



Economic Regulation Authority
WESTERN AUSTRALIA



2012/2013
ANNUAL REPORT

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Previous 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 2013 and comprises:

[Overview](#) – an overview of our role, responsibilities and organisational structure.

[Performance](#) – a report on our operational performance from 1 July 2012 to 30 June 2013 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 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 BEc MLA
Treasurer
13th Floor, Dumas House
2 Havelock Street
WEST PERTH WA 6005

Dear Treasurer

**ECONOMIC REGULATION AUTHORITY 2012/13
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 2013.

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

LYNDON ROWE
CHAIRMAN

16 September 2013



Contents

Overview	1
Executive summary – year at a glance	4
Cyclical regulatory activities.....	4
One-off activities	6
Ongoing regulatory activities.....	7
Output indicators.....	7
Financial Performance 2012/13	9
Operational structure	11
Our role.....	11
Our people	13
Organisational chart.....	20
Our structure.....	21
Our responsibilities	21
Our culture	24
Performance Management Framework	30
Performance	31
Key performance indicators	31
Key effectiveness indicators	31
Key efficiency indicators	31
Comparison between indicators, actual results and budget targets.....	32
Cyclical Regulatory Activities	33
Decisions: third party access to regulated monopoly infrastructure.....	33
Gas Access	33
Rail Access.....	36
Electricity Access.....	41



Decisions: Wholesale Electricity Market	46
Industry Code Reviews	49
Performance Reports	51
Other Cyclical Regulatory Activities	55
Western Power Price Lists	55
Service Standards	55
Service Standard Adjustment Mechanism	55
Approval of Allowable Revenue for System Management and the IMO	56
One-off Activities	56
Economic inquiries	56
Completed Inquiries	57
Other projects	62
Network Augmentations	62
Ongoing Regulatory Activities	66
Licensing, Monitoring and Customer Protection	66
Licensing	66
Monitoring	67
Customer Protection	70
Wholesale Electricity Market	72
REMCo Gas Retail Market Scheme	73
Corporate Activities	76
Committees	76
The Economic Regulation Authority Consumer Consultative Committee	76
Electricity Code Consultative Committee	77
Gas Marketing Code Consultative Committee	78
Engaging with stakeholders	79



Communications	80
Corporate Plans.....	81
Significant issues impacting the agency	83
Disclosures and legal compliance	84
Auditor General's independent audit opinion	84
Certification of key performance indicators	88
Key performance indicators	89
Formulating the ERA's key performance indicators	89
Key effectiveness indicators	90
Key efficiency indicators	92
Financial statements	93
Certification of Financial Statements	93
Statement of Comprehensive Income.....	94
Statement of Financial Position	96
Statement of Changes in Equity	98
Statement of Cash Flows.....	99
Notes to the Financial Statements	101
Other financial disclosures	145
Pricing policies of services provided	145
Capital works	146
Staffing policies.....	147
Ministerial directives	147
Governance disclosures	148



Other legal requirements	149
Advertising	149
Disability access and inclusion plan outcomes	149
Compliance with public sector standards and ethical codes	151
Record keeping plans	152
Government policy requirements	158
Substantive equality	158
Occupational safety, health and injury management	158
Other disclosures	159
Complaints handling	159
Public interest disclosures	160
Memorandum of understanding	161
Audit and Risk	162
Risk Management.....	162
Audit program	162
Appendices	164
Reference maps	164

Overview

From the Chairman



This is my tenth annual report overview since commencing with the ERA in March 2004. I have been privileged to see the organisation grow and establish itself as a respected organisation dedicated to ensuring that *“consumers receive quality services for a reasonable price”*.

Through our various roles - licensing, monitoring and determining customer protection mechanisms in the gas, electricity and water industries; monitoring and reporting on the activities of the wholesale electricity market; determining third party access arrangements for monopoly infrastructure in the gas, electricity and rail industries; undertaking independent inquiries into many different industries at the request of the State Government – I believe we have established a strong reputation for promoting the long term interests of consumers.

Both the breadth and depth of the activities the ERA is involved with are readily apparent from a reading of this annual report. Once again it has been a very busy and productive year for the ERA and for a quick overview I refer readers to the executive summary.

Culture

Undoubtedly, the fact that in such a relatively short time period the ERA has established itself as a credible and respected organisation is largely due to the efforts of the staff of the ERA – both past and present – and in this our tenth year, I want to particularly focus on and acknowledge them in this year’s overview.

Fortunately, they are a group of intelligent, talented and enthusiastic people who are willing to make a commitment to public policy and who are motivated by the desire to make a difference. I am pleased to say that the ERA has been a major beneficiary of the efforts of such committed people.

The ERA is an “independent” statutory authority. It has a clear brief to focus not on vested interests – commercial or political – but on outcomes that are in the long-term interests of Western Australians. But with that independence comes responsibility – a responsibility to do our homework, to get our facts right and to think through issues to ensure that there are no unintended consequences as a result of our decisions or recommendations.

I am pleased to say that in my view the culture that has been developed within the staff of the ERA reflects a very good understanding of this responsibility. While there is a strong commitment to timeliness there is an equally strong commitment to quality and to make sure that they have

done everything they can to ensure that the advice provided to the Authority is the best it can be.

It makes the task of the Authority members – Steve Edwell, Stephen King and myself – much easier and gives us confidence that the ERA can continue to make a positive contribution.

In this our tenth year, and on behalf of Authority members past and present, I want to take the opportunity to express our sincere appreciation to all of the staff of the ERA for a job well done.

Acknowledgement

Wednesday, June 19 was a sad day for us all at the ERA when we lost our much loved and respected colleague, Michael Soltyk. Michael, after a distinguished career as an electrical engineer, came to work as a consultant to the ERA's predecessor – the then newly established Office of Gas Access Regulation – in 2000 and then on the formation of the ERA in 2004 he became a permanent employee. Michael spent most of his time at the ERA as the head financial modeler.

In the words of our CEO, Greg Watkinson (in a note to staff):

“Michael had a relentless drive to keep examining a problem until he was 100 per cent confident that he had the right answer. His talents and intellectual capacity were highly regarded by all who knew him. He had a wonderful curiosity and a tremendous appetite for debate. It is difficult to imagine

how anyone could be more dedicated to the work of the ERA - he would often solve problems while undertaking his morning ocean swim.

The ERA will not be the same without Michael. However, we can best remember him by ensuring that we never settle on a solution to a problem until we are 100 per cent confident that we are right. That is what he would want.”

Michael exemplified the culture I have already referred to. He is survived by his wife Jessica and daughter Sylvia.

The Future

While our tenth year of operation provides a time for reflection, the outlook ahead is for a very busy time for the ERA and as I am often reminded we are only as good as our last piece of work. The challenge is to continue to build on the work of the last decade.

In the year ahead, the challenges will keep coming. For detail I refer the reader to our section on significant issues impacting the agency.

There will be an increase in our work on third party access arrangements as the next round of access arrangements for gas pipelines begins in early 2014, as well as the need to finalise our associated rate of return guidelines.

Our Economics Division will be very busy. It is looking like a year of significant change in the electricity industry and this will impact on our role in monitoring and reporting on the wholesale electricity market, and we have been asked to undertake an inquiry into microeconomic reform in WA.



This is a standing inquiry to be repeated every four years. At least two other inquiries have been foreshadowed.

In addition to their ongoing work, the Licensing, Monitoring and Customer Protection Division will also be undertaking a review of the electricity customer code and additional functions as a result of the *Water Services Act 2012*.

Acknowledgement and Appreciation

Stakeholders

As in all previous years, I again want to acknowledge the very important contribution made to our work by our many stakeholders. The time and effort put into consultation with, and submissions to, the ERA are a very valuable part of our processes. It is important that we have a high degree of contact with, and feedback from, all our stakeholders.

Members

It has been a pleasure working with the various members of the ERA over the last ten years. This year has been no exception. I want to gratefully acknowledge the outstanding contributions made by the two part-time Members of the Authority – Steve Edwell and Stephen King. The ERA benefits greatly from the experience, expertise and professionalism they bring.

Secretariat

I have already acknowledged the energy, professionalism and commitment of the staff of the ERA. Again this year they have been ably led by our very dedicated CEO, Greg Watkinson. On behalf of Steve, Stephen and myself, congratulations on a job well done in 2012-13.

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 2012/13 reporting year are summarised below under these categories.

Cyclical regulatory activities

A large part of our work is cyclical, with reviews of gas and electricity access arrangements required approximately every five 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 review of the access arrangement for the Western Power network
- Published a mid-period revision of the access arrangement for the Western Power network as a result of significant variations from forecast demand

- Published an amended version of the revised Dampier to Bunbury Natural Gas Pipeline access arrangement decision

Code reviews

- Published a final decision on amendments to the Code of Conduct for the Supply of Electricity to Small Use Customers
- Progressed a review of the Gas Marketing Code of Conduct

Other cyclical activities

- Published the 2013/14 price list determination for Western Power's electricity network
- Conducted consultation on the five-yearly review of methodology for setting the maximum reserve capacity price and the energy price limits in the wholesale electricity market
- Published the 2012 wholesale electricity market report to the Minister for Energy
- Published a decision on the 2013 energy price limits
- Released a final decision on the allowable revenue and forecast capital expenditure for the Independent Market Operator

- Released a final decision on values for ancillary service margin peak and margin off-peak parameters
- Published a determination of values for ancillary service cost_LR parameters
- Published a final decision on the maximum reserve capacity price for the 2015/16 capacity year
- Published a decision on the retail energy market company rule change C03/12R
- Released a decision on proposed amendments to the Retail Energy Market Company (REMCo) Constitution
- Conducted assessments of licensee financial hardship policies
- Published the 2012 Water, Wastewater and Irrigation Performance Report
- Published the 2011/12 Annual Performance Report – Energy Distributors
- Published the 2011/12 Annual Performance Report – Energy Retailers
- Contributed to the National Water Commission's 2011-12 National Performance Reports for Urban and Rural Water Service Providers
- Published an amended Gas Compliance Reporting Manual
- Published an amended Electricity Compliance Reporting Manual
- Published an amended Water Compliance Reporting Manual
- Released a revised version of the Financial Hardship Policy Guidelines
- Released a final decision on the allowable revenue and forecast capital expenditure for the Independent Market Operator
- Released a final decision on the allowable revenue and forecast capital expenditure for System Management
- Published a consultation paper on the guidelines for the rate of return for gas transmission and distribution networks
- Determined the 2012 weighted average cost of capital for Brookfield Rail, Public Transport Authority and The Pilbara Infrastructure

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.

- Finalised an inquiry into the efficient costs and tariffs of the Water Corporation, Aqwest and the Busselton Water Board
- Finalised an inquiry into Western Australia's home indemnity insurance arrangements

Other projects

- Published a final determination on Western Power's new facilities investment test application for a medical centre zone substation

- Released a final decision on the ERA's proposal to vary the price control in Western Power's approved access arrangement for the third access arrangement period (AA3)
- Published determinations on applications to exempt Western Power from compliance with certain requirements of its technical rules in relation to Nilgen Wind Farm, Karara Mining and Mumbida Windfarm
- Published a final decision on Western Power's Shenton Park zone substation major augmentation
- Published a final decision on proposed variations to Western Power's access arrangement for 2009/10 to 2011/12 Contributions Policy
- Approved and published amended segregation arrangements for The Pilbara Infrastructure (TPI)
- Approved Brookfield Rail's Part 5 Instruments for its train management guidelines and train path policy
- Amended Part 5 instruments for TPI
- Invited public submissions on TPI's floor and ceiling cost determination
- Invited written submissions relating to TPI's opinion that providing access to Brockman Iron would preclude other entities from access to those route sections

Ongoing regulatory activities

In addition to the project-based work, the ERA has a wide range of ongoing 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 93 electricity, gas or water service licensees
- Granted three new utility licences
- Approved amendments to 53 utility licences
- Assessed independent audits and asset management system reviews of 27 electricity, gas and water service providers
- Approved four standard form contract amendments for energy licensees (1 electricity, 3 gas)
- Assessed five financial hardship policies for electricity and gas licensees
- Approved three customer service charters for water licensees
- Commenced a review of all water services licences
- Served regulatory notices of licence contravention on Shire of Brookton, Shire of Coolgardie and Shire of Denmark

- Continued monitoring of the wholesale electricity market to identify whether any market participants are acting in an anti-competitive manner
- Published quarterly and annual CPI adjustments to the reference tariff for the Goldfields Gas Pipeline, the Mid-West and South-West Gas Distribution System and the Dampier to Bunbury Natural Gas Pipeline

Output indicators

In undertaking the preceding activities the following outputs were achieved.

Submissions

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

Publications

- 135 notices
- 45 reports, decisions and determinations
- seven issues and discussion papers
- 615 stakeholders and interested parties received our quarterly editions of e-news
- 2013/14 Work Plan

- Reconciliation Action Plan for 2012-2013
- Disability Access and Inclusion Plan 2013-2016
- Distributed over 800 copies of the revised “Switched On” guide for electricity and gas customers since 1 January 2013

Public consultation

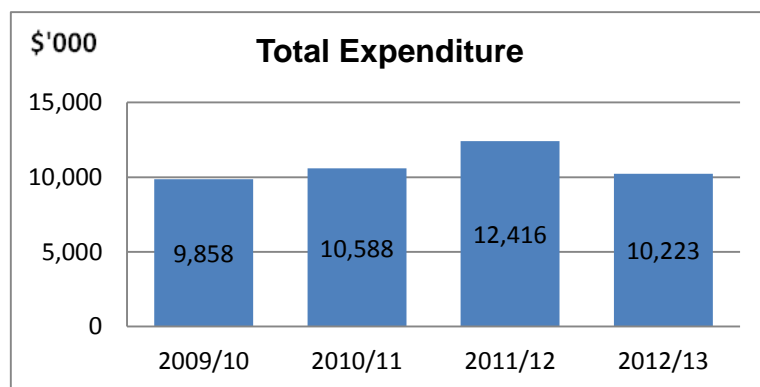
- 39 invitations for public submissions
- 122 weeks of public consultation
- 119 public submissions received
- 1 stakeholder workshop
- 2 media briefings

Activities that reduced compliance burden

- Extended the period until the next audit or asset management system review of four utility licensees following favourable audit results. These licensees were:
 - Tronox Management
 - Western Power
 - ERM Power Retail
 - Wesfarmers Kleenheat
- Reduced individual licence obligations to two licensees in three instances.
 - Alinta Sales Pty
 - Newmont Power

Financial Performance 2012/13

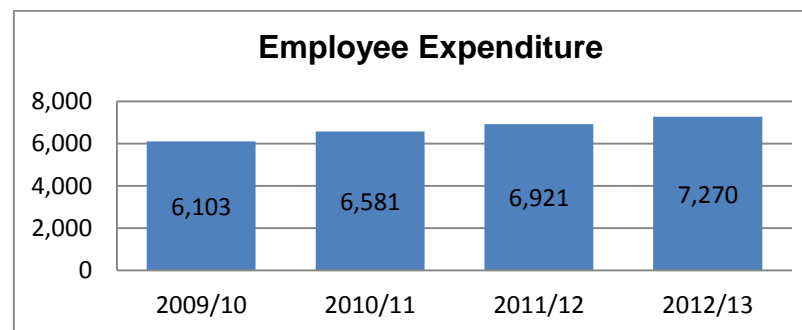
The ERA's expenditure varies from year to year due to work associated with reviews of access arrangements in gas and electricity. As can be seen in the chart below, total expenditure was higher in 2011/12 as a result of finalising the review of the access arrangement for Western Power, ATCO Gas Australia Pty Ltd and DBNGP (WA) Transmission Pty Ltd.



The total expenditure for 2012/13 was \$10.2 million which was slightly over the expenditure limit of \$10.1 million. This was due to unbudgeted expenditure in resources received free of charge from the Department of Finance for the depreciation on the fit out of the ERA's accommodation.

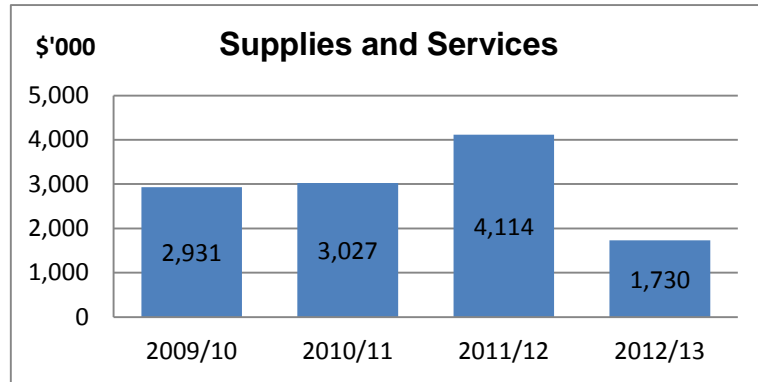
In 2012/13, total income was \$6.8 million which resulted in a deficit of \$3.4 million for the year. This deficit was funded by the ERA using cash reserves.

The ERA's major expenditure areas are in employee expenses and supplies and services. The chart below shows that employee expenditure grows in accordance with salary increases allowed for by the Public Service and General Officers General Agreement.



Supplies and services expenditure varies annually in accordance with the regulatory work cycle. The chart on supplies and services expenditure below shows higher expenditure in 2009/10 and 2010/11 when the ERA was undertaking the review of gas access arrangements.

In 2011/12 the ERA was undertaking the review of Western Power's electricity access arrangement and also required legal representation to assist with 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. The level of expenditure in 2012/13 reflects a year when there are no major access reviews.

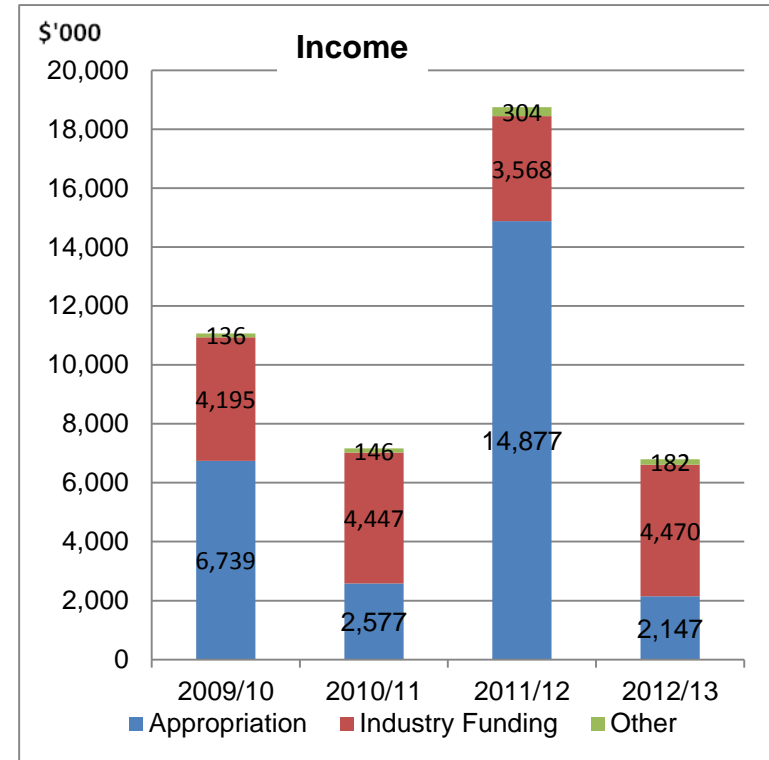


As can be seen in the income chart below, the most noticeable variation in comparison data between 2012/13 and previous years relates to the Government appropriation.

