA)(Part 3) Regulations 2009
	National Gas Access (WA)(Local Provisions) Regulations 2009
Water	Water Services Licensing Act 1995
	Water Services Coordination Regulations 1996
Rail	Railways (Access) Act 1998
	Railways (Access) Code 2000
Electricity	Electricity Industry Act 2004
	Electricity Industry (Access Code Enforcement) Regulations 2005
	Electricity Industry (Code of Conduct) Regulations 2005
	Electricity Industry (Customer Contracts) Regulations 2005
	Electricity Industry (Licence Conditions) Regulations 2005
	Electricity Industry (Licensing Fees) Regulations 2005
	Electricity Industry (Obligation to Connect) Regulations 2005
	Electricity Industry (Ombudsman Scheme) Regulations 2005
	Electricity Industry (Wholesale Electricity Market) Regulations 2004
	Wholesale Electricity Market Rules
	Electricity Industry (Network Quality and Reliability of Supply) Code 2005
	Code of Conduct for the Supply of Electricity to Small Use Customers
	Electricity Industry Customer Transfer Code 2004
	Electricity Networks Access Code 2004
	Electricity Industry Metering Code 2005

Appendix 2: Other legislation impacting the agency

- Commercial Arbitration Act 1985
- Competition and Consumer Act 2010
- Copyright Act 1968 (Commonwealth)
- Corruption and Crime Commission Act 2003
- Criminal Code Act Compilation Act 1913
- Disability Services Act 1993
- Electoral Act 1907
- Electronic Transactions Act 2003
- Equal Opportunity Act 1984
- Evidence Act 1906
- Financial Management Act 2006
- Freedom of Information Act 1992
- Industrial Relations Act 1979
- Interpretation Act 1984
- Limitation Act 1935
- Limitation Act 2005
- Minimum Conditions of Employment Act 1993
- Occupational Safety and Health Act 1984
- Public Interest Disclosure Act 2003
- Public Sector Management Act 1994
- Rail Freight System Act 2000
- Salaries and Allowances Act 1975
- State Records Acts 2000
- State Records (Consequential Provisions) Act 2000
- State Supply Commission Act 1991
- Statutory Corporations (Liability of Directors) Act 1996
- Workers' Compensation and Injury Management Act 1981

Appendix 3: Reference maps

Electricity Maps

- Electricity Infrastructure in WA
- Electricity Licensing Areas in WA

Gas Maps

- Gas Licensing Distribution Systems and Trading Locations in WA
- Gas Pipeline Infrastructure in WA
- Gas Supply Areas in WA

Rail Map

- Railway Infrastructure Regulated by the ERA

Water Map

- Water Services Controlled and Operating Areas in WA