During 2009/10, the Government approved the drafting and repeal of regulations to increase the level of industry funding received by the ERA.

This Government decision resulted in the appropriation for 2010/11 onwards being reduced by an amount equal to the anticipated increase in income from industry.

In March 2011, Government approved a request to reinstate the appropriation for 2010/11 and 2011/12 due to a delay in the drafting of regulations to increase industry funding. The ERA also received approval for an increase in expenditure limit and recurrent appropriation of \$3.7 million to meet additional costs associated with an increase in employee numbers. The reinstated appropriation for both



years and the increase in appropriation for 2011/12 was received by the ERA in 2011/12.

A request to reinstate the appropriation in 2012/13 was not approved, resulting in the ERA using its cash reserve to fund the deficit.

In October 2012, funding regulations were implemented to allow the ERA to fully recover costs associated with its function in electricity access. Government intends to

implement funding regulations to achieve full cost recovery relating to the ERA's functions in electricity, gas and water licensing on 1 January 2014.

Income from industry increased by 25% above that received in 2011/12. This increase was due to an increase in work associated with the Wholesale Electricity Market surveillance function and the additional funding from electricity access.

The increase in income from industry in 2009/10 and 2010/11 reflects the major access review cycle when three gas access arrangement revisions occurred, increasing revenue from standing and specific charges in those years.

Decommissioning from the Office of Shared Services

In October 2012, the ERA decommissioned from the Office of Shared Services (OSS) and became part of the Department of Premier and Cabinet (DPC) cluster. For the first time, the ERA is responsible for all finance functions with DPC hosting a financial management information system (FMIS). The ERA received a letter of comfort from Stantons International verifying the finance data take-up from the OSS to the new FMIS.

Operational structure

Our role

The Economic Regulation Authority is the independent economic regulator for Western Australia. Our work aims to promote 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 during the reporting year was the Hon Troy Buswell MEC, MLA.

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

- The Minister 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.

In conjunction with the State Law Publisher, the ERA keeps an up-to-date list of the legislation it administers. This list is available on the [ERA website](#).

Other legislation

The ERA also performs its functions in compliance with other legislation. The list of legislation is available on the [ERA website](#).



As at 30 June 2013, the ERA Secretariat comprised 53.4 full time equivalents (FTEs) working either full or part-time across the three operational and two business support divisions (refer to organisational chart on page 20).

At 30 June 2013, the majority of the ERA staff were permanent (41), with 11 working on contract, and 2 staff were on secondment from other agencies. Additional temporary contract staff were employed during the year to provide short-term support and expertise during periods of staff leave and peak workload.

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.

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 40 Governing Body meetings were held during the reporting year, at which 206 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 2012/13 the Governing Body considered 58 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 to 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.

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 to 2009. Stephen is a Professor of Economics at Monash University and from 2009 to 2011 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 is an economist with experience in the fields of utility regulation, competition policy, education policy, social policy and macroeconomic forecasting. Greg was appointed as CEO in 2010. Prior to his appointment as CEO, Greg headed the division of the ERA responsible for undertaking independent inquiries for the Western Australian Government. His prior employment was with the Western Australian Department of Treasury and Finance. Greg has a Masters in Management Studies from the University of Waikato in New Zealand.

Corporate Executive

The Corporate Executive is the ERA's 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 28 years experience at Senior and Senior Executive levels in the public sector. His previous employment includes a 7 year term 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 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 and 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 was 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.

David resigned from the ERA in March 2013.

Ms Kieu Pham is currently the acting Manager, Corporate Strategy and Performance.

Assistant Directors' Group

The Assistant Directors' Group was established in June 2011. The group acts as a sub-committee of the Corporate Executive and comprises Assistant Directors, the Manager, Corporate Strategy and Performance, and the Senior Finance Officer.

During the financial year the decision was taken that the group would only meet on an ad-hoc basis when particular reports or recommendations were required.

The group's aim is to promote an organisational culture that is consistent with the ERA's 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.

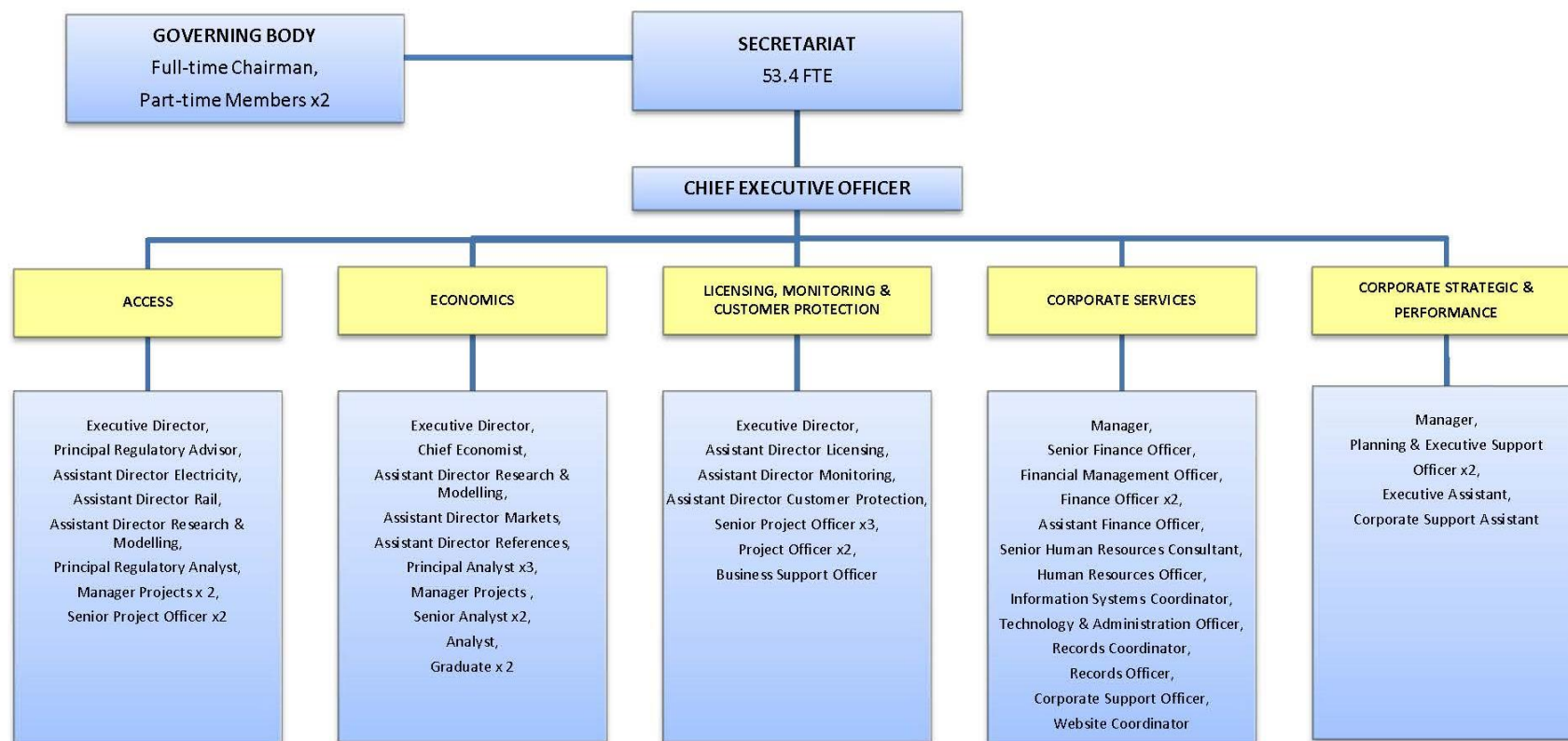
Over the past year the Assistant Directors' group has worked on initiatives, including:

- development and roll out of the internal project plan template and methodology.
- Core competency training program for new staff.



ERA Secretariat

Organisational chart



Organisational chart of the ERA as at 30 June 2013

Our structure

As at 30 June 2013, the ERA's Secretariat comprised 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 licensee 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 corporate challenge competitions, including volleyball, touch rugby and soccer. Organisational team building activities held during the year included lawn bowls.

Charity events

During the year we continued to support a number of charities and participated in several fundraising activities. Each year a charity receives money raised from our weekly free dress Friday. For the 2013 calendar year we selected two charities: Swags for Homeless, a not-for-profit charity working to provide emergency relief backpack beds to homeless persons turned away from shelter, and the Animal Protection Society of WA (APS), an organisation that provides refuge for abandoned cats and dogs.

During the year we had a visit from a representative of the APS to learn more about the organisation. As at 30 June 2013 the amount raised through our free dress Friday was close to \$350. This did not include personal donations that were made by staff directly to the charity. In addition, the ERA also made it possible for staff to make contributions to our two nominated charities via workplace giving.

During the 2012 calendar year, almost \$1,650 was raised for Assistance Dogs Australia. Over \$450 was raised through our charity morning teas, proceeds of which were donated to the RSPCA and the Cancer Council.



Some staff members also participated in the PwC Cool Night Classic in support of the David Wirrpanda Foundation. Some male staff members also sported a moustache for the month of November as part of the annual moustache growing charity event Movember where they raised over \$2,000.

In keeping with our annual tradition, staff donated food and gifts to the Salvation Army's Christmas Appeal in December 2012.



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 continued a rotating morning tea schedule where each team hosted a morning tea.

In addition to monthly staff social lunches were the annual Melbourne Cup lunch and the annual Christmas lunch. Staff celebrated the cultural diversity of the ERA by holding an international foods morning tea as part of the Harmony Week celebrations.

Internal Communications

Over the last year the ERA has focussed on increasing management skills of senior managers. Part of that strategy was to introduce a 360 degree feedback program.

The program was initiated in February 2013 and, following its completion, a standing monthly executive management meeting was established for the Corporate Executive to concentrate on improving management strengths.

The ERA staff intranet was redesigned during the year in an effort to improve internal communications and staff interaction across divisions. The intranet now boasts an interactive home page where staff can post comments, images, news articles and other links.

The site now provides quick links to internal policies, procedures, payroll, leave bookings and a charity fundraising gauge. It also contains a calendar of workplace meetings and events along with more general events of interest.

Divisional information sessions continued to be held throughout the year. These are presentations given by staff at regular intervals for the purpose of informing staff working across all 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 satisfaction with working at the ERA and provide an avenue for staff to raise any issues or concerns they have or make general comments or suggestions regarding life at the ERA.

While all survey responses are confidential, staff can choose for their responses to be made available on the ERA Intranet. Since 2012, the Corporate Executive has been providing a formal response to all issues raised in surveys. Staff survey results and comments are also discussed at monthly staff meetings.

The results of the staff survey are used as a tool for the Corporate Executive to address issues and to identify areas of focus to help improve workplace culture at the ERA.

In each survey, staff are asked to provide a rating (on a scale of 1 to 10, with 10 being the highest) on their views of whether “work at the ERA is enjoyable”. Other questions targeting specific matters are also included in the surveys.

During 2012/13, the Corporate Executive agreed on initiatives to improve the proportion of staff giving a rating of 7 or above.

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

- Redesign of the staff intranet to improve staff interaction and accessibility
- Updated document templates to improve their utility
- Review and update of internal correspondence processes and paperwork
- Rewarding staff for using their initiative to bring fun into the workplace
- Continued publication of the Corporate Executive’s formal response to the staff survey results
- Continued to call on the work/life balance committee
- Roll out of a new induction process for new staff
- Consulting staff on ideas for social activities

Work/life balance

The ERA continued 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 comprises six members and is a standing sub-committee of the Corporate Executive. The committee is called on to discuss, reflect or investigate work/life balance related matters referred to it by the Corporate Executive.

The primary activities of the committee are to act as a forum for the identification and discussion of all matters



affecting work/life balance and to provide a 'voice of the staff' to the Corporate Executive.

Throughout the year, staff were encouraged to participate in team building activities, such as corporate sports games and corporate social events. Additional work/life balance initiatives during the year included the opportunity for staff to take advantage of an in-house 5 week meditation series, a 5 week train your brain series and flu inoculations.

Professional development

Staff are encouraged to participate in training to further develop and acquire skills and keep abreast of relevant issues in the regulated industries. In 2012/13, staff attended training courses, conferences and workshops that varied in subject matter. A total of \$77,775 was spent on training and professional development over the financial year.

The following conferences were attended:

- 42nd Australian Conference of Economists
- Corporate Credit Rating Analysis
- Australian Competition and Consumer Commission (ACCC) Conference
- Energy in WA Conference
- Utility Regulators Forum

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:

- 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.

The ERA encouraged staff to undertake training identified during the Performance Development Management Process. Employees attended internal as well as external training programs on topics such as project management, women in leadership roles, and integrated governance, risk management and compliance.

An employee from Human Resources was selected to participate in the Public Sector Commission's Foundation of Government Human Resources Program. Participation in this program will result in a Certificate IV in Government upon successful completion of the program.

This year we improved our induction program. This program focuses on providing new staff with information on the Strategic Plan, working conditions, OSH, etc. Staff have the opportunity through this induction program to interact with members of the Corporate Executive.

In this financial year, we undertook a 360 degree feedback process for the Corporate Executive. This provided an opportunity for the Secretariat's leadership team to continue to develop their skills with a full understanding of the impact of their leadership strategies and styles on their effectiveness.

The annual agency survey conducted by the Public Sector Commission helped identify areas where we needed to further develop our human resource management. This year it included training for managers and supervisory staff in grievance resolution, on how to respond and manage workplace injuries and allegations of workplace bullying.

Training in these areas were incorporated as part of the performance management development process. Training programs are planned for the next financial year.

Workforce Planning and Diversity

The ERA completed its Workforce and Diversity Action Plan 2012-14 during the year. This plan recognises the essential role of staff in achieving the ERA's Strategic Plan and purpose, which is to ensure consumers receive quality services for reasonable price. The Plan aims to attract and retain quality employees that will contribute to enhancing the performance of our functions. This Plan has been developed in accordance with Part IX of the *Equal Opportunity Act 1984* and Strategic Directions for the Public Sector Workforce 2009-2014.

A number of initiatives outlined in the Workforce and Diversity Action Plan were undertaken, including implementing a graduate program and relationship development with central agencies (the Public Sector Commission, the Department of Treasury, the Department of Finance and the Department of Commerce).

An initiative that was identified in our workforce profile was to improve our ability to analyse our workforce. The ERA has only been using the payroll and leave provisioning component of the contracted Human Resource Management Information System (HRMIS). We reviewed the systems available from the Government common use arrangement for HRMIS and entered into a contract to change our payroll bureau service to the Empower system by the end of the financial year.

At the end of the 2012/13 financial year we were working on transitioning into this new system for payroll and leave

management with the intention of introducing other modules available from the Empower system in the next financial year. This will lead to better reporting capabilities to inform our workforce decision making.

Equity and Diversity

A review of the Grievance procedure was undertaken. The Senior Human Resource Consultant undertook a two day training course run by the Equal Opportunity Commission in undertaking the Grievance Officer role.

We continued to run on-line training with two of the modules covering Cultural Diversity and Workplace Bullying. This financial year staff were actively encouraged to undertake these online modules with 70% of all staff completing the training.

Employee Assistance

The ERA's employee assistance program was widely promoted within the Secretariat. The program provides professional support services for staff with their personal and professional lives especially when they face traumatic situations.

Public Sector Standards

Information about the Public Sector Commissioner's Standards in Human Resource Management is made available to all staff through the intranet and is part of our

new staff induction program. There were no claims of breach lodged in the last financial year.

Social Activities

In February this year the decision was taken to streamline social activities within the ERA into one group and to formalise the social group. The Social Coordination Group (pictured below) includes representation from each division and is responsible for all social activities including the staff Christmas Party and other fun activities. Activities have included ten pin bowling, lawn bowls, sundowners and staff lunches.



Awards

The ERA was recognised by the Auditor General as one of the Top 20 Best Practice agencies in the small agency category for its financial reporting and financial controls.

This is the fourth consecutive year the ERA has been identified as a “better practice agency”, which recognises agencies that produce quality and timely financial statements and exercise sound financial controls, demonstrating efficient and effective financial control and reporting.

The ERA was presented with the State Records Commission Award and the Gold Lonnie Award (for agencies with less than 100 full-time equivalent employees) for excellence in reporting for its 2012/13 annual report at the annual Institute of Public Administration Australia's WS Lonnie Awards.

The State Records Commission Award acknowledges excellence in reporting and meeting the compliance requirements of the *State Records Act 2000* and State Records Commission Standards and recognised the ERA's report of its recordkeeping program and associated review mechanisms, as well as its commitment to building a solid information culture.

This is a further demonstration of the organisation's dedication to best practice across its operations.

Performance Management Framework

Relationship to Government Goals

Broad government goals are supported at agency level by specific outcomes. Agencies deliver services to achieve these outcomes. The following table illustrates the relationship between the agency's services and desired outcomes, and the government goal it contributes to. The key effectiveness indicators measure the extent of impact of the delivery of services on the achievement of desired outcomes. The key efficiency indicators monitor the relationship between the service delivered and the resources used to produce the service.

Government Goal	Desired Outcome	Service
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

PERFORMANCE

Indicator	2012/13 target	2012/13 actual	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	230	264	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	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%	100%	87%	90%	87%	81%	92%	76.5%
Governing Body rating on the perceived timeliness of submissions	4.0	4.1	4.2	4.1	4.0	4.1	4.2	3.9
Average cost per submission	\$44,065	\$38,433	\$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 \$10.223 million, compared to an expenditure limit of \$10.135 million. There were 264 submissions compared to the target of 230. The average cost per submission was \$38,433 against the target \$44,065. Note that the average cost per submission was previously calculated at \$46,026 based on the original amount of expenditure limit, which was \$10.586 million.

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 2012/13. 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 proposes are consistent with the long term interest of consumers and that users of the infrastructure 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, the ERA reviews and makes 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 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 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 by DBP Transmission

The Goldfields Gas Pipeline

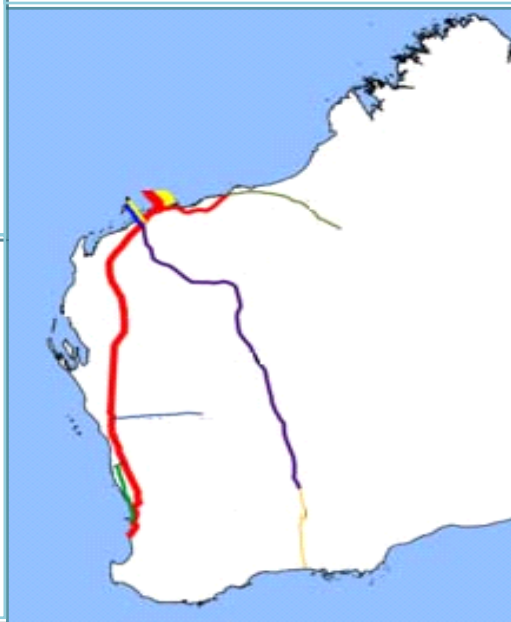
- WA's second longest pipeline (over 1380 km)
- Delivers natural gas from the offshore gas fields in the north-west of WA to the mineral resource regions of the north-east Pilbara and the Goldfields
- Services mines between Yarraloola in the Pilbara and Kambalda along with the township of Kalgoorlie
- 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

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

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



Gas Infrastructure Regulated by the ERA

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.

The access arrangement for the Dampier to Bunbury Natural Gas Pipeline sets default terms and conditions, including the tariffs that parties pay to access and transport gas via the pipeline.

On 17 January 2012, DBP Transmission (DBP) filed an application with the Australian Competition Tribunal for a review of the decision made by the ERA in respect of its access arrangements. The appeal was heard by the Australian Competition Tribunal in May 2012. The Tribunal delivered its judgment on 26 July 2012. The Tribunal found in favour of the ERA in all matters of principle, but nonetheless remitted the ERA's decision to the ERA to be made again giving effect to the Tribunal's decisions in respect of a small number of matters. The ERA sought public comment on an appropriate option to meet the Tribunal's requirements in respect of one of these matters.

Following consideration of public submissions, the ERA published a revised [decision](#) on DBP's access arrangement on 5 October 2012. DBP subsequently provided revised access arrangement information, which was published by the ERA on 18 October 2012.

Mid-West and South-West Gas Distribution System

The Mid-West and South-West Gas Distribution System (GDS) makes up most of the reticulated natural gas infrastructure in Western Australia, stretching from Geraldton in the north 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 current access arrangement for the GDS, which sets default terms and conditions, including the tariffs that parties pay to access the network, was decided by the ERA on 25 June 2012.

ATCO Gas Australia is scheduled to lodge its proposed revisions to the access arrangement for the GDS in February 2014. The ERA will assess the proposed revised access arrangement for compliance with the National Gas Rules.

Goldfields Gas Pipeline

Goldfields Gas Transmission Pty Ltd ([GGT](#)) provides gas transportation services to third party users via the Goldfields Gas Pipeline. The Goldfields Gas Pipeline is

Western Australia's second longest gas transmission pipeline (over 1,380 kilometres) and delivers natural gas to the mineral resource regions of the north-east Pilbara and the Goldfields.

The current access arrangement for the Goldfields Gas Pipeline, which sets default terms and conditions, including the tariffs that parties pay to access and transport gas via the pipeline, was published by the ERA on 13 April 2012.

GGT is expected to lodge revisions to the access arrangement for the Goldfields Gas Pipeline in May 2014 for the ERA's assessment of its compliance with the National Gas Rules.

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 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 conditions that underpin third party access agreements.

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 railway owner is someone who owns a railway (referred to as "below-rail" ownership). An "above-rail" operator is someone who operates trains on a railway.

Segregation arrangements ensure that, where a railway owner operates above-rail on its own railway, third parties seeking access to the railway 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 each regulated rail infrastructure within Western Australia are detailed as follows.

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.

On 10 August 2012, the ERA published its [draft determinations](#) on revisions to Train Management Guidelines (TMG) and Train Path Policy (TPP) proposed by Brookfield Rail. The Train Management Guidelines instrument is a statement of principles, rules and practices which will be applied in the real time management of services on the network. The Train Path Policy instrument is a statement of policy relating to the allocation of train paths in the negotiation and making of an access agreement.

While the draft determinations dealt with a range of issues which arose from the assessment of Brookfield Rail's proposals, key issues include the following:

- Application of the instruments to out-of-Code track access arrangements.
- Review and audit of the instruments.
- Definition of 'operator' in the Code.
- Dispute resolution procedures, and

- Provision for variations, cancellation and review of, and trading in, train paths.

Interested parties were invited to make submissions on the draft determinations by 7 September 2012.

Brookfield Rail has undertaken to also provide proposals for revised Segregation Arrangements, Costing Principles and Overpayment Rules. All regulatory instruments for Brookfield Rail must be revised due to the change in name from WestNet Rail.

The ERA published its [final determination](#) on Brookfield Rail's proposed revised Train Management Guidelines and Train Path Policy on 30 November 2012 subject to eight amendments to the Train Management Guidelines and twelve amendments to the Train Path Policy. Brookfield Rail subsequently submitted its amended TMG and TPP on 4 February 2013.

On 13 February 2013, the ERA approved Brookfield Rail's Part 5 Instruments for its Train Management Guidelines and Train Path Policy.

The Pilbara Infrastructure Railway

On 2 April 2013, the ERA approved amendments to The Pilbara Infrastructure's (TPI) [Part 5 instruments](#). Part 5 instruments are those regulatory instruments required by Part 5 of the *Railways (Access) Code 2000* to be put in place by a railway owner.

The amendments to TPI's Train Management Guidelines and Over-payment Rules were confined to the removal of provisions for mandatory periodic review and audit provisions not required by the Code. These provisions were included in the original instruments in order to ensure an initial review by TPI.

The amendments to the Train Path Policy were confined to the removal of provisions for mandatory periodic review and audit of the instrument. Retrospective audit of application of the Train Path Policy is not required by the Code and the ERA considers that such an audit is not appropriate following the allocation of train paths as part of an agreement made between a railway owner and an operator.

The amendment to the Costing Principles was at Appendix C of the instrument, being the addition of a description of the Solomon Spur to the list of route sections to which the Costing Principles apply. Provision for mandatory periodic review of TPI's Costing Principles was removed when amendments to the instrument were last approved by the ERA in May 2012.

All of TPI's Part 5 instruments retain provisions for review by the regulator at any time, and for stakeholders to approach the Regulator with any concerns in relation to the operation of these instruments.

The Pilbara Infrastructure Segregation Arrangements

On 12 April 2013, the ERA sought [public comment](#) on revisions proposed by TPI to its Segregation Arrangements.

Section 28 of the *Railways (Access) Act 1998* requires that a railway owner must make arrangements to segregate its access-related functions from its other functions, and must have appropriate controls and procedures to ensure that the measures in place operate effectively and are complied with. Section 29 of the Act requires that before a railway owner puts in place or varies any arrangement it must obtain the ERA's approval.

One submission was received, from Brockman Mining Australia. The ERA approved TPI's [proposed amendments to its Segregation Arrangements](#) on 22 May 2013.

The Pilbara Infrastructure – Brockman Iron Access Proposal

Brockman Iron PL lodged a proposal for access to the railway network owned by The Pilbara Infrastructure PL on 15 May 2013. On 27 May 2013, the ERA issued a notice calling for public submissions on the matter of a determination of Floor and Ceiling Costs for the route sections relevant to Brockman Iron's proposal. Floor and Ceiling Costs establish upper and lower bounds for cost recovery by railway owners. Three submissions were received by the ERA, and these were published on the ERA's [website](#) on 27 June 2013.

On 4 June 2013, the ERA published a notice calling for public submissions on the matter of Brockman Iron's proposal. This notice was in accordance with Section 10 of the Code, and in response to a request from The Pilbara Infrastructure for the ERA to provide its approval for negotiations to commence between The Pilbara Infrastructure and Brockman Iron. The closing date for public submissions on this matter was 4 July 2013.

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

Perth Urban Passenger Rail System (Transperth train network)

- 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
- Consists of the Joondalup Line, the Fremantle Line, the Midland Line, the Armadale/Thornlie Line and the Mandurah Line
- Owned and operated by the Public Transport Authority

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

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 provide a framework for the real-time management of services to be operated on a rail network to ensure 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* (Access Code), 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.

Western Power Access Arrangement

The ERA published its Final Decision on 5 September 2012 to not approve Western Power's amended proposed access arrangement revisions for the Western Power Network and required 58 amendments to be made. Western Power submitted a revised access arrangement addressing the amendments required by the ERA, which was approved by the ERA's Further Final Decision published on 29 November 2012.

The revenue cap for the first year of the amended access arrangement period applied from 1 July 2012. However, the approved price list for 2012/13 did not come into effect until 1 February 2013.

The average change in tariffs on an annualised basis for 2012/13 was 3.7 per cent. This incorporated an adjustment for an under-recovery of revenue in the previous access arrangement period by Western Power.

Average charges for the remainder of the third access arrangement period (i.e. 2013/14 to 2016/17) were forecast to increase broadly in line with CPI, based on the demand assumptions submitted by Western Power in its access arrangement proposal. As Western Power operates under a revenue cap, the impact on charges alters if actual demand differs significantly from forecast.

Subsequent to the approval of Western Power's third access arrangement, Western Power submitted a proposed price list for 2013/14 which showed average charges increasing by 20 per cent. This significant increase compared with the forecast made at the time of the access arrangement approval was due to an increase in the Tariff Equalisation Contribution and a reduction in forecast revenue, much of which is attributable to the impact of lower energy demand as a result of domestic photovoltaic systems.

The allowable revenue approved by the ERA for Western Power's third access arrangement period included \$53 million to be recovered for the transmission system and

\$398 million for the distribution system (real dollar values at 30 June 2012) in relation to revenue deferred during the previous access arrangement period.

As set out in the final decision, the ERA was of the view that the deferred revenue should be recovered over the life of the assets to which it related. However, modelling and forecasts at the time of the decision showed that reducing the recovery period to ten years resulted in average tariffs increasing broadly in line with CPI.

On this basis, the ERA considered that a recovery period of ten years could be accommodated without a price shock to customers. If the size of the forecast reduction in demand and increase in costs had been known at the time of the decision, the ERA would not have shortened the period over which the deferred revenue is to be recovered.

The ERA proposed to vary the price control in Western Power's access arrangement such that the deferred revenue would be recovered over the life of the assets to which it relates. The ERA published an Issues Paper on 17 May 2013 to assist interested parties to make a submission on the proposed variation to the price control. The Issues Paper provided a list of the revisions to the access arrangement that were required as a result of the proposed change to the recovery of deferred revenue.

In relation to the profile of annual price changes, the ERA considered two options. The first would result in an average increase of 10.3 per cent (including CPI) in 2013/14 followed by increases of around 1 per cent below

CPI in the following three years. The second option would result in prices increasing around 2 per cent above CPI over each of the next four years.

Twelve submissions were received and are available on the ERA's [website](#). The ERA published its final decision to vary the access arrangement on 4 June 2013. The decision was to vary the price control such that the deferred revenue continues to be recovered over the life of the assets to which it relates, rather than the shorter period of 10 years.

Taking account of views put forward in its public consultation, the ERA decided to smooth the revised target revenue over the four years from 1 July 2013. Based on the demand forecasts provided by Western Power, this will result in the average network charge increasing by around 2 per cent above CPI over each of the next four years.

The extent to which these increases in network tariffs will affect retail electricity prices for residential and small business customers is determined by the Western Australian Government.

Access Arrangement Variations - Contributions Policy

On 3 September 2012, the ERA released its Final 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 of 2009 to 2012.

Western Power's proposed mid-period revision was approved, which allowed for the implementation of a distribution low voltage connection headworks scheme by Western Power. The varied access arrangement took effect on 4 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 network.

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.

Exemption in relation to additional supply of electricity to Geraldton Port Authority

Western Power submitted an application for a temporary exemption from its Technical Rules to the ERA on 19 October 2012. The ERA published a determination to approve a temporary exemption for Western Power from compliance with certain requirements of its Technical Rules in relation to the additional supply of 11.65 MVA of electricity to the Geraldton Port Authority.

In making its determination the ERA published an issues paper and invited comments from interested parties, to which two public submissions were received.

Exemption in relation to connection of Nilgen Wind Farm

The ERA published a determination on 8 January 2013 to approve an exemption for Western Power from compliance with certain requirements of its Technical Rules in relation to the connection of the Nilgen Wind Farm.

Western Power submitted its application for exemption under section 12.40 of the Access Code. In response to

Western Power's application the ERA published an issues paper and invited comments from interested parties, to which four public submissions were received.

Exemption in relation to the supply of electricity to Karara Mining Ltd and the proposed Mumbida Windfarm

On 10 July 2013 the ERA published a decision to approve exemptions for Western Power from compliance with certain requirements of its technical rules in relation to the supply of electricity to Karara Mining Ltd and the proposed Mumbida Windfarm.

Western Power submitted its applications for exemption under section 12.40 of the Access Code. Upon receiving Western Power's applications, the ERA prepared an issues paper that was released for comment and a public consultation process took place in early June 2012 with one public submission received for consideration.

Model Technical Rules

Under the *Electricity Networks Access Code 2004*, service providers of non-covered networks that are part of the South West Interconnected System (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, the ERA proposed to base the model technical rules on Western Power's technical rules.

From 1 June 2012 the ERA formed a technical rules committee to assist with the development and review of model technical rules for the SWIS. The committee is still in the process of forming its recommendation to the ERA on the development of model technical rules. This work has been delayed because it is unclear whether technical rules for non-covered networks are necessary or whether the technical rules of the covered network (Western Power's Network) are sufficient to ensure the security of supply for the SWIS.

In light of this, the ERA decided to extend the deadline for the publication of model technical rules for the SWIS. The ERA released a [notice](#) on 30 May 2013 of its decision to extend the deadline for publishing model technical rules until 1 June 2014.

ERA's Further Final Decision on Western Power's proposed Revised Access Arrangement for 2012-17

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.

The ERA determines the amount of revenue Western Power requires to cover the costs an efficient network owner would expect to incur during the period for which the revenue cap applies.

The main differences between the amount of revenue Western Power proposed and the amount allowed by the ERA relate to a reduced weighted average cost of capital (i.e. the rate of return it receives on its assets) and reduced allowances for capital and operating expenditure.

Some of the key points that were taken into account when making the assessment of Western Power's target revenue included the following:

- The significant under expenditure during the second access arrangement period (AA2) compared to the forecast costs approved by the ERA in its final decision for AA2. Western Power's total capital expenditure during the second access arrangement period was estimated to be 39 per cent (or \$1.2 billion) lower than the \$3.1 billion approved by the ERA previously.
- Significant increases in Western Power's expenditure forecast for the third access arrangement period (AA3) compared with actual expenditure for the second access arrangement period. The ERA, on advice from its technical advisor, identified \$465 million in Western Power's initial forecasts for capacity expansion and customer driven expenditure that it considered was potentially overstated.

- Western Power's requirement to manage its wood pole assets in relation to having an outstanding Energy Safety Order regarding the condition of its wood poles network. In its original proposal Western Power forecast capital expenditure of \$748 million to enable it to increase its wood pole replacement and reinforcement rates. Following the draft decision, Western Power proposed to increase the number of replacements and reinforcements and revised its forecast by \$364.9 million, which was accepted in the ERA's final decision.

Decisions: Wholesale Electricity Market

Energy Price Limits

[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 review annually 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 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.

2013 Energy Price Limits

The IMO provided its final report on its review of the 2012 Energy Price Limits for the ERA's approval on 17 May 2013 together with a report prepared by a consultant (SKM MMA). SKM MMA was engaged by the IMO to assist in undertaking the 2013 Energy Price Limits review.

The ERA published its [decision](#) on the IMO's 2013 Energy Price Limits on 11 June 2013. The ERA approved the revised value for the maximum STEM price of \$305/MWh, and the price components for the alternative maximum STEM price (calculated as \$67.33/MWh + 19.719 multiplied by the delivered distillate fuel cost in \$/GJ).

These energy price limits took effect on 1 July 2013.

Maximum Reserve Capacity Price

The Reserve Capacity Mechanism (RCM) provides incentive to attract more participants in the WEM. This ensures sufficient capacity to meet system needs and to promote efficiencies in the market. The [maximum reserve capacity price](#) (MRCP) is a key parameter in the RCM which sets the price cap for offers into the capacity auction. It is also the reference price for setting the price for capacity, administratively, in case no capacity auction is held.

Under the *Wholesale Electricity Market Rules*, the Independent Market Operator may cancel the capacity auction if it considers that sufficient capacity is available to meet the system capacity requirement without an auction.

This has been the case since the commencement of the WEM and the price for capacity has always been determined, administratively, with reference to the MRCP. Hence, 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. The methodology for setting the MRCP is currently 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 its proposed revised MRCP value for the 2015/16 Capacity Year to the ERA on 16 January 2013, accompanied by five public submissions received in response to the IMO's draft report (reports prepared by consultants Sinclair Knight Merz, and PricewaterhouseCoopers; assessments by Landgate and Western Power; and the IMO's spreadsheet model used to calculate the proposed MRCP).

The ERA approved the revised MRCP value for the 2015/16 Capacity Year of \$157,000 per MW per year, as recommended by the IMO. The approved revised MRCP will be effective from 1 October 2015 to 1 October 2016.

The ERA is required to review the methodology for setting the MRCP and the energy price limits under clause 2.26.3 of the Market Rules on each fifth anniversary of the first Reserve Capacity Cycle. The ERA published a notice

inviting public comment in relation to this review and a consultation paper to assist interested parties in making submissions. The consultation period closed on 22 July 2013. The Authority received four submissions. The ERA is progressing on the preparation of the report for the review which will be delivered to the Western Australian Minister for Energy by 1 October 2013.

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 includes publishing an issues paper.

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 important 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 is 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 published an [issues paper](#) on the values for the Ancillary Service Cost_LR parameters on 19 December 2012. The ERA received one submission in response to the issues paper. The ERA published its [determination](#) on values for the Ancillary Service Cost_LR parameter for the period from 1 July 2013 to 30 June 2016 on 18 March 2013.

The ERA received the proposed values for Ancillary Service Margin_Peak and Margin_Off-Peak parameters for the 2013/14 financial year from the IMO on 30 November 2012. The ERA published an [issues paper](#) on the proposed values for the Ancillary Service Margin_Peak and Margin_Off-Peak parameters on 19 December 2012.

The ERA received two submissions in response to the issues paper. The ERA published its [determination paper](#) on values for the Ancillary Service Margin_Peak and Margin_Off-Peak parameters on 18 March 2013.

Industry Code 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.

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

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 other small business customers. The code was developed to protect the interests of customers who consume no more than 160 MWh of electricity per annum (which equates to an annual electricity bill of approximately \$40,000).

A statutory review of the code is conducted biennially, with the last review taking place from late 2011 to mid 2012. As a result of this [review](#), we made a number of amendments to the code, which took effect on 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 customers on life support equipment. 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 from a life support customer written or verbal acknowledgment that they have received notice of planned interruptions.

The next review of the code is due to commence in August 2013. The Electricity Code Consultative Committee (ECCC) compiled 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;
- improvements to payment difficulty and financial hardship policy provisions;
- extending the service standard payments for wrongful disconnection; and
- functionality requirements for pre-payment meters.

Gas Marketing Code of Conduct

The [Gas Marketing Code of Conduct 2012](#) came into force on 1 July 2012.

The statutory biennial review of the Code began in May 2013. The review is being conducted by the Gas Marketing Code Consultative Committee (GMCCC) which will provide the findings of its review to the ERA. The GMCCC held its initial meeting to consider the issues identified in a discussion paper, and reached a consensus on most of the issues.

The GMCCC published its Draft Review Report and sought public submissions. The Final Review Report will be received by the ERA in the new financial year.

The review is scheduled to be completed in the second half of 2013 to allow amendments to be gazetted and come into effect on 1 January 2014.

Performance Reports

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

Report to the Minister for Energy - WA Wholesale Electricity Market

Under the wholesale electricity market rules, the ERA must provide the Minister for Energy with a report on the effectiveness of the Western Australian wholesale electricity market (WEM) at least annually, and to publish the report after consultation with the Minister for Energy.

During the reporting year, we published the 2012 annual report to the Minister for Energy on the effectiveness of the WEM.

The annual reports to the Minister for Energy provide the ERA's assessment of the effectiveness of the market in meeting the wholesale market objectives, including 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 and analysis of market information and data and the ERA's recommended measures to improve the effectiveness of the market.

Under the *Electricity Industry Act 2004*, the ERA is required to provide a report to the Minister for Energy every three years based on a review of the extent to which the market objectives have been or are being achieved. As soon as

practicable after receiving the report, the Minister is required to cause the report to be laid before each House of Parliament. The last such report was laid in the Parliament in 2011. The ERA will provide the next report required under the Act in 2014.

2012 WEM Report to the Minister for Energy

The [2012 WEM report](#) was submitted to the Minister for Energy on 22 April 2013. Following a period of consultation with the Minister for Energy, the report was published on our website on 14 June 2013.

In producing the report, the ERA undertook a public consultation process where interested parties were invited to comment on any other strategic, policy or high-level issues that are impacting on the effectiveness of the market. The ERA published a [discussion paper](#), on 19 November 2012, to facilitate interested parties to make submissions.

The ERA received 30 submissions in response to its invitation for public submissions on its discussion paper. These consisted of 18 original submissions, and 12 copies (or a slightly modified version) of the same submission that was jointly or individually signed by Demand Side Management (DSM) providers.

In the 2012 WEM report, the ERA focused on issues surrounding the operation of the Reserve Capacity Mechanism and raised its concerns in relation to the build up of substantial excess capacity in the market; the amount

of liquid generation and DSM capacity that has entered the market in recent years; and the high plant outage rates observed for certain generation units in the WEM. The ERA recommended that the three highlighted concerns be investigated further to ensure that the Reserve Capacity Mechanism functions more efficiently.

The ERA provided both the confidential and public versions of the report to the Minister for Energy on 22 April 2013. The public version of the report was published on the ERA website on 14 June 2013.

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, some of whom do not have a choice of utility retailer.

The reports cover the performance of:

- [Energy distributors.](#)
- [Energy retailers.](#)
- [Water service providers.](#)

CASE STUDY

Utility Regulatory Framework Rewards

Compliance

The ERA's regulatory framework for licensed electricity, gas and water utilities is built on the twin pillars of educating licensees about their compliance obligations, and providing appropriate incentives for the licensee to develop the necessary systems to monitor and report on their compliance.

Educating for Compliance

The ERA has published a suite of guidelines, manuals and other material that assist licensees to understand their obligations in relation to their licence, while also providing a framework for licensees to monitor and report on their compliance to the ERA.

Examples include the Electricity/Gas/Water Compliance Reporting Manuals, Audit Guidelines, Financial Hardship Policy Guidelines, Standard Form Contract Guidelines, Water Customer Service Charter Guidelines and Customer Complaints Guidelines.

The guidelines reduce the licensees' cost of compliance by collating information that would otherwise have to be researched by the licensee.

The ERA also holds Regulatory Managers Forums at regular intervals. The forums provide an opportunity for the ERA and licensees to discuss a range of regulatory topics; often the timing of the forums coincides with changes to the regulatory framework.

Compliance Incentives

The licensing legislation requires licensees to engage independent auditors to assess their compliance with the licence and, for licensees with infrastructure, review the effectiveness of their asset management systems.

For most licensees, the audits and reviews represent the largest single compliance cost of economic regulation.

The statutory period between audits and reviews is set at 24 months, which the ERA has discretion to vary.

The ERA has implemented an incentive scheme to reward compliant licensees - those that achieve favourable audit and review results are rewarded by an extended period between audits and reviews, thus significantly reducing the direct cost of compliance over time. Conversely, licensees that achieve unfavourable audit and review results may have the period reduced, with a consequent increase in compliance costs.

During 2012/13, the ERA increased the audit and review periods for four licensees, and reduced the periods for seven licensees.

The ERA's experience is that reducing the audit and review period provides an effective incentive for licensees to promptly rectify their compliance problems; both Wesfarmers Kleenheat Gas and Western Power had their previously reduced audit periods increased back to 24 months in 2012/13.

The ERA also has scope to serve a regulatory notice on a licensee that seriously contravenes its licence. The notice process provides a fixed time for the licensee to rectify the contraventions. Licensees who do not comply with the notice may be liable for a monetary penalty.

During 2012/13, the ERA served notices on three water licensees: the Shires of Brookton, Coolgardie and Denmark, all because of problems with their asset management systems.

Past experience shows that licensees in receipt of notices have rectified the contraventions without the need to resort to any further penalties.

For example, on 20 December 2012, the ERA closed the notice served on Synergy after receiving an independent audit report confirming they had addressed the contraventions found in the previous audit.

The available evidence indicates that the ERA's regulatory framework is effective in achieving its goals.

The suite of documentation published by the ERA provides licensees, customers and other stakeholders with clear and transparent information about licensee's compliance obligations, and how the ERA monitors compliance.

Licensees that invest in maintaining effective compliance systems are rewarded with a commensurate reduction in their compliance costs.

Where licensees contravene their licence, the regulatory interventions applied by the ERA have been shown to provide effective incentives for licensees to promptly address the cause(s) of the contravention.

Other Cyclical Regulatory Activities

Western Power Price Lists

Under the *Electricity Networks Access Code 2004* (Access Code), 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.

The ERA's determination of [Western Power's 2013/14 Price List](#) was published on 26 June 2013. Western Power submitted an initial proposed price list to the ERA on 26 April 2013. The ERA did not approve this proposal and Western Power subsequently submitted a revised proposed 2013/14 Price List on 14 June 2013. In the assessment of the revised 2013/14 price list, the ERA found the prices complied with the price control and pricing methods set out in the amended access arrangement applying for the third access arrangement period (2012/13 to 2016/17).

The extent to which these increases in network tariffs will affect retail electricity prices for residential and small business customers is determined by the Western Australian Government. The approved network prices commenced on 1 September 2013 (refer to earlier section on the Western Power Access Arrangement on page 38).

Service Standards

The ERA monitors, and publishes, 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 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.

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 third access arrangement period (2012/13 to 2016/17).

Approval of Allowable Revenue for System Management and the IMO

The Market Rules require the ERA to determine the IMO's Allowable Revenue and Forecast Capital Expenditure for each of the services provided by the IMO, including market operation, system planning and market administration services. The Market Rules require the ERA to determine an amount of Allowable Revenue and Forecast Capital Expenditure for System Management to provide system operation services as defined in the Market Rules, including all of System Management's functions and obligations under the Market Rules.

The IMO and System Management each submitted to the ERA a proposal for Allowable Revenue and Forecast Capital Expenditure for the period from 1 July 2013 to 30 June 2016 on 30 November 2012. The ERA published an [issues paper](#) and a [notice](#) on 20 December 2012, inviting interested parties to make submissions. The ERA received five public submissions in response to the issues paper.

The ERA published the [determination papers](#) on the Allowable Revenue and Forecast Capital Expenditure for System Management and the IMO on 2 April 2013. The proposals, issues paper, submission and the determination papers are available on the ERA's [website](#).

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 detail 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 the 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 2012/13 the ERA concluded two inquiries: an [inquiry into Western Australia's home indemnity insurance arrangements](#) and an [inquiry into the efficient costs and tariffs of the Water Corporation, Aquwest and the Busselton Water Board](#).

Completed Inquiries

Inquiry into Western Australia's Home Indemnity Insurance Arrangements

On 11 June 2012, the State Treasurer asked the ERA to undertake an inquiry into Western Australia's home indemnity insurance arrangements.

The [terms of reference](#) of the inquiry required the ERA to investigate the effectiveness of Western Australia's home indemnity insurance arrangements. The ERA was also required to 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.

The terms of reference specified that the ERA must give consideration, but not be limited to:

- how Part 3A of the *Home Building Contracts Act 1991* operates, including measures taken by the State Government to underwrite the private provision of home indemnity insurance since the Act was amended in 2002;
- whether there is an ongoing need for the mandatory provisions of home indemnity insurance;
- alternative models that could be applied in Western Australia to replace or improve current

arrangements, including the establishment of a fidelity fund;

- whether the scope of the State's home indemnity insurance arrangements, or whichever model is recommended, should also address the costs to homeowners of damage caused by ground subsidence due to underlying geological causes rather than builder or developer default;
- red tape burdens on the insurance and building industries;
- possible implications for home affordability; and
- costs and financial risks to the State Government.

The ERA published an issues paper on 4 July 2012 to help interested parties understand the issues under review. The ERA received ten submissions in response to the issues paper. These submissions are available on the ERA's [website](#).

The ERA released its [final report](#) to the Treasurer on 28 June 2013. The final report incorporates the findings from an extensive public consultation process, including submissions received in response to an issues paper and a draft report and also consultation with numerous organisations in the building, insurance and government sectors.

What is the significance of the Inquiry into the effectiveness of Western Australia's home indemnity insurance arrangements?

This was the first independent inquiry into Western Australia's home indemnity insurance arrangements. The Western Australian Government is currently an active participant in the home indemnity insurance market as it underwrites some of the risk borne by private insurers.

This inquiry provided an opportunity to consider the Government's role in the home indemnity market and identify potential opportunities to improve the current home indemnity insurance scheme. It also provided an opportunity to assess whether Western Australian consumers are adequately protected under the current scheme and whether premiums are set at a reasonable level.

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 was required 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 was required to consider, but not limit its investigation to, recommended tariff levels and charging structures for water, wastewater and drainage services.

The ERA was 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 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 published a draft report for further public consultation.

The [final report](#) for the Inquiry was delivered to the Treasurer on 26 November 2012, and was tabled in Parliament on 7 January 2013.

CASE STUDY

Inquiry into Home Indemnity Insurance Arrangements

The Treasurer of Western Australia gave written notice to the ERA to undertake an inquiry into the effectiveness of Western Australia's home indemnity insurance arrangements. Home indemnity insurance provides financial protection to consumers who incur losses due to the death, disappearance or insolvency of their builder, either during the period in which construction is being undertaken (the construction period) or in the six years following completion of construction (the warranty period).

In Western Australia, the provisions of the *Home Building Contracts Act 1991* make it mandatory for all home builders who build for another person to hold home indemnity insurance when the value of the project is above \$20,000.

As part of the inquiry, the ERA was required to consider the effectiveness of the operation of the provisions of the *Home Building Contracts Act 1991* as they relate to home indemnity insurance. The ERA was also asked to consider whether it should continue to be mandatory for builders to hold home indemnity insurance; and whether there could be alternative models of home indemnity insurance that would operate more effectively than the model that was in place at the time the inquiry commenced.

The final report for the inquiry was delivered to the Treasurer on 28 June 2013. The report incorporates findings from an extensive public consultation process, including submissions received in response to an issues paper and draft report; and consultation with numerous organisations in the building, insurance, government and consumer sectors.

The issue of home indemnity insurance is of considerable importance to consumers that purchase new houses.

This is because in the absence of some form of insurance, these consumers would be exposed to the risks of incurring large financial losses as a result of their builder dying, disappearing or becoming insolvent during the construction period, or in the years following completion of construction (if defective work is encountered over this time).

On review of the current arrangements, the ERA found that the existing model of home indemnity insurance in Western Australia was not capable of providing a long term protection mechanism for the consumers of Western Australia. Principally, this is because the model was found to have a poor record in attracting and maintaining the interest of the private sector insurers to which the model was dependent upon. Under the existing model, private insurers are the providers of the mandatory home indemnity insurance.

Another key finding of the inquiry was that consumers were making use of the protection afforded to them as a result of their builders holding home indemnity insurance.

For the period studied, it was found that claims were being regularly paid by insurers who had suffered financial losses (sometimes very large financial losses) as a result of their builder dying, disappearing or becoming insolvent.

The ERA found that losses incurred by consumers were most apparent during the construction period. That is, losses incurred as a result of builders failing to complete the construction of a house. Losses incurred as a result of defective work being encountered in the period following completion of construction were more modest.

It was also found that the costs of the home indemnity insurance cover (which are initially incurred by builders but then passed on to consumers) were modest in comparison to the cost of building a new home and also in comparison to the protection that was afforded to consumers as a result of the insurance coverage being in place.

The ERA recommended that it continue to be mandatory for builders to hold home indemnity insurance but that the period covered by the insurance need only be until the completion of construction.

The reason for recommending that coverage remain mandatory is that it was found that having the insurance in place helped protect many consumers from very large financial losses and that in the absence of mandatory insurance there would be few if any avenues by which consumers would be able to protect themselves from the risks of such losses.

The reason that it was recommended that insurance only be mandatory for the construction period is that it is during this period where potential losses are most significant. The ERA recommended that the mandatory construction period insurance continue to be provided by private sector insurers, with some financial support from the State Government, similar to that support which exists at present.

A warranty period insurance should still be available to provide consumers with financial protection in the event that defective work is encountered but due to the fact that these are generally smaller than those incurred during the construction period, the ERA considered that this insurance need not be mandatory. It was also recommended that building industry associations could provide this form of insurance as they have a strong knowledge of the workings of the building industry.

At the time of completion of the final report, private insurers and the building industry had expressed support for the ERA's findings. If implemented, the ERA's recommended model will be the first of its kind in Australia and it is believed that the model offers an innovative policy response that may be adopted in other Australian jurisdictions over time.

The ERA considers that its recommended model is capable of providing appropriate protection to consumers while also encouraging efficiency and flexibility for all parties. Ultimately, this efficiency and flexibility will deliver benefits to consumers.

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 \$11.1 million for a distribution system and \$33.2 million for a transmission system or both a distribution system and a transmission system)².

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.

² The values indicated apply from 1 July 2012 to 30 June 2013. These threshold values for a major augmentation are updated annually on 1 July by using the Consumer Price Index.

Shenton Park Zone Substation

Western Power submitted its new Shenton Park zone substation major augmentation proposal to the ERA on 10 July 2012 for a regulatory test assessment. The ERA published an [issues paper](#) on 3 August 2012 to help interested parties prepare submissions on the proposal.

On 10 September 2012, the ERA published a [final determination](#) that Western Power's proposed new Shenton Park zone substation major augmentation satisfied the regulatory test under Chapter 9 of the *Electricity Networks Access Code 2004*.

The proposed augmentation involves the construction of a new 132/11 kV zone substation built on land adjacent to the existing Shenton Park substation. The new substation is planned to contain two 75 MVA 132/11 kV transformers and two line circuits. The Shenton Park distribution network and the Herdsman Parade zone substation distribution network will also be converted and upgraded from 6.6 kV to 11 kV. The determination and related documents, including public submissions made to the ERA on the proposal, are available on the ERA's [website](#).

In making its determination, the ERA considered Western Power's proposal, an independent report prepared by Geoff Brown and Associates Pty Ltd (the ERA's technical adviser) and all submissions received during the ERA's 10 business day consultation period (which ran from 3 August 2012 to 17 August 2012).

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 New Medical Centre Zone Substation

Western Power on 19 November 2012 submitted an application to recover forecast investment costs in relation to the proposed construction of a new 132-66/11 kV zone substation at the QEII Medical Centre in Nedlands. In response, the ERA published an [issues paper](#) and invited comment from interested parties on 11 February 2013. The public consultation period closed on 25 February 2013 in which one submission was received.

The ERA published a [draft determination](#) on 22 April 2013 in which it considered only \$24.43 million of the claimed \$27.21 million meets the requirements of the new facilities investment test. Interested parties were again invited to make submissions on the draft determination. One

submission was received during this consultation period which was from Western Power. In its submission, Western Power accepted all of the amendments set out by the ERA in the draft determination.

On 13 June 2013, the ERA released its [final determination](#) incorporating the amendments detailed in the ERA's draft determination, which were accepted by Western Power, resulting in the approval of the new facilities investment to the value of \$24.43 million.

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 of 30 June 2013, there were a total of 93 electricity, gas and water licences (53 electricity, 8 gas, and 32 water). During the reporting year, the ERA granted the following new licences: AER Retail Pty Ltd (Electricity Retail Licence 18), Aquasol Pty Ltd (Water Services Operating Licence 44) and Community Electricity Pty Ltd (Electricity Retail Licence 19). Copies of the licences can be found on the ERA's [website](#).

The ERA also approved 17 amendments to 51 licences (34 electricity licences, 11 gas licences and 6 water licences were amended). In addition, one licence (Electricity Retail Licence 3) was surrendered.

Reporting Handbooks, Datasheets and Manuals

Licensees are required to prepare and submit annual performance reports (non-financial performance data) 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, the ERA published the following handbooks, datasheets and manuals to assist licensees in their reporting requirements.

- 2013 Electricity Compliance Manual Datasheets – Retail Indicators
- 2013 Electricity Compliance Manual Datasheets – Distribution Indicators
- 2013 Electricity Distribution Licence Performance Reporting Handbook
- 2013 Electricity Retail Licence Performance Reporting Handbook
- 2013 Electricity Compliance Reporting Manual
- 2013 Water, Wastewater and Irrigation Licence Performance Reporting Datasheets
- 2013 Water, Wastewater and Irrigation Licence Performance Reporting Handbook
- 2012 Water Compliance Reporting Manual
- 2013 Gas Compliance Manual Datasheets – Distribution Indicators

- 2013 Gas Compliance Manual Datasheets – Retail Indicators
- 2013 Gas Distribution Licence Performance Reporting Handbook
- 2013 Gas Trading Licence Performance Reporting Handbook
- 2013 Gas Compliance Reporting Manual

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 customer service. Licence audits and asset management review reports are public documents available on the ERA website. The reports 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 published independent audits and asset management review reports on the following 28 electricity, gas and water licensees during 2012/2013.

There were a total of four licensees who had their audit/review period increased as a result of a positive audit

and/or asset management review report, and seven licensees who had their audit/review period reduced following an unsatisfactory report. The remaining licensees provided satisfactory reports so the period of time between audits and asset management reviews remained unchanged.

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

Independent audit and asset management review reports assessed by the ERA during 2012/2013.

Company	Licence Type								Review Type		
	Electricity					Gas		Water	Performance audit (Electricity/gas)	Asset Management Review	Operational Audit (water)
	generation	transmission	distribution	retail	Integrated regional	distribution	trading	Water services			
Alinta Sales				√					√		
Emu Downs Wind Farm JV	√								√	√	
Electricity Retail Corporation (t/a Synergy)				√					√		
Electricity Retail Corporation (t/a Synergy)							√		√		
Electricity Networks Corporation (t/a Western Power)		√	√						√	√	
ERM Power Retail				√					√		
Moama Lifestyle								√		√	√

Company	Licence Type								Review Type		
	Electricity					Gas		Water	Performance audit (Electricity/gas)	Asset Management Review	Operational Audit (Water)
	generation	transmission	distribution	retail	Integrated regional	distribution	trading	Water services			
Villages											
Ord Irrigation Cooperative								√		√	√
Preston Valley Irrigation Cooperative								√		√	√
Shire of Brookton								√		√	
Shire of Coolgardie								√		√	
Shire of Denmark								√		√	√
Shire of Dumbleyung								√		√	√
Shire of East Pilbara								√		√	√
Shire of Gnowangerup								√		√	√
Shire of Jerramungup								√		√	√
Shire of Kent								√		√	√
Shire of Koorda								√		√	√
Shire of Moora								√		√	√
Shire of Ravensthorpe								√		√	√
Shire of Yilgarn								√		√	√
Tronox Management	√								√	√	
Walkaway Wind Power	√								√	√	
Water Corporation								√		√	√
Wesfarmers Kleenheat Gas							√		√		
Western Energy	√								√	√	

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.

Shire of Brookton – Notice Served

On 23 April 2013, the ERA served a notice under section 39(1) (failure to comply with licence) of the *Water Services Licensing Act 1995* (Section 39 Notice) on the Shire of Brookton.

The ERA served the Section 39 Notice after considering the results from the 2012 asset management system review report. The ERA's view was that the Shire did not have an effective asset management system in place in respect of the assets used in the provision of the water services covered by their water services licence, which is a contravention of clause 17 of the licence.

The main areas of concern with the Shire's asset management system disclosed in the review report were that the Asset Management Plan has not been implemented; there was no detailed asset register; the condition of the scheme's assets is not being monitored or recorded; there is no procedure for regular (i.e. at least annual) inspection of the assets; there are no documented operations and maintenance procedures; maintenance is carried out on an ad hoc basis and it is not scheduled or recorded; and the risk register and contingency plans had

not been reviewed and updated. The ERA considered that the Shire needed to take immediate action to address the recommendations in the post-review implementation plan.

The Section 39 Notice requires the Shire to rectify all of the deficiencies disclosed in the review report by 30 November 2013. The [Section 39 Notice](#) is available on the ERA's website.

Shire of Coolgardie – Notice Served

On 14 March 2013, the ERA served a notice under section 39(1) (failure to comply with licence) of the *Water Services Licensing Act 1995* (Section 39 Notice) on the Shire of Coolgardie.

The ERA served the Section 39 Notice after considering the results from the 2012 asset management system review report. The ERA's view was that the Shire did not have an effective asset management system in place in respect of the assets used in the provision of the water services covered by their water services licence, which is a contravention of clause 17 of the licence.

The 2012 review report disclosed that the Shire had not completed any of the 20 post-review implementation plan actions arising from the previous 2011 Review. The 2012 review report also disclosed that treated effluent was being sprayed onto the Shire's parks and oval without being disinfected, presenting a health risk. The ERA considered that the Shire needed to take immediate action to address the recommendations in the post-review implementation

plan, including the actions carried forward from the 2011 review.

The Section 39 Notice requires the Shire to rectify all of the deficiencies disclosed in the review report by 31 October 2013. The [Section 39 Notice](#) is available on the ERA's website.

A copy of the [2012 review report](#), including the post-review implementation plan, is available on the ERA's website.

Shire of Denmark – Notice Served

On 8 March 2013, the ERA served a notice under section 39(1) of the *Water Services Licensing Act 1995* on the Shire of Denmark for failure to comply with its licence.

The ERA served the Section 39 Notice after considering the results from the 2012 asset management system review report. The ERA's view was that the Shire did not have an effective asset management system in place in respect of the assets used in the provision of the water services covered by their water services licence. Consequently, the ERA was of the opinion that the Shire is contravening clause 17 of their licence (asset management system).

The [Section 39 Notice](#) requires the Shire to rectify all of the deficiencies disclosed in the review report by 30 November 2013. The Section 39 Notice is available on the ERA's website.

Customer Protection

Water Customer Service Charter reviews

All water licensees who supply residential customers are required to produce a customer service charter and to review their charters every three years. 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 *ERA's Water Customer Service Charter Guidelines – March 2011* provide information on the requirements for contents, the ERA's expectations regarding the review and the process the ERA will use when approving charters.

During 2012/13, the ERA approved customer service charters for the Shire of Goomalling and Aquasol Pty Ltd.

The ERA also approved minor amendments to the Shire of Ravensthorpe's customer service charter.

Given the imminent introduction of the *Water Services Act 2012*, which does not contain provisions for charters, the ERA granted 12-month extensions to all licensees whose charters would have been due in the period up to the introduction of the Act.

The licensees to whom the extension period applies are:

- Rottnest Island Authority
- Busselton Water
- Aqwest – Bunbury Water Board
- Shire of Dowerin
- Shire of Wickpin
- Shire of Victoria Plains
- Shire of Kent
- Moama Lifestyle Villages

These extensions are not intended to prevent a licensee from submitting its amended charter for approval if and when it chooses.

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, there were no applications received.

Energy Standard Form Contract Assessments

In the energy industry, any retailer who supplies electricity or gas to small use customers must develop a standard form contract and have it approved by the ERA. Small use customers are residential customers and small business customers who consume less than 160 MWh of electricity or 1 TJ of gas per year.

The standard form contract specifies the minimum terms and conditions on which the retailer will supply the electricity or gas, providing a “safety net” for these 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*.

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

Electricity

- Alinta Sales Pty Ltd (t/a Alinta Energy)

Gas

- Alinta Sales Pty Ltd (t/a Alinta Energy)
- Wesfarmers Kleenheat Gas Pty Ltd

At 30 June 2013, the ERA was considering proposed amendments by Synergy and Alinta Sales to their electricity standard form contracts.

In the water industry, where there is no provision for approved standard form contracts, a retailer’s customer service charter represents the principal document governing the relationship between the licensee and customer.

Financial Hardship Policy Assessments

Electricity and gas retailers are required to have a financial hardship policy under Part 6 of the *Code of Conduct for the Supply of Electricity to Small Use Customers* and the *Compendium of Gas Customer Licence Obligations* (Energy Codes). Licensees must review their policies at least once a year and submit them to the ERA for assessment. The ERA examines both the policies and review process.

Following a period of public consultation, in October 2012, the ERA approved new *Financial Hardship Policy Guidelines – October 2012*. The guidelines provide guidance to retailers on the matters that will be considered by the ERA when assessing a retailer’s financial hardship policy, to assist retailers in developing compliant, user-friendly and practical policies.

The guidelines replace the previous version approved by the ERA in August 2010. In particular, the amended guidelines provide further guidance as to the type of information retailers could include in their hardship policies

to meet each requirement under clause 6.10(2) of the Energy Codes. The guidelines were also amended to encourage retailers to commence consultation with consumer representative bodies well in advance of the deadline for the retailer to submit their policies to the ERA for assessment.

It is intended that the amendments will assist the electricity and gas sectors in dealing with financial hardship, and reduce corresponding regulatory burden.

On 31 May 2013, the ERA released the financial hardship policy assessments for:

- WorleyParsons Asset Management Pty Ltd
- Wesfarmers Kleenheat Gas Pty Ltd
- Alinta Sales Pty Ltd (t/a Alinta Energy)
- Regional Power Corporation (t/a Horizon Power)
- Electricity Retail Corporation (t/a Synergy)

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 scheme.

On 4 July 2012, the Retail Energy Market Company (REMCo) submitted proposed amendments to the REMCo Constitution to the ERA for approval to correct a drafting issue that hinders the REMCo Board's approval process for admitting Self-Contracting Users as Associate Members of REMCo.

The ERA reviewed REMCo's proposed amendments to the REMCo Constitution and approved the proposed amendments on the basis that: the proposed amendments will promote competition in the market and improve the compliance of the Scheme with the Act; the Scheme will continue to be suitable for the purpose of section 11ZOB of

the Act following the approval of these amendments to the REMCo Constitution. The approved amendments to the REMCo Constitution took effect on 11 September 2012.

On 29 August 2012, REMCo submitted Rule Change C03/12R to the ERA for approval, proposing to include a new Rule 14A in the Retail Market Rules that enables REMCo to grant an exemption for a Self Contracting User (SCU) from the requirements under the Specification Pack for sending and/or receiving of communications via the FRC Hub.

The ERA approved Rule Change C03/12R on the basis that the proposed amendment will simplify the communications process for SCUs, which will remove a potential barrier to entry for SCUs. The ERA considered that the Scheme will continue to comply with the Act following the approval of this Rule Change.

Rule Change C03/12R became effective from 16 October 2012.

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.

Reference Tariff Variations

Goldfields Gas Pipeline – Reference Tariff Variation

Goldfields Gas Transmission Pty Ltd (GGT) can vary the reference tariff quarterly and annually in accordance with the provisions of the Goldfields Gas Pipeline (GGP) access arrangement.

The quarterly tariff variation allows adjustment for the effects of actual inflation. The annual tariff variation also allows adjustment for the effects of actual inflation, and an adjustment for certain regulatory costs. The annual tariff variation is conducted in lieu of the quarterly CPI adjustment, and is effective from 1 January each year. The variations are subject to ERA approval.

The ERA approved the following quarterly reference tariff variations for GGT during 2012/13:

- 1 October 2012 to 31 December 2012
- 1 April 2013 to 30 June 2013
- 1 July 2013 to 30 September 2013

In addition, the ERA approved an annual tariff variation, which commenced on 1 January 2013.

The approved reference tariff variations are available on the ERA's [website](#).

Mid-West and South-West Gas Distribution Systems – Reference Tariff Variation

ATCO Gas Australia Pty Ltd (ATCO) can vary the reference tariff annually in accordance with the reference tariff variation mechanism in Annexure B of the Mid-West and South-West Gas Distribution Systems access arrangement.

The variation allows for the effects of actual inflation, an adjustment for the differences between actual and forecast regulatory operating expenditure, as well as pass-through of new costs due to specific events.

On 7 June 2013, the ERA approved ATCO's proposed reference tariff variation to apply from 1 July 2013 to 30 June 2014.

ATCO's proposed reference tariff variation also provided for the under-recovery of revenue agreed in the access arrangement decision pursuant to orders from the Australian Competition Tribunal.

A copy of ATCO's proposed reference tariff variation is available on the ERA's [website](#).

Dampier to Bunbury Natural Gas Pipeline – Reference Tariff Variation

DBNGP (WA) Transmission Pty Ltd (DBP) can vary the reference tariff annually in accordance with the reference tariff variation mechanism in Section 11 of the Dampier to Bunbury Natural Gas Pipeline (DBNGP) access arrangement.

The variation allows for the effects of actual inflation, an adjustment for the expenditure incurred because of tax changes, as well as pass-through of new costs due to specific events.

On 16 January 2013, the ERA approved DBP's proposed reference tariff variation to apply from 1 January 2013 to 31 December 2013.

The approved reference tariff variation is available on the ERA's [website](#).

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 Brookfield Rail, the Public Transport Authority (PTA) and The Pilbara Infrastructure (TPI) rail networks as at 30 June each year.

On 7 February 2013, the ERA published an [issues paper](#) outlining matters for consideration in conjunction with a review of the method for calculating the WACC for railway networks, proposed to be implemented from July 2014. The notice accompanying the issues paper also invited public comment on the calculation of the WACC for railway networks to be determined by 30 June 2013.

The ERA has determined the following real pre-tax WACC values, to apply from 1 July 2013 to 30 June 2014:

- Public Transport Authority: 4.13 per cent

- Brookfield Rail: 7.00 per cent
- The Pilbara Infrastructure: 9.76 per cent

In comparison, the 2012 real pre-tax WACC for the three networks were 4.30 per cent (Public Transport Authority), 6.87 per cent (Brookfield Rail) and 9.16 per cent (The Pilbara Infrastructure).

Under Clause 3 of Schedule 4 of the Code, in every fifth year subsequent to 2003, the ERA is required to undertake public consultation prior to determining the WACC values for that year.

The ERA is also currently developing rate of return guidelines for gas transmission and distribution networks pursuant to the *National Gas Rules*, to be finalised by the end of 2013.

The ERA considers there is considerable value in harmonising, as much as possible, the formulation of a method for calculating the rates of return for entities across the industries it regulates. The ERA considers that there is a significant overlap of issues between the required five-yearly rail consultation process mentioned above and the development of the gas access rate of return guidelines.

The ERA is still continuing its review process regarding the methods for calculating the WACC values to apply from 30 June 2014.

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 affect both the groups they represent and consumers more generally. Members are also a conduit for informing consumers regarding the work of the ERA and providing feedback to the ERA.

The ERACCC continued to hold quarterly meetings throughout 2012/13. The highlights from meetings conducted over the year included:

- regular briefings by ERA staff on issues of relevance to ERACCC members and to the community, and the current 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 provided direct feedback on the ERACCC meetings and areas of particular interest to them.

Organisations participating in the ERACCC in 2012/13 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 who participated in the ERACCC in 2012/13 were:

- Mr Chris Field (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 appreciates the contribution that members make through their involvement in the ERACCC.

Electricity Code Consultative Committee

The ERA 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*.

The ECCC undertakes regular reviews of the Code. The [first review](#) was completed in 2007, the [second](#) in 2010, and the [most recent](#) review was completed in 2012. The next review is due to commence in the second half of 2013.

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 Drew Pearman (Chamber of Commerce & Industry);
- Mr Chris Twomey (WACOSS); and
- Mr David Kernohan (Consumer Credit Legal Service (WA) Inc.).

The four industry representatives are:

- Ms Catherine Rousch (Alinta Sales)
- Mr Gino Giudice (Western Power)
- Mr Simon Thackray (Synergy)
- Mr Greg Will (Horizon Power)

The two government representatives are:

- Mr Gerald Milford (Department of Commerce); and
- Mr Alex Kroon (Public Utilities Office).

Mr Paul Kelly (ERA) chairs the ECCC. Dr David Leith, also from the ERA, acts as executive officer. Dr Leith was appointed to the ECCC in January 2013 to replace Ms Cathryn Greville.

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 [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:

- Ms Catherine Rousch (Alinta Sales);
- Mr Simon Thackray (Synergy); and
- Ms Melanie Gordon (Wesfarmers Kleenheat).

The three consumer representatives are:

- Mr Andrew Canion (Small Enterprise Network, Chamber of Commerce & Industry);
- Mr Brent Savage (WACOSS); and
- Mr Charles Brown (Financial Counsellors Association of WA);

The two Government representatives are:

- Mr Gerald Milford (Department of Commerce); and
- Mr Alex Kroon (Public Utilities Office).

Mr Paul Kelly (ERA) chairs the GMCCC. Dr David Leith, also from the ERA, acts as executive officer. Dr Leith was appointed to the GMCCC in January 2013 to replace Ms Cathryn Greville.

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 with the following organisations:

- [Horizon Power](#)
- [Synergy](#)
- [Western Power](#)
- [System Management](#)
- [Independent Market Operator](#)
- [Water Corporation](#)
- [Department of Water](#)
- [Energy Ombudsman](#)
- [Energy Safety](#)
- [Public Utilities Office](#)

- [WA Council of Social Services](#) (WACOSS)

The Secretariat was represented on the South West Water Industry Group (SWWIG).

In addition, the Secretariat also organises the quarterly meetings of the Economic Regulation Authority Consumer Consultative Committee ([ERACCC](#)) and the periodic Regulatory Managers Forums, which cover 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

Rate of Return Guidelines - stakeholder workshop

As part of its work program to develop the rate of return guidelines for gas transmission and distribution systems, the ERA held a stakeholder workshop on approaches to estimating the cost of debt. For more information on the work program relating to the rate of return guidelines, see the ERA's earlier consultation paper, which is available on the ERA's [website](#).

To inform the workshop, the ERA made available a background Cost of Debt Working Paper. The working paper considers three alternative options for estimating the cost of debt in terms of their outcomes for economic efficiency.

The workshop was held on Wednesday 3 July 2013. Workshop participants expressed a range of views as part of a wide discussion of the issues. In addition, four organisations made subsequent submissions on the working paper. The ERA took this input into account in developing its [Draft Rate of Return Guidelines](#), which was published in early August 2013.

Communications

Switched on – a guide for electricity and gas customers

In early 2013, we revised and updated a series of information sheets about the electricity and gas regulatory framework to take into account changes made to the *Code of Conduct for the Supply of Electricity to Small Use Customers 2012* and the amended *Compendium of Gas Customer Licence Obligations* upon which the guide is based. 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 a customer's 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. The number of hard copies distributed between 1 January - 30 June 2013 was 829.

Since the launch date, around 4,000 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 615 stakeholders and interested parties.

We undertook a review of our e-news publication in 2012/13 and significant improvements have since been implemented 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
- Our [customer protection](#) function.

Corporate Plans

Work Plan 2013-2014

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 2013 - 14 was published on our website on 17 June 2013.

Refer to the [significant issues section](#) of this report for an outline of the ERA's core activities for the 2013 - 14 year.

Reconciliation Action Plan 2012 - 2013

The ERA published its [Reconciliation Action Plan 2012-13](#) on 25 September 2012.

The plan outlines the existing and planned initiatives to raise staff awareness by implementing cultural awareness initiatives and activities in our workplace and to strengthen meaningful relationships with Aboriginal Australians and Torres Strait Islanders.

The ERA's RAP was developed during 2012 through review by the ERA's Reconciliation Action Group (RAG). In developing the revised RAP it was identified that the greatest area of focus for the ERA continues to be on raising staff awareness in relation to the objectives of this plan, as well as to initiate sustainable actions that can improve the experiences and opportunities for Indigenous Australians.

The objectives of the plan are to raise ERA staff awareness and understanding of Indigenous issues and to contribute to 'closing the gap' for Indigenous Australians.

Specifically, this plan seeks to:

- Promote the ERA as a culturally sensitive organisation and an employer of choice for Indigenous Australians.
- Promote an active 'dialogue' within the ERA on issues faced by Indigenous Australians, thereby raising staff awareness and sensitivity, and

- Improve the ability of ERA staff to engage with Indigenous Australians in their day to day work.

The plan outlines the ERA's strategies, initiatives and actions for 2012 - 13.

The RAG continued to meet regularly during the year and highlights for the year were initiatives that included the delivery of Acknowledgement of Country and a Welcome to Country ceremony at stakeholder meetings during the year. The ERA will continue to deliver Acknowledgement of Country and Welcome to Country at specific future meetings. Another highlight for the year was a Kings Park Indigenous Heritage Tour attended by staff in March 2013.

To raise awareness and understanding of Indigenous issues and to contribute to closing the gap for Indigenous Australians, Fred Chaney AO, former Deputy Chairman of the Australian Native Title Tribunal, Chair of Desert Knowledge Australia and Board Member of Reconciliation Australia, provided a presentation to ERA staff in August 2012 on constitutional exclusion to recognition to reconciliation.

Significant issues impacting the agency

The following issues will either definitely impact or potentially impact the ERA in 2013/14.

- 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 functions will be directly impacted by the *Water Services Licensing Act 2012* as the ERA is the agency responsible for regulating water services providers.
- The merger of Verve and Synergy announced by the Government in April 2013 will directly impact on the ERA's role in surveillance of the wholesale electricity market and on its requirement to report annually on the effectiveness of the market.
- Following changes made to the National Gas Rules by the Australian Energy Market Commission (AEMC) the ERA is required to develop Rate of Return Guidelines for gas transmission and distribution networks by 29 November 2013.
- The ERA will commence its next round of assessments under the National Gas Law (NGL) early in 2014 with the assessment of the Mid West and South West gas distribution systems owned by ATCO Gas.
- The ERA has commenced a determination of the Floor and Ceiling costs for The Pilbara Infrastructure railway (TPI) following an application by Brockman Iron PL in respect of a route on the Cloudbreak to Port Hedland section.
- New funding regulations to increase the proportion of regulatory costs recovered by the ERA from industry. Drafting of new regulations will allow full costs to be recovered from electricity, gas and water service providers licensed by the ERA. The new regulations will increase the level of funding and will reduce the ERA's reliance on the Consolidated Account. It is anticipated that these regulations will commence on 1 January 2014.
- Major inquiry work referred to the ERA by the Government is expected to continue. The ERA has finalised an inquiry into home indemnity insurance arrangements in Western Australia.

Disclosures and legal compliance

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 2013, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows 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 2013 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 2013.

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 2013.

Report on the Key Performance Indicators

I have audited the key performance indicators of the Economic Regulation Authority for the year ended 30 June 2013.

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 2013.

Independence

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

Matters Relating to the Electronic Publication of the Audited Financial Statements and Key Performance Indicators

This auditor's report relates to the financial statements and key performance indicators of the Economic Regulation Authority for the year ended 30 June 2013 included on the Authority's website. The Authority's management is responsible for the integrity of the Authority's website. This audit does not provide assurance on the integrity of the Authority's website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.

GLEN CLARKE
DEPUTY AUDITOR GENERAL
Delegate of the Auditor General for Western Australia
Perth, Western Australia
16 August 2013

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 2013.

Mr Lyndon Rowe – Chairman
15 August 2013

Mr Steve Edwell – Member
15 August 2013

Ms Pam Herbener – Chief Finance Officer
15 August 2013

Key performance indicators

Formulating the ERA'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 be limited 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 Authority prepare performance indicators is to be limited to the Authority's management functions (including financial management), is not to apply to the performance of any other function of the Authority ERA and need only be complied with to the extent practicable."

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 measurable outcome for the ERA in support of this revised outcome is:

"submissions to the ERA Governing Body"

Key effectiveness indicators

The ERA'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.

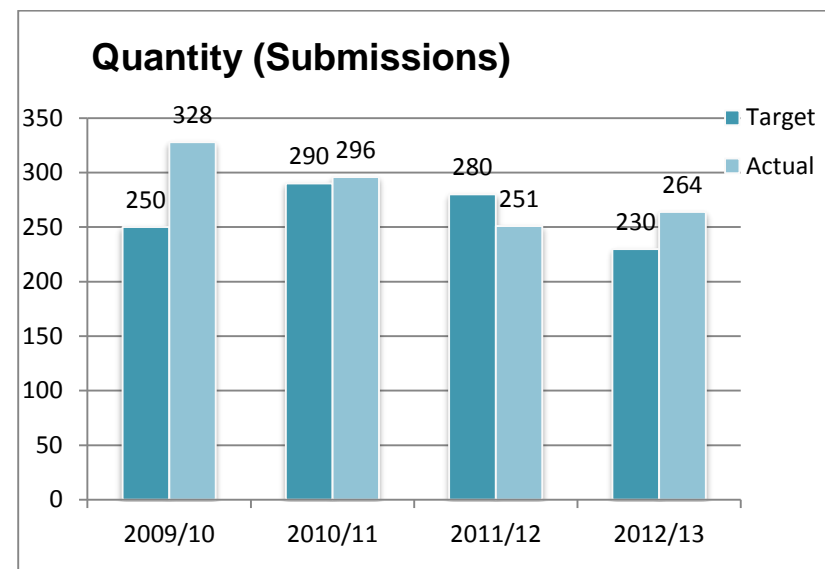
2012/13 Performance Effectiveness

Quantity (Submissions)

The ERA's Governing Body met 40 times during 2012/13 to review and discuss 264 submissions. 58 of these submissions were reviewed by email and 206 were reviewed in meetings by the Governing Body. The number of submissions exceeded the 2012/13 target of 230.

The 15% increase in the number of submissions to the Governing Body is attributed to the work undertaken by the ERA in relation to the Standing Council on Energy and Resources Limited Merits Review of Decision-Making in the Electricity and Gas Regulatory Frameworks and the Australian Energy Market Commission rule change affecting gas network regulation in Australia.

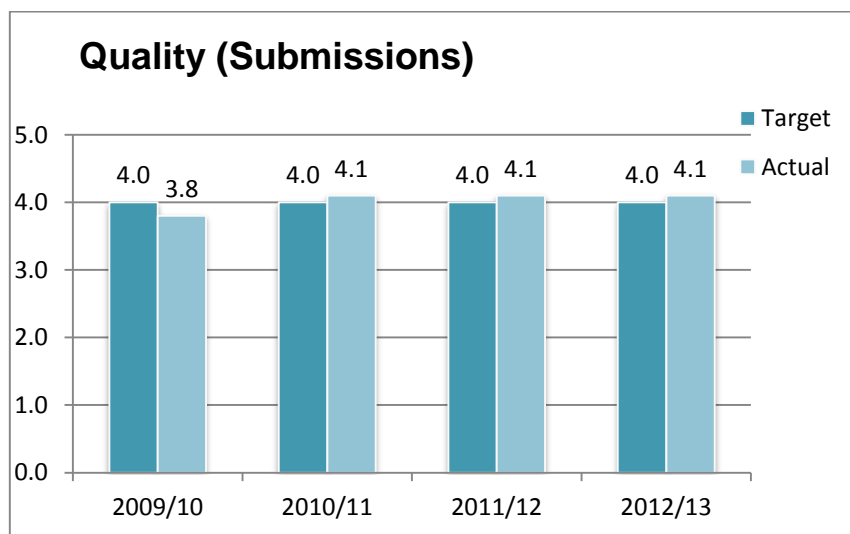
The targets are based on estimates provided by each Division on the number of submissions they will need to provide the Governing Body to carry out their regulatory work program for the year. The target varies on an annual basis in accordance with the cyclical nature of regulation.



Quality (Submissions)

On a monthly basis the Governing Body reviews the submissions that have been prepared by the Secretariat. They consider the relevance, accuracy and readability and provide an overall rating of all submissions received. Using a rating scale of one to five (one being “very poor”, two being “poor”, three being “satisfactory”, four being “good” and five being “excellent”) the Governing Body has set a target of four, meaning that submissions rated above four are of a high standard.

For 2012/13, quality was rated above the targeted level of performance (4.0), with the average rating for the year being 4.1.

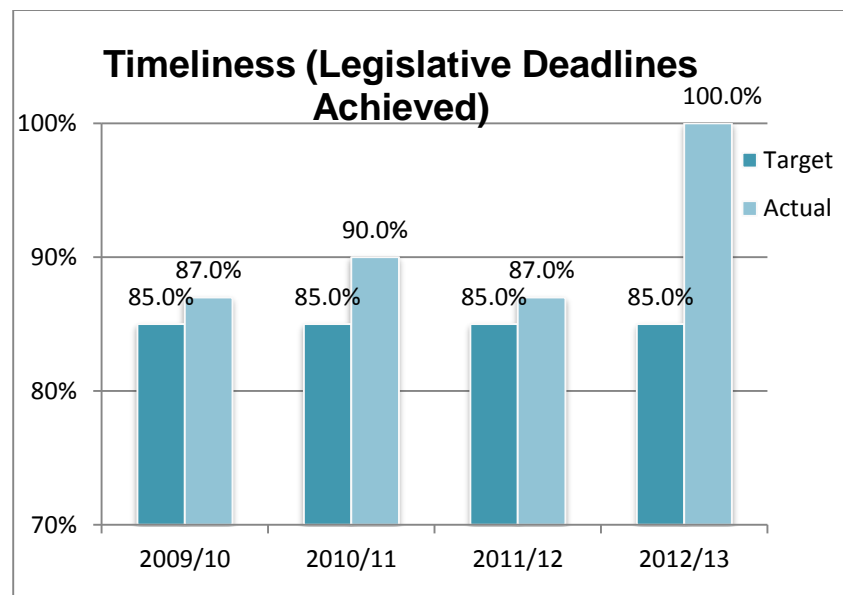


Timeliness (Legislative Deadlines Achieved)

37 out of the 264 submissions related to functions that had legislative time limits. This is similar to the previous year, during which 38 out of the 251 submissions related to functions with time limits.

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

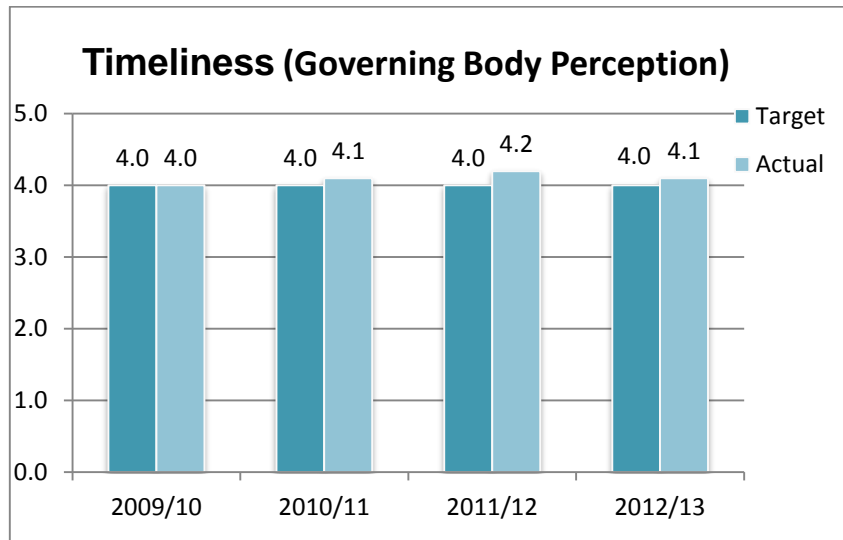
Of the 37 submissions with deadlines, all were completed on or before expiry of the time limit; this equated to 100% of submissions meeting the legislative deadlines in 2012/13.



Timeliness (Governing Body Perception)

In addition to measuring the number of submissions that meet a deadline, Members of the ERA'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 4.1, which was greater than the 2012/13 target of 4.0.



Key efficiency indicators

The ERA'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.

2012/13 Performance – Efficiency

Average Cost (Per Submission)

The total cost of the ERA's operations for the 12 months under review was \$10.223 million, compared to an expenditure limit of \$10.135 million. There were 264 submissions compared to the target of 230. The average cost per submission was \$38,433 against the target of \$44,065.

	2009/10	2010/11	2011/12	2012/13	2012/13
	\$'000	\$'000	\$'000	\$'000	Target
Cost of services	9.858	10.588	12.416	10.223	10.135 ⁽¹⁾
Number of submissions	328	296	251	264	230
Average cost of submissions	30	36	49	39	44

⁽¹⁾ The 2012/13 target cost of services has been restated from \$10.586 million due to the "corrective measure to reduce full time equivalents" and therefore the target average cost per submission differs from the figure published in the 2012-13 budget estimates.

Disclosures and Legal Compliance

Financial statements

Certification of Financial Statements

For the year ended 30 June 2013

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 2013 and the financial position as at 30 June 2013.

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.

Mr Lyndon Rowe
Chairman of Accountable Authority
15 August 2013

Mr Steve Edwell
Member of Accountable Authority
15 August 2013

Ms Pam Herbener
Chief Finance Officer
15 August 2013

Statement of Comprehensive Income

For the year ended 30 June 2013

	Note	2013 \$000	2012 \$000
COST OF SERVICES			
Expenses			
Employee benefits expense	6.	7,270	6,921
Supplies and services	7.	1,730	4,114
Depreciation and amortisation expense	8.	59	85
Accommodation expenses	9.	1,135	1,095
Loss on disposal of non-current assets	13.	-	174
Other expenses	10.	29	27
Total cost of services		10,223	12,416
Income			
<i>Revenue</i>			
Regulatory fees	11.	4,470	3,568
Interest revenue	12.	159	278
Other revenue	14.	23	26
Total Revenue		4,652	3,872
Total income other than income from State Government		4,652	3,872
NET COST OF SERVICES		5,571	8,544

	Note	2013 \$000	2012 \$000
Income from State Government	15.		
Service appropriation		1,903	14,678
Services received free of charge		244	199
Total income from State Government		2,147	14,877
SURPLUS/(DEFICIT) FOR THE PERIOD		(3,424)	6,333
 OTHER COMPREHENSIVE INCOME		 -	 -
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(3,424)	6,333

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2013

ASSETS

Current Assets

Cash and cash equivalents

Restricted cash and cash equivalents

Receivables

Other current assets

Total Current Assets

Non-Current Assets

Restricted cash and cash equivalents

Amounts receivable for services

Plant and equipment

Intangible assets

Total Non-Current Assets

TOTAL ASSETS

Note	2013 \$000	2012 \$000
25.	3,418	8,698
16. 25.	23	25
17.	2,267	1,250
19.	102	136
	5,810	10,109
16. 25.	153	113
18.	477	393
20.	71	117
21.	3	6
	704	629
	6,514	10,738

	Note	2013 \$000	2012 \$000
LIABILITIES			
Current Liabilities			
Payables	22.	484	1,343
Provisions	23.	1,485	1,516
Total Current Liabilities		1,969	2,859
Non-Current Liabilities			
Provisions	23.	356	266
Total Non-Current Liabilities		356	266
TOTAL LIABILITIES		2,325	3,125
NET ASSETS		4,189	7,613
EQUITY			
Contributed equity	24	773	773
Accumulated surplus/(deficit)		3,416	6,840
TOTAL EQUITY		4,189	7,613

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 2013

	Note	Contributed equity	Reserves	Accumulated surplus/(deficit)	Total equity
		\$000	\$000	\$000	\$000
Balance at 1 July 2011	24	773	-	507	1,280
Total comprehensive income for the period		-	-	6,333	6,333
Balance at 30 June 2012		773	-	6,840	7,613
Balance at 1 July 2012		773	-	6,840	7,613
Total comprehensive income for the period		-	-	(3,424)	(3,424)
Balance at 30 June 2013		773	-	3,416	4,189

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 2013

CASH FLOWS FROM STATE GOVERNMENT

Service appropriation

Holding account drawdowns

Net cash provided by State Government

Note	2013	2012
	\$000	\$000
	1,819	14,594
	-	90
	1,819	14,684

Utilised as follows:

CASH FLOWS FROM OPERATING ACTIVITIES

Payments

Employee benefits

Supplies and services

Accommodation

GST payments on purchases

Other payments

(7,214)	(6,607)
(2,540)	(3,308)
(903)	(910)
(314)	(455)
(29)	(27)

Receipts

Regulatory fees

Interest received

GST receipts on sales

GST receipts from taxation authority

Other receipts

Net cash provided by/(used in) operating activities

	3,277	3,359
	159	278
	14	41
	476	314
	23	26
25.	(7,051)	(7,289)

	Note	2013 \$000	2012 \$000
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments			
Purchase of non-current physical assets		(10)	(103)
Net cash provided by/(used in) investing activities		(10)	(103)
Net increase/(decrease) in cash and cash equivalents		(5,242)	7,292
Cash and cash equivalents at the beginning of period		8,836	1,544
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	25.	3,594	8,836

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

Notes to the Financial Statements

For the year ended 30 June 2013

Note 1. Australian Accounting Standards

General

The Authority's financial statements for the year ended 30 June 2013 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 2013.

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) IncomeRevenue recognition

Revenue is recognised and measured at the fair value of consideration received or receivable. 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.

Regulatory fees

Revenue for Standing Charges and Specific Charges, raised in accordance with the *Economic Regulation Authority (National Gas Access Funding) Regulations 2009* and the *Economic Regulation Authority (Electricity Networks Access Funding) Regulations 2012*, 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.

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.

(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 of 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.

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

(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. Where an asset measured at cost is written down to recoverable amount, an impairment loss is recognised in profit or loss. Where a previously revalued asset is written down to recoverable amount, the loss is recognised as a revaluation decrement in other comprehensive income. 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
 - Financial liabilities measured at amortised cost.

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 equivalents and restricted cash and cash equivalents comprise cash on hand and cash at bank.

(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.

Provisions – employee benefits

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 fund providers administer public sector superannuation arrangements in Western Australia in accordance with legislative requirements. Eligibility criteria for membership in particular schemes for public sector employees vary 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.

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.

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 provider. The Authority makes contributions to GESB or other fund providers 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.

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, GESBS, and other superannuation funds.

(r) Assets and Services received free of charge or for nominal cost

Assets or services received free of charge or for nominal cost are recognised as income at the fair value of the assets and/or the fair value of those services that can be reliably measured and the Authority would otherwise pay for. A corresponding expense is recognised for services received. 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 2012 that impacted on the Authority.

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 and 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). There is no financial impact.

Voluntary changes in accounting policy

There were no voluntary changes in accounting policy which has been adopted by the Authority.

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	<i>Financial Instruments</i>	1 Jan 2015
This Standard supersedes AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , introducing a number of changes to accounting treatments.		
AASB 2012-6 <i>Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures</i> amended the mandatory application date of this Standard to 1 January 2015. The Authority has not yet determined the application or the potential impact of the Standard.		

AASB 10 *Consolidated Financial Statements*

1 Jan 2014

This Standard supersedes AASB 127 *Consolidated and Separate Financial Statements* and Int 112 *Consolidation – Special Purpose Entities*, introducing a number of changes to accounting treatments.

Mandatory application of this Standard was deferred by one year for not-for-profit entities by AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*. The Authority has not yet determined the application or the potential impact of the Standard.

AASB 13 *Fair Value Measurement*

1 Jan 2013

This Standard defines fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The Authority has liaised with the Western Australian Land Information Authority (Valuation Services) to ensure that sufficient information will be provided to meet the disclosure requirements of this Standard. There is no financial impact.

AASB 119 *Employee Benefits*

1 Jan 2013

This Standard supersedes AASB 119 (October 2010), making changes to the recognition, presentation and disclosure requirements.

The Authority does not have any defined benefit plans, and therefore the financial impact will be limited to the effect of discounting annual leave and long service leave liabilities that were previously measured at the undiscounted amounts.

		Operative for reporting periods beginning on/after
<i>AASB 1053</i>	<i>Application of Tiers of Australian Accounting Standards</i>	1 Jul 2013
	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.	
<i>AASB 1055</i>	<i>Budgetary Reporting</i>	1 Jul 2014
	This Standard specifies the nature of budgetary disclosures, the circumstances in which they are to be included in the general purpose financial statements of not-for-profit entities within the GGS. The Authority will be required to disclose additional budgetary information and explanations of major variances between actual and budgeted amounts, though there is no financial impact.	
<i>AASB 2010-2</i>	<i>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]</i>	1 Jul 2013
	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.	
<i>AASB 2010-7</i>	<i>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]</i>	1 Jan 2015
	This Standard makes consequential amendments to other Australian Accounting Standards and Interpretations as a result of issuing AASB 9 in December 2010.	
	AASB 2012-6 amended the mandatory application date of this Standard to 1 January 2015. The Authority has not yet determined the application or the potential impact of the Standard.	

		Operative for reporting periods beginning on/after
AASB 2011 -2	<i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & 1054]</i>	1 Jul 2013
	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.	
AASB 2011 -8	<i>Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 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]</i>	1 Jan 2013
	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.	
AASB 2011 -10	<i>Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, 8, 101, 124, 134, 1049 & 2011-8 and Int 14]</i>	1 Jan 2013
	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.	
AASB 2011 -11	<i>Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements</i>	1 Jul 2013
	This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements for AASB 119 (September 2011). There is no financial impact.	

		Operative for reporting periods beginning on/after
AASB 2012-1	<i>Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements [AASB 3, 7, 13, 140 & 141]</i>	1 Jul 2013
	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.	
AASB 2012 -2	<i>Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 & 132]</i>	1 Jan 2013
	This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. There is no financial impact.	
AASB 2012 -3	<i>Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132]</i>	1 Jan 2014
	This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. There is no financial impact.	
AASB 2012 -5	<i>Amendments to Australian Accounting Standards arising from Annual Improvements 2009-11 Cycle [AASB 1, 101, 116, 132 & 134 and Int 2]</i>	1 Jan 2013
	This Standard makes amendments to the Australian Accounting Standards and Interpretations as a consequence of the annual improvements process. There is no financial impact.	

		Operative for reporting periods beginning on/after
AASB 2012-6	<p><i>Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures [AASB 9, 2009-11, 2010-7, 2011-7 & 2011-8]</i></p> <p>This Standard amends the mandatory effective date of AASB 9 <i>Financial Instruments</i> to 1 January 2015. Further amendments are also made to consequential amendments arising from AASB 9 that will now apply from 1 January 2015 and to consequential amendments arising out of the Standards that will still apply from 1 January 2013. There is no financial impact.</p>	1 Jan 2013
AASB 2012-7	<p><i>Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 7, 12, 101 & 127]</i></p> <p>This Standard adds to or amends the Australian Accounting Standards to provide further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general financial statements. There is no financial impact.</p>	1 Jul 2013
AASB 2012-10	<p><i>Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments [AASB 1, 5, 7, 8, 10, 11, 12, 13, 101, 102, 108, 112, 118, 119, 127, 128, 132, 133, 134, 137, 1023, 1038, 1039, 1049 & 2011-7 and Int 12]</i></p> <p>This Standard makes amendments to AASB 10 and related Standards to revise the transition guidance relevant to the initial application of those Standards, and to clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.</p> <p>The Standard was issued in December 2012. The Authority has not yet determined the application or the potential impact of the Standard.</p>	1 Jan 2013

AASB 2012 -11 *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments [AASB 1, 2, 8, 10, 107, 128, 133, 134 & 2011-4]*

1 Jul 2013

This Standard makes various editorial corrections to Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2). These corrections ensure that the Standards reflect decisions of the AASB regarding the Tier 2 requirements.

This Standard also extends the relief from consolidation and the equity method (in the new Consolidation and Joint Arrangements Standards) to entities complying with Australian Accounting Standards – Reduced Disclosure Requirements. There is no financial impact.

Changes in accounting estimates

There were no changes in accounting estimates that will have an effect on the current reporting period.

Note 6. Employee benefits expense

	2013	2012
	\$000	\$000
Wages and salaries ^(a)	6,570	6,133
Superannuation - defined contribution plans	581	545
Other related expenses	119	243
	7,270	6,921

(a) Includes the value of the fringe benefit to the employee plus the fringe benefits tax component and leave entitlements.

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

	2013 \$000	2012 \$000
Communications	166	146
Consultants and contractors	127	377
Professional services	723	1,866
Consumables	71	97
Legal costs	185	1,052
Motor vehicle	136	146
Travel	81	104
Other	241	326
	1,730	4,114

Note 8. Depreciation and amortisation expense

	2013 \$000	2012 \$000
<u>Depreciation</u>		
Computer equipment	49	45
Furniture and fittings	-	31
Office equipment	7	7
Total depreciation	56	83

<u>Amortisation</u>		
Intangible assets	3	2
Total amortisation	3	2
Total depreciation and amortisation	59	85

Note 9. Accommodation expenses

	2013 \$000	2012 \$000
Office accommodation rental	1,091	1,033
Other accommodation expenses	15	6
Repairs and maintenance	29	41
Cleaning	-	15
	1,135	1,095

Note 10. Other expenses

	2013 \$000	2012 \$000
Employment on-costs	-	1
Miscellaneous expense	1	-
Audit Fee ^(a)	28	26
	29	27

(a) See also note 33 'Remuneration of auditor'.

Note 11. Regulatory fees

	2013 \$000	2012 \$000
Standing charges	1,672	1,171
Specific charges	21	230
Licence fees and charges	461	456
Regulatory market fees	2,316	1,711
	4,470	3,568

Note 12. Interest revenue

	2013	2012
	\$000	\$000
Interest revenue	159	278
	159	278

Note 13. Net gain/(loss) on disposal of non-current assets

	2013	2012
	\$000	\$000
<u>Costs of disposal of non-current assets</u>		
Furniture and Fittings	-	(174)
Net gain/(loss)	-	(174)

Note 14. Other revenue

	2013	2012
	\$000	\$000
Miscellaneous revenue	23	26
	23	26

Note 15. Income from State Government

	2013 \$000	2012 \$000
Appropriation received during the period:		
Service appropriation	1,903	14,678
	1,903	14,678
Services received free of charge from other State Government agencies during the period:		
State Solicitor's Office	12	14
Building Management and Works	232	185
	244	199
	2,147	14,877

Note 16. Restricted cash and cash equivalents

	2013 \$000	2012 \$000
<u>Current</u>		
Indian Ocean Territories funding	23	25
	23	25
<u>Non-current</u>		
Accrued salaries suspense account ^(a)	153	113
	153	113
Total restricted cash and cash equivalents	176	138

(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

	2013 \$000	2012 \$000
<u>Current</u>		
Receivables	1,575	687
Accrued revenue	630	325
GST receivable	62	238
Total current	2,267	1,250

The Authority does not hold any collateral as security or other credit enhancement relating to receivables.

Note 18. Amounts receivable for services (Holding Account)

	2013 \$000	2012 \$000
Non-Current	477	393
	477	393

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

	2013 \$000	2012 \$000
<u>Current</u>		
Prepayments	102	94
Other assets	-	42
Total current	102	136

Note 20. Plant and equipment

	2013 \$000	2012 \$000
<u>Computer hardware</u>		
At cost	153	143
Accumulated depreciation	(92)	(43)
	<u>61</u>	<u>100</u>
 <u>Office equipment</u>		
At cost	33	33
Accumulated depreciation	(23)	(16)
	<u>10</u>	<u>17</u>
	<u>71</u>	<u>117</u>

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
2013	\$000	\$000	\$000	\$000
Carrying amount at start of year	100	-	17	117
Additions	10	-	-	10
Disposal	-	-	-	-
Depreciation	(49)	-	(7)	(56)
Carrying amount at end of year	61	-	10	71
 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

Note 21. Intangible assets

Computer Software

At cost

Accumulated amortisation

2013	2012
\$000	\$000
22	22
(19)	(16)
3	6

Reconciliation:

Computer Software

Carrying amount at start of period

Additions

Amortisation expense

Carrying amount at end of period

6	-
-	8
(3)	(2)
3	6

Note 22. Payables

Current

Trade payables

Accrued expenses

Accrued salaries

Other payables

Total current

2013	2012
\$000	\$000
54	123
272	1,026
135	138
23	56
484	1,343



Note 23. Provisions

	2013 \$000	2012 \$000
<u>Current</u>		
<i>Employee benefits provision</i>		
Annual leave ^(a)	806	777
Long service leave ^(b)	675	735
	<u>1,481</u>	<u>1,512</u>
 <i>Other provisions</i>		
Employment on-costs ^(c)	4	4
	<u>4</u>	<u>4</u>
	<u>1,485</u>	<u>1,516</u>
 <u>Non-current</u>		
<i>Employee benefits provision</i>		
Long service leave ^(b)	355	265
	<u>355</u>	<u>265</u>
 <i>Other provisions</i>		
Employment on-costs ^(c)	1	1
	<u>1</u>	<u>1</u>
	<u>356</u>	<u>266</u>

(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 end of the reporting period. Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

	2013 \$000	2012 \$000
Within 12 months of the end of the reporting period	469	413
More than 12 months after the end of the reporting period	339	364
	<u>808</u>	<u>777</u>

(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 end of the reporting period. Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

	2013 \$000	2012 \$000
Within 12 months of the end of the reporting period	208	269
More than 12 months after the end of the reporting period	825	731
	<u>1,033</u>	<u>1,000</u>

(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 period, other than employee benefits, are set out below:

	2013 \$000	2012 \$000
<u>Employment on-cost provision</u>		
Carrying amount at start of period	5	4
Additional provisions recognised	-	1
Carrying amount at end of period	<u>5</u>	<u>5</u>

Note 24. 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

	2013 \$000	2012 \$000
Balance at start of period	773	773
Balance at end of period	773	773

Accumulated surplus/(deficit)

	2013 \$000	2012 \$000
Balance at start of period	6,840	507
Result for the period	(3,424)	6,333
Balance at end of period	3,416	6,840
Total Equity at end of period	4,189	7,613

Note 25. Notes to the Statement of Cash Flows

(a) 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:

	2013 \$000	2012 \$000
Cash and cash equivalents	3,418	8,698
Restricted cash and cash equivalents (note 16 'Restricted cash and cash equivalents')	176	138
	3,594	8,836

(b) Reconciliation of net cost of services to net cash flows provided by/(used in) operating activities

	2013 \$000	2012 \$000
Net cost of services	(5,571)	(8,544)
<u>Non-cash items:</u>		
Depreciation and amortisation expense	59	85
Services received free of charge	244	199
Net (gain)/loss on sale of property, plant and equipment	-	174
<u>(Increase)/decrease in assets:</u>		
Current receivables ^(a)	(1,193)	(47)
Other current assets	34	(25)
<u>Increase/(decrease) in liabilities:</u>		
Current payables ^(a)	(859)	682
Current provisions	(31)	398
Non-current provisions	90	(74)
Net GST receipts/(payments) ^(b)	176	(100)
Change in GST in receivables/payables ^(c)	-	(37)
Net cash provided by/(used in) operating activities	(7,051)	(7,289)

(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 transactions.

(c) This reverses out the GST in receivables and payables.

Note 26. Services provided free of charge

2013	2012
\$000	\$000

During the period the following services were provided to other agencies free of charge for functions outside the normal operations of the Authority:

Energy Disputes Arbitrator - Administrative support

13	8
<u>13</u>	<u>8</u>

Note 27. Commitments

The commitments below are inclusive of GST where relevant.

Lease commitments

Non-cancellable operating lease commitments

2013	2012
\$000	\$000

Commitments for minimum lease payments are payable as follows:

Within 1 year

689	725
-----	-----

Later than 1 year and not later than 5 years

695	1,295
-----	-------

<u>1,384</u>	<u>2,020</u>
--------------	--------------

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

	2013 \$000	2012 \$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	96	509
	96	509

Note 28. Contingent liabilities and contingent assets

Contingent liabilities

The Authority had no contingent liabilities as at 30 June 2013.

Contingent assets

The Authority had no contingent assets as at 30 June 2013.

Note 29. 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 30. Explanatory statement

This statement provides details of any significant variations between estimates and actual results for 2013 and between actual results for 2012 and 2013. Significant variations are considered to be those greater than 10% and \$100,000.

Significant variances between estimated and actual result for 2013

	2013 Estimate \$000	2013 Actual \$000	Variance \$000
Employee benefits expense	6,067	7,270	1,203
Supplies and services	3,126	1,730	(1,396)
Accommodation	737	1,135	398
Other expenses	572	29	(543)
Regulatory fees	7,863	4,470	(3,393)
Service appropriation	2,328	1,903	(425)

Employee benefits expense, Supplies and services and Other expenses

The ERA enacted a strategy of increasing in-house capacity and expertise. The employee expenses budget amount did not take into account the reallocation of funds towards the development of internal expertise as approved in 2010-11 by the Economic and Expenditure Reform Committee. As a result, funds previously allocated to the hiring of consultants, which are classified as supplies and services and other expenses, are now done by the Authority's employees.

Accommodation

The accommodation estimate does not include services received free of charge from the Department of Finance. Additionally, the budget did not account for the increased costs of the Authority's new accommodation arrangements.

Regulatory fees

The estimate assumed full cost recovery for the Authority's licensing and electricity access functions for the full year. Regulations implementing cost recovery for the electricity access function were introduced in October 2012. Regulations implementing full cost recovery for the licensing function is estimated for 1 January 2014.

Service appropriation

The Authority's service appropriation was reduced in 2012-13 for the Government's corrective measures.

Significant variances between actual results for 2012 and 2013

	2013 Actual \$000	2012 Actual \$000	Variance \$000
<u>Income</u>			
Regulatory fees	4,470	3,568	902
Interest revenue	159	278	(119)
Service appropriation	1,903	14,678	(12,775)
<u>Expenses</u>			
Supplies and services	1,730	4,114	(2,384)

Regulatory fees

Industry funding for the Authority's functions associated with electricity access was introduced in 2013 which resulted in an increase in income from regulatory fees. There was also an increase in income from work associated with the Authority's Wholesale Electricity Market surveillance functions.

Interest revenue

A decrease in interest occurred due to using cash reserves to fund the 2012-13 deficit as well as decreasing interest rates throughout the year.

Service appropriation

In 2010-11 the service appropriation was reduced to reflect Government policy to increase the level of industry funding for the Authority's functions in electricity access and licensing. As the introduction of regulations to implement this policy has been delayed, the 2012 actual service appropriation included the reinstatement of appropriation for 2010-11 and 2011-12. The appropriation in 2011-12 also included an approved increase in funding to build in-house capacity and expertise. Even though full cost recovery from licensing was not in place in 2012-13, the service appropriation was not reinstated and cash reserves were used to fund the shortfall.

Supplies and services

Due to the cyclical nature of the work of the Authority, expenditure on supplies and services fluctuates on an annual basis. In 2012, the actual amount included once-off legal costs associated with appeals against decisions relating to gas access arrangements and technical advice relating to the Western Power access arrangement, whereas in 2013 legal costs were significantly lower as the appeals had been finalised.

Note 31. 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 allowance for impairment as shown in the table at note 31(c) 'Financial instruments disclosures' and note 17 'Receivables'.

Credit risk associated with the Authority's financial assets is minimal because the Authority trades only with recognised, creditworthy third parties. The Authority has policies in place to ensure that services are only provided 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 is minimal and is limited to the holdings in cash & cash equivalents.

(b) Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are:

	2013	2012
	\$000	\$000
<u>Financial Assets</u>		
Cash and cash equivalents	3,418	8,698
Restricted cash and cash equivalents	176	138
Receivables ^(a)	2,205	1,012
Amounts receivable for services	477	393
<u>Financial Liabilities</u>		
Financial liabilities measured at amortised cost	484	1,343

(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								
			Past due but not impaired					
	Carrying Amount	Not past due and not impaired	Up to 1 month	1 - 3 months	3 months to 1 year	1-5 years	More than 5 years	Impaired financial assets
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2013								
Cash and cash equivalents	3,418	3,418	-	-	-	-	-	-
Restricted cash and cash equivalents	176	176	-	-	-	-	-	-
Receivables ^(a)	2,205	2,205	-	-	-	-	-	-
Amount receivable for services	477	477	-	-	-	-	-	-
	6,276	6,276	-	-	-	-	-	-
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	-	-	-	-

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).

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

<u>Interest rate exposure</u>						<u>Maturity dates</u>					
	Weighted Average Effective Interest Rate %	Carrying Amount \$000	Fixed 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
2013											
<u>Financial Assets</u>											
Cash and cash equivalents	3.40%	3,418	-	3,418	-	3,418	3,418	-	-	-	-
Restricted cash and cash equivalents ^(b)	3.40%	176	-	23	153	176	23	-	-	153	-
Receivables ^(a)		2,205	-	-	2,205	2,205	2,133	72	-	-	-
Amount receivable for services		477	-	-	477	477	-	-	-	-	477
		6,276	-	3,441	2,835	6,276	5,574	72	-	153	477
<u>Financial Liabilities</u>											
Financial liabilities measured at amortised cost		484	-	-	484	484	484	-	-	-	-
		484	-	-	484	484	484	-	-	-	-

(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

		<u>Interest rate exposure</u>				<u>Maturity dates</u>					
	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
2012											
<u>Financial Assets</u>											
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	9,733	2	-	113	393
<u>Financial Liabilities</u>											
Financial liabilities measured at amortised cost		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 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.

2013Financial Assets

Cash and cash equivalents

Restricted cash and cash equivalents

Total Increase/(Decrease)

Carrying Amount \$000	-100 basis points		+100 basis points	
	Surplus \$000	Equity \$000	Surplus \$000	Equity \$000
3,418	(34)	(34)	34	34
23	-	-	-	-
	(34)	(34)	34	34

2012Financial Assets

Cash and cash equivalents

Restricted cash and cash equivalents

Total Increase/(Decrease)

Carrying Amount \$000	-100 basis points		+100 basis points	
	Surplus \$000	Equity \$000	Surplus \$000	Equity \$000
8,698	(87)	(87)	87	87
25	-	-	-	-
	(87)	(87)	87	87

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 32. 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:

\$	2013	2012
140,001 - 150,000	-	2
150,001 - 160,000	2	-
570,001 - 580,000	1	-
580,001 - 590,000	-	1
	\$000	\$000
Base remuneration and superannuation	868	829
Annual leave and long service leave accruals	(20)	26
Other benefits	41	30
The total remuneration of members of the accountable authority	889	885

No members of the accountable authority are members of the Pension Scheme.

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:

\$	2013	2012
50,001 - 60,000	-	1
80,001 - 90,000	1	-
100,001 - 110,000	-	1
130,001 - 140,000	-	1
160,001 - 170,000	1	1
170,001 - 180,000	-	1
220,001 - 230,000	1	-
230,001 - 240,000	1	-
240,001 - 250,000	1	1
260,001 - 270,000	-	1
340,001 - 350,000	1	1
	\$000	\$000
Base remuneration and superannuation	1,269	1,132
Annual leave and long service leave accruals	(41)	105
Other benefits	80	91
The total remuneration of senior officers	1,308	1,328

No senior officers are members of the pension Scheme

The Authority had the same number of senior officer positions in both 2012 and 2013, but two of the occupants resigned in 2012 and were replaced by new staff members.

Prior period has been restated for change to Treasurer's Instruction 952.

Note 33. Remuneration of auditor

Remuneration payable to the Auditor General in respect of the audit for the current financial year is as follows:

	2013	2012
	\$000	\$000
Auditing the accounts, financial statements and key performance indicators	29	28

Note 34. Indian Ocean Territories

An Agreement between the Treasurer and the Authority provides for the retention of monies 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.

	2013	2012
	\$000	\$000
Balance at the start of the period	25	27
Receipts	-	-
Payments	(2)	(2)
Balance at the end of the period	23	25

Note 35. Supplementary financial information

Write-off

Minor equipment written off - ladder
 GST sent to the ATO in error, unrecoverable and written off

2013	2012
\$000	\$000
-	1
1	-

Note 36. Related and affiliated bodies

There were no related and/or affiliated bodies requiring disclosure for the year.

Other financial disclosures

Pricing policies of services provided

The ERA currently receives revenue for the following regulated industries.

Gas and Electricity 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* and the *Economic Regulation Authority (Electricity Networks Access Funding) Regulations 2012*. Payments to the ERA 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 or covered network.
- 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 in respect of the financial year to which the annual report relates. These details for the year ended 30 June 2013 are listed in the following table.

Service provider	Standing charges (\$)	Specific charges (\$)
Electricity Industry		
Western Power	644,235	21,636
Gas Industry		
ATCO Gas Australia (formerly WA Gas Networks Pty Ltd)	277,556	0
DBNGP (WA) Transmission Pty Ltd	513,803	0
Goldfields Gas Transmission	208,296	0
Southern Cross Pipelines Pty Ltd	27,951	0
Total	1,671,841	21,636

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 2012/13. Interest on outstanding amounts in 2012/13 amounted to \$253.

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 two new blade servers were added at a cost of \$9,679.

Employment and Industrial Relations

The ERA employs a diverse workforce who are committed to our vision to maintain a competitive, efficient and fair commercial environment for the benefit of the Western Australian community.

The following table provides a breakdown of the categories of staff employment as at 30 June 2013 in comparison to 30 June 2012.

Employee category	No. of staff at 30 June 2013	No. of staff at 30 June 2012
Permanent full-time	39	39
Permanent part-time	2 (1.4 FTE)	4 (2.8FTE)
Fixed term full-time	13	6
Fixed term part-time	0	0
Total	53.4	47.8

As at 30 June 2013, there were six vacant positions compared to seven in the previous year.

Staffing policies

Attraction and Retention

During the year, in order to simplify our recruitment process, we adopted some flexibility to our recruitment process. A major initiative in this direction was to implement e-recruitment to replace a paper based recruitment process. We also broadened the range of media used to advertise our positions which resulted in attracting a wider field of candidates. The ERA also adopted other flexible approaches to its recruitment process such as targeted advertising and recognising that we have areas where specialised skills are necessary and determined that we have “specialist positions” as allowed for by the Public Sector Commissioners instruction about “Filling a Public Sector Vacancy” issued in February 2011.

The ERA promotes flexible work arrangements together with a series of wellness programs organised throughout the year. This year we focussed on mental health and organised workshops including Meditation, mental health awareness and “Train your Brain” which were well received by the staff. The ERA encourages its staff to increase their knowledge and widely promotes the availability of study leave. Two staff members received approval for study leave during the year.

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 2012/13.

Workers compensation claims

The ERA complies with the requirements of the *Occupational Safety and Health Act 1984*. There were no workers compensation claims. 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 2012/13.

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 2012/13, 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 2012/13, 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 2012/13. Total expenditure for the period 1 July 2012 to 30 June 2013 was \$39,053.36. The expenditure was incurred as shown in the table below:

Agencies / Organisation	Total Expenditure (\$)	Agency	Class Expenditure (\$)
Advertising agencies	\$0		\$0
Market research organisations	\$3,252.50	Advantage Communications & Marketing	\$3,252.50
Polling organisations	\$0		\$0
Direct mail organisations	\$0		\$0
Media advertising organisations	\$35,800.86	Adcorp	\$30,887.97
		State Law Publisher	\$4,342.94
		Career Spot	\$190.00
		Economic Society of Aust Inc	\$190.00
		Linkedin Ireland Limit	\$189.95
total	\$39,053.36		\$39,053.36

Disability access and inclusion plan outcomes

The ERA is committed to ongoing improvements to be as accessible as possible. The ERA drafted its first disability access and inclusion plan in 2007 in accordance with the *Disability Services Act 1993* and the *Disability Services Regulations 2004*.

In 2012 the ERA's Disability Access and Inclusion Working Group drafted a new Disability Access and Inclusion Plan with the focus on ensuring that the ERA continues to provide quality services to the community.

The ERA adopted and published its new Plan for 2012-16 in September 2012 following a public consultation period and in consultation with the Disabilities Services Commission.

The ERA is committed to:

- ensuring that people with disabilities, their families and carers are able to fully access the ERA's information, services and facilities, providing them with the same opportunities, rights and responsibilities that other people in the community enjoy.
- consulting with people with disabilities, their families and carers and disability organisations to ensure that barriers to access and inclusion are addressed appropriately.

The initiatives the ERA has undertaken to address the six desired DAIP outcomes identified in its Disability Access and Inclusion Plan are detailed below.

Outcome 1

To ensure people with disabilities have the same opportunities as other people to access services and events, the ERA continues to maintain an accessibility checklist of contacts and preferred venues to ensure that ERA services and events are as accessible to people with disabilities.

Outcome 2

To ensure people with disabilities have the same opportunities as other people to access buildings and facilities, the ERA staff intranet has a page dedicated to informing staff about accessibility, and also includes a list the location of nearby accessible parking bays, building access points, lifts and facilities.

Outcome 3

To ensure people with disabilities receive information in a format that will enable them to access information as readily as other people:

- We ensure that our website complies with accessibility standards.
- Information and publications are made available in alternate formats upon request.

- We provide an accessibility phone line and a TTY service.

Outcome 4

To ensure people with disabilities receive the same level and quality of service from staff as other people receive from staff, the ERA provides an accessibility telephone service, which enables customers to:

- request information in alternative formats
- make verbal submissions
- provide feedback or lodge a formal complaint verbally.

Outcome 5

To ensure people with disabilities have the same opportunities as other people to make complaints, the public can provide feedback and submissions to the ERA in person, hard copy, email or fax. Information can also be lodged via:

- an online form on the ERA's website (which has easy click text sizing options).
- an accessibility telephone service which enables the caller to leave a recording of their query, complaint or submission.



Outcome 6

The ERA issues notices calling for public consultation via its website and at times 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 email.

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:

- 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*.
- Implemented a Risk Management Strategy, which includes 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 no claims of breach lodged.

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 at internal staff meetings.

Record keeping plans

The ERA is committed to developing and maintaining 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 governance framework requires recordkeeping systems to be audited and evaluated every two years. The most recent audit, commenced in September 2012, covering the period 1 January to 30 October 2012, found that the ERA was compliant with the *State Records Act 2000*.

This audit tested 29 risks associated with good record management practices and found 14 risks where controls needed improvement. In comparison with the last audit, which tested 39 risks, the reduced number of risks tested may give the impression that the recent audit was not as comprehensive. However, this is not the case. The reduction in risks is due to several reasons. Two have been closed as they are no longer relevant, relating to the previous office location. Two risks have been accepted by management. These findings were related to risks around the non-use of an outdated form for requesting TRIM containers and user access to TRIM. Four risks have been merged into one as they all relate to lack of documentation. Lastly, two risks have been removed as they are more relevant to IT security.

The ERA's recordkeeping systems have improved as this year's audit found only 14 risks where controls needed improvement against the 18 controls in last year's audit.

Of the 14 identified risks that needed improvement, two were a high risk. These two high risk findings are:

- The completion of outstanding documentation as specified in the ERA's 2009 Recordkeeping Plan.
- Not all information is being saved within TRIM, the ERA's electronic document and records management system, potentially leading to the loss of information.

Remediation plans were immediately put in place to improve the ERA's record management processes with the focus on actioning these high risk items, as outlined below:

- The ERA's Recordkeeping Plan was approved in 2009 by the State Records Commission. In 2011, the Records Coordinator contacted the State Records Office (SRO) about the outstanding documentation. The SRO was made aware of the reasons behind the delay in completing the documentation and is satisfied with it being submitted with the amended Recordkeeping Plan due in October 2014. This activity is the major compliance focus for our small records team. The records work program is managing the completion of documentation as specified in the 2009 Recordkeeping Plan.

- A revised Retention and Disposal (R&D) schedule was completed and submitted to the State Records Office in March 2013. The R&D was subsequently submitted to the State Records Advisory Committee and endorsed on 17 July 2013. Once the R&D is approved by the State Records Commission, the ERA will undertake a major sentencing project. The project's aim is to apply the revised retention schedules to the ERA's electronic records.
- To manage the quantity of legacy data and associated metadata contained within the network shared drives, the existing shared drives were disabled and made read only on the 30 June 2013.
- A Transition plan to close the existing shared network drive and open a new shared network drive was implemented. Its intent is to introduce more control, better practice and processes around the management of these drives.
- The Records Coordinator met with divisions to review their shared drives and discuss what file structure would reflect their needs. The file structure was then used when creating the new shared drive to ensure staff saved the same types of records consistently.

- In the new shared drive, containers can only be created by records staff upon request and an auditing software program has been installed to monitor staff usage of the shared drives. The software tracks every deletion, creation and movement of documents or files. The audit logs are then reviewed on a weekly basis by the Records Coordinator.

The ERA regularly monitors and reviews the effectiveness and efficiency of TRIM. An upgrade to Version 7.3 is planned to be rolled out later in the year.

The overriding goal of the ERA is to improve its information culture and progressively move from compliance to best practice. One such initiative is the review of ERA business processes, with the aim to identify processes to transition from a paper based process to an electronic process, ideally managed through TRIM.

During the 2012/2013 period, two such processes were successfully transitioned. These were the Performance Management and Development Program (PDMP) and the process surrounding Governing Body members and Corporate Executive accessing documents during high level internal ERA meetings.

The original PDMP process was a laborious paper based process. During each of the three stages of Planning, Mid Year and Final Review, a form needed be to printed, signed and scanned into TRIM. Once the process was completed, staff did not have access to their PDMP unless they made

another paper copy for reference. In the revamped process, the PDMP form is managed completely electronically through TRIM. Staff are given access to their Performance Management file in TRIM. At each stage in the performance review process, the PDMP form is updated electronically. Staff, supervisors and Executive Directors authenticate the process by adding a note in TRIM with a user stamp, indicating their agreement and what revision number of the document was discussed at each stage.

The original process for accessing documents during high level internal ERA meetings was that TRIM references of the agenda items were emailed to staff and then printed in preparation for the meeting. Governing Body members or Corporate Executive members then referred to the paper copies during the meetings.

The process was a laborious paper based one, involving significant reprinting if last minute changes were made. There was also the risk that not all the meeting attendees had the same version of the documents printed, depending on when they prepared for the meeting.

In the new process the electronic versions of the documents needed for the meetings are temporarily transferred to an FTP server. Corporate Executive members have been provided with tablet computers which they use to access the electronic versions of the documents required at the meetings.

Recordkeeping training program

The ERA continues to use 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.

To support the online training there is also information 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.

A review of the effectiveness of the Recordkeeping Induction program was conducted during the year. This resulted in a decision to complement the existing online training and one-on-one TRIM introduction with additional follow up sessions. These are:

- The Records Awareness information session, where the Records Coordinator gives a 30 minute presentation covering the staff member's recordkeeping responsibilities within the Public Sector.
- A three month follow up session, where the Records Coordinator meets with the staff member to review how they're managing their recordkeeping at the ERA.

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% of the assessment quiz in order to attain a completion certificate.

Regular feedback is also sought from staff regarding training and records management processes.

Feedback from staff during the internal audit indicated that staff would prefer short and targeted training sessions on specific subjects. As a result of this feedback, a series of Records focus sessions have been introduced. These are 30 minute presentations intended to cover a variety of records and document management subjects relevant to ERA staff.

The first session, "Everything you need to know about Document Versioning", focusing on the use of revisions and versioning in TRIM was presented by the Records Coordinator in October 2012. Peer group user sessions are also being trialled. These sessions involve a staff member with a high level of TRIM proficiency showing staff how they use TRIM to manage their work.

Another action resulting from staff feedback has been an overhaul of the Records intranet section to make it more user friendly and relevant. The intranet section has now been reorganised so that staff can locate pertinent information quickly.

The table below shows a comparison between the use of TRIM in 2012/2013 and previous years.

TRIM usage	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
No. of documents created	6,848	15,875	16,116	27,297	21,344	17,399
No. of containers created	1,694	856	1,446	966	758	635
No. of archive boxes created	70	71	73	60	383	0

From the initial implementation of TRIM in late 2007 to 2010/2011 there was a steady increase in the number of documents being created in TRIM by staff. However, from 2011/2012 to now the numbers of documents being created have decreased. A simplistic analysis may lead to a negative interpretation of this observation. A detailed analysis and understanding of the contributing factors behind this observation indicates the opposite.

There are three main factors that are likely to have influenced these numbers, these are:

- Staff usage of the shared network drives
- Training
- Initiatives on improving the quality of recordkeeping.

Discussions with staff during the planning stage for the closure of the shared network drive indicated a number of staff regularly use TRIM and weren't concerned that the shared drive was being archived. The discussions also highlighted that due to training, staff have a better understanding of the use of versions and revisions in TRIM. As a result, staff are no longer saving multiple copies of the same document.

During the 2011/2012 period to now, there has also been an emphasis on improving the quality of records kept by staff rather than simply the quantity. This has been undertaken through several initiatives, such as:

- A major review of records processes and what records were being kept. A significant component of the review focused on reducing the quantity of ephemeral records being captured unnecessarily by staff.
- The records team regularly reviewing the types of records being saved to TRIM to maintain the quality of records being kept in TRIM.

- The complementation of the online training course with a Records Awareness information session as part of induction. This session places importance on explaining the difference between corporate and ephemeral records and the 5 key characteristics of keeping good records.
- It is more likely that the effectiveness of training and these initiatives have been responsible for the reduction in the number of documents created in 2011/2012 and 2012/2013.

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) Representative who is available to all staff to discuss and resolve any OH&S issues. The Representative does regular inspections of our office environment to undertake

an assessment of risks and hazards. The Representative reports quarterly to the Corporate Executive on the results of inspections and any incidents that have occurred.

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.

Our Occupational Health and Safety Program for 2012/13 included:

- Ongoing management of the OH&S Register
- Continued to discuss OH&S at staff meetings
- Continued ergonomic assessment for staff on an ongoing basis.



- Continuation of the Employee Assistance Program which provides a confidential counselling service.
- 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 2012/13 is as follows.

Measure	Actual results		Results against target	
	2010-11	2012-13	Target	Comment on result
Number of fatalities	0	0	0	-
Lost time injury/disease incidence rate	0	0	0	-
Lost time injury/disease severity rate	0	0	0	-
Percentage of injured workers	0	0	0	-
returned to work:	0	0	0	-
(i) within 13 weeks				
(ii) 26 weeks				
Percentage of managers trained in occupational safety, health and injury management responsibilities	100%	76%	Greater than or equal to 80%	Four Managers commenced training in 2012-13 but had not completed all modules.

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.

There are a number of specialist review bodies which have jurisdiction to review a particular decision of the ERA. In addition to the general review jurisdiction of the [Supreme Court of Western Australia](#), a party may seek a review of a decision by the ERA to:

- the [Australian Competition Tribunal](#) (ACT)
- the [Electricity Review Board](#)
- the [State Administrative Tribunal](#)

The particular body which has jurisdiction to hear the review will depend on the specific decision being reviewed. For example, the State Administrative Tribunal has jurisdiction to review a decision by the Authority to refuse to grant a gas trading licence. The Australian Competition Tribunal hears reviews in relation to decisions under the National Gas Law.

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.

During the year our PID officer attended Public Sector Commission workshops on changes to the PID Act. We are currently in the process of arranging PID officer training for two other staff members.

Memorandum of understanding

A memorandum of understanding (MOU) is a public document that assists with consultation, information sharing, and working relationships. In the 2012/13 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.

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.

Audit and Risk

Risk Management

During the 2012/13 financial year we finalised the implementation of a new risk management framework. This was undertaken to ensure that the management of risk is embedded in the ERA's overall planning, reporting, decision making and management practices to the extent that risk management becomes second nature to all staff and a process applied to all aspects of the ERA's operations.

We engaged with RiskCover to provide consulting services to assist with the implementation of the strategy, which involved holding risk workshops with staff to integrate a structured systematic approach to risk with business management processes and the development of a new risk register within the RiskBase application.

The new risk framework was in place by the end of February 2013, which included developing a new risk management policy and process. The implementation of this new risk framework has enabled more regular reporting and reviews of risk and risk treatment action plans to the Corporate Executive and Audit and Risk Management Committee.

Committee Self-Evaluation

In 2012/13 the ERA's Audit and Risk Management Committee performed a self-evaluation of its effectiveness. This survey involved feedback and suggestion from Committee Members for future improvements to the

Committee's operations. Overall, each Member was satisfied with the performance of the Committee. Areas the Committee reviewed at a following meeting were as follows:

- Whether the ERA's budget exposure is a matter for the Committee
- Level of involvement in regards to IT exposure and decision making risk
- Meeting frequency.

Audit program

In 2012/13 we implemented a one year audit plan due to the work being undertaken in developing a revised risk management framework.

The 2012/13 Audit Plan covered areas of audit in the corporate environment as well as our regulatory environment and involved five internal audits as follows:

- Corporate Governance
- Financial Management
- Legislative Compliance
- Records Management
- Risk Management



These internal audits were conducted by William Buck (WA Pty Ltd). At the end of the financial year all audits were completed but we had not received the audit report relating to the Legislative Compliance Audit.

The ERA maintains an Audit Log of issues raised by internal audit. All the findings from an audit are entered into the audit log as a way of providing a concise report to the Audit and Risk Management Committee. Once action has been taken to put in place controls for the audit finding, which are agreed to by the Audit and Risk Management Committee, the issue is deleted from the audit log.

The following table identifies the status of issues raised by internal audit at the end of the year.

Audit Focus	No. of issues	Action Taken	Action Outstanding
Corporate Governance	3	0	3
Financial Management	5	2	3
Records Management	5	2	3
Risk Management	3	0	3

At the end of the 2012/13 financial year, the ERA had put in place a three year Strategic Audit Plan for 2013/14 to 2015/16.

In October 2012, the Office of the Auditor General conducted an audit on recording, custody and disposal of attractive assets. The Office of the Auditor General advised that they had no audit findings identified during the audit.

Appendices

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](#)